



**Analysis of Fiscal Year 2010 State Budget and its Impact on Human Services  
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**Introduction**

On July 15, 2009, the Illinois General Assembly passed and the Governor signed into law the budget for State Fiscal Year 2010 (FY10). Although there is more funding for human services than in the “50 percent” doomsday budget passed at the end of May, there will still be substantial cuts to many social services programs. Early childhood education, bilingual education and home visiting programs are being cut by 10%, and community-based mental health and youth programs are being cut by 20%, just to name a few. Moreover, the budget is built on a shaky foundation of borrowing, temporarily available federal funds, and extended delays in the state’s payment of its bills. The Governor, who was granted unprecedented discretion to decide which programs and agencies would be cut and by how much, announced a billion dollars in cuts on July 31, 2009, many of which will reduce the availability of needed human services. Although the budget passed and signed into law on July 15 is for the entire fiscal year that ends on June 30, 2010, there is hope that with continued advocacy the legislature will come back later in the fiscal year to pass the revenue increase that Illinois desperately needs.

It became increasingly obvious as the spring legislative session proceeded that the deep recession would have a severe impact on state revenues and that the constitutional requirement of a balanced budget would require that either substantial new revenue be raised or deep cuts in state services be made. It is now estimated that almost 60% of the \$12 billion budget gap was the result of declining state revenues from the recession.<sup>1</sup> Governor Quinn, in his budget address on March 18, 2009, called for a permanent 50% increase in the income tax rate coupled with a tripling of the personal exemption from \$2000 to \$6000 per person. His proposal would have raised \$4 billion in added annual revenue. As detailed below, the Illinois Senate passed an even larger tax increase than the Governor had proposed. The Illinois House, however, came nowhere near mustering the support needed for even a watered down, temporary tax increase, thus forcing severe cuts in human services.

Many have talked about the need for dramatic cuts and reductions in spending before passing a tax increase, and this in fact is the path Illinois is taking. In this connection, it is worth noting that Illinois is 45<sup>th</sup> in per capita spending among the 50 states and 41<sup>st</sup> in state and local tax burden.<sup>2</sup>

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<sup>1</sup> Joseph, Larry, Roots of the State Fiscal Crisis: Budgetary Myths and Realities in Illinois, Voices for Illinois Children, May 2009.

<sup>2</sup> Center for Tax and Budget Accountability, Facing Reality: Illinois Must Raise Revenue to Balance its Budget, July 2009.

### **Appropriations**

The FY10 budget appropriates money in three different bills. The first (HB 2194) appropriates money for the Medicaid budget, which is necessary in order to claim around \$2 billion in federal funding provided in the American Recovery and Reinvestment Act of 2009 (ARRA). The second (HB 2206) appropriates money to specific programs, out of non-general revenue funds.

The final budget bill (SB 1216) appropriates lump sums of money to each department and is intended to cover all remaining items not covered by either of the first two appropriations bills. Most departments and agencies were dramatically underfunded, similar to the levels in the “50% budget” bill passed at the end of the regular session and subsequently vetoed by the Governor.

Although the General Assembly did not raise more revenue through an income tax hike, they did borrow a considerable amount of money to make up some of the shortfall in this year’s budget. The state was obligated to make a large payment this year to the pension system, which would have left less money to spend on regular appropriations. However, instead of making this payment out of its revenue stream, Illinois instead will borrow about \$3.5 billion through the issuance of bonds (SB 1292). It will use that money to make the pension payment, freeing up money to cover some of the gaps created by the appropriations bills.

### **Implementation**

In past years, budgets in Illinois have specified, line by line, what programs and services the money is to be spent on. This year, though, the General Assembly appropriated lump sums to state agencies, allowing the Governor and other administrative officials unprecedented discretion to decide how much to fund each program. Because of the dramatic overall shortfall in the budget, there was not enough money to cover every program and the administration was forced to make significant cuts. Medicaid and most education programs could not be cut since reductions would result in the loss of massive amounts of ARRA funding. Since these programs had to be funded at 100%, the cuts in other areas had to be deeper.

In addition to the discretion given to each agency as to how much to fund each program, the General Assembly also gave the Governor discretion across the agencies. Of the money generated by the pension bonding, \$2.23 billion was earmarked for human services. The Governor was free to use the rest of the money, \$1.24 billion, to fill holes throughout the budget.

Finally, the budget legislation (SB 1912) requires the Governor to establish a \$1.1 billion “contingency reserve” this year. This is money that, though appropriated to departments, cannot be spent unless revenue increases. Until this occurs, this contingency reserve will function as further cuts. We at this point do not know which agencies and programs will be required to hold funds in reserve or how large those reserves will be; this is information that generally is not made available publicly.

### **Impact**

Because of the structure of this year’s budget and the discretion that was granted to the Governor, the complete impact on human services is not immediately known. However, there is

no doubt that some services will be significantly cut or even eliminated, and a great deal of harm has already taken place.

Many human services in Illinois are not provided directly through state agencies – they are contracted out to non-profit organizations. In June, these providers were sent their contracts for FY10, and the majority of them saw severe reductions in the amount of funding they would be receiving. Even though the budget did not pass until July 15, these providers were forced to begin implementing cuts immediately. As a result, hundreds of people have already lost their jobs and thousands of Illinois residents have lost services on which they depend. Although the budget as passed may restore a portion of this funding, a great deal of harm has been done and will continue. Progress Illinois ([www.progressillinois.com](http://www.progressillinois.com)) has been monitoring the fallout, and the impact already includes:

**People with Disabilities:**

19 agencies serving people with disabilities report 100+ jobs lost; services eliminated for over 1000 people; programs affected for thousands more. The programs affected or eliminated provide crucial job training, support for families with children with disabilities, and respite care.

**Mental Health:**

9 agencies that serve people with mental illnesses report 200+ employees laid off and many more experienced losses of hours and pay cuts; services eliminated for thousands. Agencies affected provided services to mentally ill and emotionally disturbed children, adolescents, and adults.

**Domestic Violence and Sexual Assault:**

12 agencies serving survivors of sexual assault and domestic violence reported 100+ jobs lost and many more pay cuts and hours reductions; 3 shelters closed, another reduced its bed capacity by 50%; counseling and advocacy for thousands of rape and domestic violence survivors affected.

**Substance Abuse:**

7 agencies that provide substance abuse recovery and counseling services report 100+ jobs lost, salary cuts and furloughs for many more; loss of services to thousands of people with substance abuse problems (including 2500 non-violent ex-offenders); one program closed completely.

**Multi-service Agencies:**

19 agencies providing multiple services report 300+ jobs lost; services eliminated or scaled back for thousands. These agencies provide services ranging from community mental health treatment, job training for the homeless, youth mentoring, and programs to curb violence.

**Education:**

3 educational agencies report 38 lay offs and multiple pay cuts. The Mattoon Area Adult Education Center shut down its facility completely.

**Youth and Families:**

18 agencies serving children and youth reported 150+ jobs lost and many more pay reductions and furlough days; services reduced or terminated for several thousand children and their

families. Several afterschool programs for at-risk youth eliminated or scaled back, and the Marillac Center in Chicago was forced to completely close programs to prevent teen pregnancy and substance abuse.

**Legal:**

Prairie State Legal Services laid off one employee and is considering several additional lay-offs.

Further, a number of agencies have been affected by the uncertainty associated with this year's budget. Although they may now see a reduction in the cuts they were facing under the 50% budget, providers face considerable uncertainty as they wait for the final word. And although there are hopes for a tax increase later in the year that would provide more funding, they must operate as if the money they are getting has to last for the full year. Finally, a number of agencies that were barely surviving previously were unable to sustain their operations through this time of uncertainty and have closed their doors.

Another significant factor affecting human service providers is the state's delay in payments. These agencies are reimbursed by the state for many of the services they provide, but delays in Springfield are resulting in a 6 to 9 month wait before payment is received. Since these agencies have limited cash reserves, they often must rely on a line of credit from private financial institutions while waiting for state payments, and establishing and maintaining those credit lines has become increasingly difficult in today's economy. This year's budget does not decrease this payment cycle, but rather is predicated on maintaining the state's current balance of approximately \$4 billion in unpaid bills. This may in fact increase the delay between services provided and payment received, further burdening human service providers.

Programs administered directly by the state will also be affected by this year's budget. The bill implementing the budget granted state agencies broad discretion to adjust services, payment rates, and eligibility criteria within the programs they administer. This could lead to a reduction in the number of people eligible for these services or a cut in the benefits they receive.

Finally, state employees will be affected by this budget. Proposed changes include furlough days, changes to the pension system for new employees, and staff reductions. Some changes will require negotiations with the unions, but there is no doubt that that far fewer staff will be available to administer state programs. This will clearly impact already understaffed local DHS offices, and may lead to greater delays for clients applying for public benefits and greater difficulty reaching caseworkers to ask questions or report changes.

**Revenue Proposals**

Governor Quinn's proposal for a 50% increase in the income tax rate coupled with a tripling in the personal exemption is detailed above. During the regular session this year, the Illinois Senate passed HB 174, which would have generated over \$5 billion permanently. This would have been accomplished by increasing the personal income tax from 3% to 5% and the corporate income tax from 4.8% to 5%, and broadening the state sales tax to cover a range of consumer services. In addition, it would have protected low-income families in Illinois by increasing the standard exemption and tripling the earned income tax credit.

HB 174 passed the Senate 31-27. Six Democratic Senators (Bond, Garrett, Haine, Maloney, Schoenberg, and Silverstein) did not support the bill.

This bill was never called for a vote in the House, but another tax increase bill, SB 2252, failed 42-74. This bill was much weaker than the Senate version, providing only a temporary increase for FY10 and FY11. It would have temporarily raised the personal income tax to 4.5% and the corporate tax rate to 7.2%, and over time doubled the Earned Income Tax Credit. Twenty-six Democrats voted against this tax increase,<sup>3</sup> 20 of whom ran in unopposed elections in 2008 or won by 64% or more. The 20 were:

|           |          |                |          |
|-----------|----------|----------------|----------|
| Beiser    | D'Amico  | Gordon, Careen | McCarthy |
| Brosnahan | Dugan    | Holbrook       | Mell     |
| Boland    | Flider   | Joyce          | Phelps   |
| Bradley   | Franks   | Lyons          | Reitz    |
| Crespo    | Fritchey | May            | Zalewski |

### **What's Next?**

The budget adopted on July 15 will, in the end, cause thousands of jobs to be lost, and tens of thousands of Illinois residents to lose the services on which they rely. And, without fundamental changes, next year's budget will be an even greater challenge when the federal stimulus money dries up and pension obligations come due. Experts are already estimating that next year's deficit will be in the \$10 billion range.<sup>4</sup>

The pain can be lessened if the legislature passes a tax increase later this year. Since the Governor first proposed his budget in March, he has pushed for an income tax increase in order to help heal the structural deficit that has existed in the state for many years. Unfortunately, this year's budget was passed relying on borrowing and other expensive, short-term, bandaid solutions rather than generating the needed revenue.

Continued advocacy for a tax increase is critical to the future of Illinois. Throughout the past few months, thousands of advocates have attended rallies, demonstrations, and vigils across the state in support of an increase in revenue. Although this budget does not contain such an increase, their message was heard. Thanks to their efforts, legislators on both sides of the aisle are better aware of the critical services human services providers offer to their communities, and many legislators have stated their concerns for these services on the House and Senate floors. A continued push until a tax increase is obtained is necessary to preserve the services on which the state's most vulnerable populations rely.

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<sup>3</sup> Reps. Will Davis and David Miller voted "Present" because they felt SB 2252 did not go far enough in raising taxes.

<sup>4</sup> See, e.g., Center for Tax and Budget Accountability Weekly Review, July 20, 2009.