

**Contact:**  
**Greg Blankenship**  
[Greg@illinoispolicyinstitute.org](mailto:Greg@illinoispolicyinstitute.org)  
**Collin Hitt**  
[collin@illinoispolicyinstitute.org](mailto:collin@illinoispolicyinstitute.org)  
217.544.4759  
[www.illinoispolicyinstitute.org](http://www.illinoispolicyinstitute.org)

**BUSINESS AS USUAL**  
*The FY 2006 Budget Address Analysis*

**(Springfield, Ill)** Governor Rod Blagojevich's Fiscal Year 2007 Illinois State Budget Address today contained record high spending increases of \$1.4 billion and record high debt, and he said little, if anything, about the state's backlog of unpaid bills. Approximately \$200 million in new spending was announced during the speech and more than \$130 million in new business taxes in a state ranked 45<sup>th</sup> best business climate in the U.S. were proposed. The Governor proposes spending \$55.3 billion this fiscal year.

Not included in the Governor's address, however, are the answers to a series of questions surrounding his initiatives. How, for example, does Illinois plan to pay for the Governor's All Kids program in the first year, when the Medicaid savings he is counting on won't begin to emerge until the state is half way through the fiscal year? Second, we question the efficacy of two of the Governor's initiatives regarding education. Finally, we wonder whether or not some of the Governor's programs are designed to buy votes or to aid the commonweal. For example, while the Governor is raising taxes for some businesses while subsidizing others.

**Overview**

Contrary to the Governor's claims, the level of state debt is already at an all time high. Much of this year's budget will be balanced on the backs of retirees by shorting pensions another \$1.1 billion this year. Illinois is widely known to have the worst-funded pension system in the nation. We owe \$97.2 billion in pension liabilities and have just \$58.6 billion in assets, for a total unfunded liability of \$38.6 billion. Gov. Blagojevich has more than doubled the state's bond debt since taking office, much of that debt back-loaded. In the last 3 years, Blagojevich has borrowed more money than any other governor in the last 185 years – with no plan for repayment.<sup>1</sup>

The state also faces a backlog of Medicaid bills to the tune of \$1.7 billion. While, thanks to the federal government, Medicaid spending increases will see some relief this year, it is estimated that the state will be nearly \$2 billion behind in its Medicaid bills by the end of Fiscal Year 2006.

The Governor is also seeking to increase taxes on businesses by more than \$130 million. Under proposals rejected last year the Governor wants to begin charging sales tax on software for businesses and an additional tax on fuel. The fuel tax applies to fuel stored in Illinois but sold in other states.

### Education Highlights

Governor Blagojevich introduced his plan “Preschool for All,” an initiative aimed at providing free preschool to all children in Illinois, regardless of parental status or family income.

The Ryan administration explored similar options. A report made to Governor Ryan’s Task Force on Universal Access to Preschool by the left-wing Institute for Women’s Policy Research chronicled the projected costs of implementing such a program. By the tenth year of operation, the program would be expected to succeed in enrolling just over 200,000 children per year, at an annual cost of \$440.8 million.<sup>2</sup>

Already enrolled in government-paid preschooling are the 40,000 Illinois children who attend Head-Start. The \$263 million allocated to Illinois’ Head Start programs by the federal government, at \$6,635 per enrollee, spends three times the amount of money per pupil as would have the proposal made to Governor Ryan.

With the requested \$45 million, the governor’s program would initially be able to enroll only 6,282 children in order to provide preschool akin, in funding at least, to that already provided by Head Start. A sum far greater than that proposed by Governor Blagojevich, even greater than that proposed to Governor Ryan, will be required if Illinois is to in fact have “Preschool for All.”

The governor’s universal preschool initiative comes in the face of deep skepticism regarding the effectiveness of preschool. A growing body of scholarship suggests that preschool, especially as conceived within the framework of public education, proves to be ineffectual. Economist and Chicago-area resident Steven Levitt has written of Head Start, “according to ECLS data, Head Start does nothing for a child’s future test scores.”<sup>3</sup>

Head Start is obviously not the only preschool program across the country, or in Illinois. A study published by the Goldwater Institute examined the effects of early childhood education nation-wide. Its authors found, after only a year of kindergarten, the effects of pre-kindergarten education are negligible. Even if students enter school with superior math and reading skills than their counterparts, almost all experience a “fade-out.” Achievement is nearly identical between those who attended preschool and those who did not, by end of the third grade.

One of the Goldwater Institute’s conclusions read, “Unless or until the elementary and secondary school system is improved, it is unlikely that preschool or kindergarten will lead to a measurable improvement in school achievement.”<sup>4</sup>

Fittingly, the governor has also asked for money to do just that. Class-size, he contends, must be decreased in elementary schools. The governor wants \$10 million, paid out in the form of \$50,000 grants, to be available to school districts with average class size exceeding 20 pupils. State-wide, the governor’s office has acknowledged, elementary school class-size exceeds 22 pupils.

There is strong evidence to suggest that smaller class size benefits elementary school students. However, the same body of evidence suggests that class size has little to no effect on academic performance at the secondary level. Counterintuitive to many, dozens of studies have suggested that secondary education could be provided at a lesser cost by paying fewer teachers more to teach larger

classes. Assuming the higher pay would attract better teachers and then go to higher-qualified teachers, the education provided would even be of a higher quality.

Rather than an increase to overall spending, funds saved through the above measures could instead be directed to reducing elementary school class size.

Just when the legislature has appeared to make headway in imposing stricter fiscal discipline upon the state's public universities, the governor has proffered a higher-education tax-credit that will, in effect, increase the cash supply to universities supposedly making administrative changes to cure their fiscal woes. A tax credit should make college more affordable for families of current and future college students. Paradoxically, and in reality, it will likely make families more able to afford tuition and fee increases by universities instead. There is little to suggest that universities will not, with millions of dollars more available to Illinois' families for college, in turn seek to have that money spent back on their campuses – in effect, subsidizing the waste they have been directed to eliminate.

### **Health Care Highlights**

Another important issue to be addressed is how the Gov. plans to pay for the first year of his All Kids Program. The first year of the program was to cost \$45 million and to be funded by placing Medicaid enrollees in a state run primary care case management and disease management program (PCCM/DM). The administration stated that \$57 million would be saved.

While the Administration plans to spend \$50 million this year, the managed care program doesn't begin until December, 2006 according to the state's Request for Proposal. So we have to ask, where will the money come from to pay for the first year?

One option may be the Medicare Part D, which Gov. Blagojevich ridiculed both today and during his state of the state speech. Yet, since seniors in the Medicaid Program will now receive their prescription drugs under federal auspices, the Medicaid program in Illinois is set to grow at only 4.4% this year instead of 7% of expected growth. Policymakers and members of the media alike should ask where the money to pay for All Kids in FY 2007 is coming from.

The governor has proposed \$5 million in new spending to replenish the state's dwindling nursing workforce. The administration anticipates a state-wide nursing shortage approaching 21,000 by the year 2020. The \$5 million proposed for the coming fiscal year seeks to add 1,500 new nurses to the ranks. \$50 million, the governor has said, will be required over the next fifteen years to fully eliminate the shortage.

A perceived nursing shortage does not appear particular to Illinois. The trend has been observed not only nation-wide, but in other countries as well - including Canada and Great Britain. The governor hopes his proposals will improve Illinois' relative economic climate for nurses.

Whereas the governor seeks to increase the supply of Illinois nurses, the shortage may in fact be a function of demand. The governor's office anticipates a 31 percent increase in those seeking healthcare by 2020. However, the average hours of medical attention required per patient appears to be dropping dramatically. As the Illinois Coalition for Nursing Resources notes, "Acuity in hospitals

has been rising rapidly, due to the declining average length of stay and new technology that allows rapid assessment, treatment and discharge,” which it cites as a primary cause for the profession’s diminishing numbers.<sup>5</sup>

### **Pork**

While proposing \$130 million more in tax hikes to business the Governor proposes a number of initiatives under the auspices of a jobs program. These include not only his efforts to increase the numbers of health care workers but also shore up angered special interest groups including higher education, public employee unions and democratic strongholds.

- Tax breaks to lure the film industry to Illinois. These are some of the Governor’s biggest donors.
- River towns would stand to benefit from \$20 million in development funds, as would the Democrat Party. From Aurora to Golconda, nearly every town and city located along a river is a Democratic stronghold.
- \$10 million subsidy for fuel-efficient vehicles – what one free market critic termed “conspicuous conservation”

Included in the governor’s various program proposals for new state spending are numerous contracts between the Service Employees International Union and the state government, totaling \$100.5 million. Much has been made during the current campaign season of self-and-family-funded campaigns. Those of Governor Blagojevich and State Treasurer Judy Baar Topinka are the only exceptions - both received donations from a wide variety of donors, reaching well beyond personal family connections. For example, the governor received more money from the SEIU in 2005 than the Oberwies, Brady or Eisendrath campaigns could manage to collect from all non-family donors combined during the final half of that year - \$250,000. The SEIU has donated \$1.38 million to the governor since he took office.

### **Good News**

Laudable is the governor’s efforts to increase funding by selling off state assets. This includes selling the state’s student loan portfolio and unused land and parking lots. The vacant land could bring in as much as \$30 million and estimates in the media suggest as little as \$100 million to \$500 million for selling off the student loans. The Governor efforts to streamline back office support for state agencies are another good step forward. He claims that effort will save \$115 million. Looking to Indiana, the governor may be prepared to join legislators from both sides of the aisle in considering the sale of Illinois’ toll ways to private firms.

### **The Bottom Line**

The Governor’s Fiscal Year 2007 Budget does little to enhance the state’s long term issues of business climate and lagging job growth. His efforts to expand public insurance have left the state with massive unpaid bills and questions persist surrounding “All Kids.” The efforts to expand early childcare education are of dubious merit and could cost substantially more than the Governor suggests.

<sup>1</sup> See Shaffer, Chad “THE TRUTH ABOUT ILLINOIS: WHAT THE GOVERNOR FAILED TO TELL US” Policy Brief 06 – 01. January 31, 2006 at [www.illinoispolicyinstitute.org](http://www.illinoispolicyinstitute.org)

<sup>2</sup> Stacie Carolyn Golin, Anne W. Mitchell and Margery Wallen. “The Cost of Universal Access to Quality Preschool in Illinois: A Report to Gov. Ryan’s Taskforce on Universal Preschool.” Published by the Institute for Women’s Policy Research.

<sup>3</sup> Levitt, Steven D. and Stephen J. Dubner. 2005 “Freakonomics: A Rogue Economist examines the hidden side of everything.” Morrow.

<sup>4</sup> Olsen, Darcy and Jennifer Martin. 2005. “Assessing Proposals for Preschool and Kindergarten: Essential Information for Parents, Taxpayers, and Policymakers” Published by the Goldwater Institute.

<sup>5</sup> “Nursing Shortage Fact Sheet.” The Illinois Coalition for Nursing Resources.