# SENATE COMMITTEE ON DEFICIT REDUCTION

March 25, 2009

The Senate Committee on Deficit Reduction is a bipartisan panel seeking to address the State of Illinois' unprecedented budget and fiscal crisis. The spirit of cooperation by this committee signals a new way of doing business in Illinois government. It is clear that although we may have some philosophical differences between parties, there is no doubt that we have the same shared concern for our state's financial dilemma and we are committed to working together to solve this problem.

Over the past four weeks, the Committee has held hearings to discuss new revenue proposals and cost-saving measures that could be implemented by the state to help reduce its substantial financial deficit. The Committee received a considerable amount of testimony from industry experts, private organizations and the general public. All of these submissions provided helpful suggestions for moving the State of Illinois out of its current financial downturn. The testimony included a broad spectrum of interests including education, healthcare and human services, pension and state government reforms, and new revenue sources. We greatly appreciate the various perspectives that were presented throughout the hearing process.

We feel that the recommendations presented by the Committee will contribute greatly to alleviating our financial crisis. It is our hope that our work will provide the General Assembly with a greater understanding of our current situation and foster spirited debate and cooperation on an agreed solution to our problem.

The entire Deficit Reduction report may be accessed online at www.ilga.gov. We would like to thank all of the individuals who provided oral and written testimony to the Committee and we are thankful for the new ideas this process has presented. We look forward to a bipartisan effort to solve this problem.

Sincerely,

Senator Donne Trotter
Co-Chairman
Committee on Deficit Reduction

Senator Matt Murphy
Co-Chairman
Committee on Deficit Reduction

## We must move forward.

*Each member of the Senate Committee on Deficit Reduction realizes that the state currently faces a substantial budget deficit but now the work must be done to place Illinois on firmer financial ground. Though the committee's views are diverse, each of the committee members believe there are fundamental concepts that will help combat the deficit.*

### Reform our Pension Systems

*Over the course of the Committee's hearing on Pensions each witness testified that the current pension system is broken and in need of major reform. Currently, the State's pension systems are severely underfunded; in turn, affecting the lives of Illinoisans and the State's bond rating. Reforming our pensions systems will not only save the state money, but begin to help us meet our responsibilities to fund future employee retirement benefits.*

### Capital Funding

*The Committee believes that one of the biggest ways to decrease the budget deficit during a downward economy is to put Illinoisans to work. The budget deficit won't disappear over night and the Illinois General Assembly must pass a capital plan that provides both a short-term and a long-term solution to the state's economic woes.*

*An investment in a state capital plan will not only generate revenues from receipts and the jobs it creates, it will help Illinoisans increase consumer confidence. This will benefit several markets of interest across the state including construction, education, and science & technology. These markets will in turn attract new businesses to the state while still acknowledging our commitment to decrease staggering unemployment numbers. We need to act quickly so people can be put to work this construction season.*

### Making Government More Efficient

*Like any other organization across the country, Illinois needs to constantly find ways to be more fiscally sound. Over the course of the Committee's hearings, members heard recommendations from organizations who shared cost saving ideas and the concept that government can be more efficient. The committee recognizes this and commits to beginning conversations that can lead to better government efficiencies that will save taxpayers money.*

## Illinois must pay its bills

*Illinois is no different from any other citizen or business across the state. We must honor our fiscal commitments and pay our bills. The state has paid millions of dollars under the State Prompt Payment Act for penalties in excess of 60 days. The committee stresses the need to pay medical program providers within a 30-day payment cycle. It is necessary that Illinois takes advantage of enhanced FMAP totaling $2.9 billion under the American Recovery and Reinvestment Act of 2009.*

## Be efficient and effective about the delivery of health care

*A doctor's office or clinic is a better place than an emergency room for getting routine care. Through creating medical homes, the State can improve the quality of our client's healthcare, while at the same time creating cost savings. This program provides an additional non-financial incentive to healthcare delivery systems to invest in the quality of care delivered to its members and continues improvements regarding access to care and sound medical management. Cost savings come from making sure members get immunizations and preventative care, making sure services are not being duplicated, requiring referrals to certain services reduces inappropriate or unnecessary hospitalizations/ER visits, and generally having a primary point of contact to manage the medical needs of a member. Preventative healthcare will help reduce spending and contain costs of Medicaid.*

## Explore additional revenue and spending reductions

*Over the course of four weeks members of the committee heard a myriad of ways to reduce the state's budget deficit. The committee recognizes that there are three ways to diminish any budget deficit: revenue enhancements or growth, spending cuts and a combination of both. The committee understands that before state government asks Illinois taxpayers for additional revenue, state spending must be fully examined.*

**Senate Committee on Deficit Reduction**

March 4, 2009 / Agenda*

9:00 AM, Room 212

Senator Donne Trotter Co-Chair

Senator Matt Murphy Co-Chair

*Hearing #1 General Topic: Education Funding in the State Budget*

| | |
|---|---|
| 9:00-9:15 – | Committee Organization |
| 9:15-9:30 – | Glenn Poshard, President, Southern Illinois University<br>*Importance of State Funding for Higher Education* |
| 9:30-9:45 – | Illinois Federation of Teachers and Illinois Education Association<br>*School Staffing Needs and Efforts to Reduce Class Size* |
| 9:45-10:00 – | Illinois Association of School Administrators<br>*School District Costs and Availability of Local Resources* |
| 10:00-10:15 – | Illinois Network of Charter Schools and Illinois Policy Institute<br>*Costs Associated with Charter School Expansion* |
| 10:15-10:30 – | Illinois Action for Children, Voices for Illinois Children and the Ounce of Prevention<br>*Costs Associated with Early Childhood Programs and Services* |
| 10:30-10:45 – | Americans for Prosperity<br>*State Spending on Education* |
| 10:45 – 11:00 – | Federation of Independent Colleges and Universities<br>*State Support for College and University Programs* |
| 11:00 – 11:15 – | Civic Committee<br>*Illinois Financial Outlook* |
| 11:15 – 11:30 – | Closing Remarks from Committee Members |

* individuals and organizations wishing to testify but not listed on the agenda may submit written testimony to Senate staff and may be asked to testify at a later date

# IFT Supports Funding Reform and New Revenue Options


## Summary:
The Illinois Federation of Teachers believes this is the year for the Illinois General Assembly and governor to choose new revenue solutions to our current fiscal crisis and structural deficit.


## At Issue:
Illinois faces a multi-billion dollar deficit for FY 2010 and beyond because of the immediate economic crisis, past decisions not to find reliable revenue streams and the long-term, built in structural deficit that fails to collect revenue from the service sector economy.

The IFT believes the General Assembly and governor can cobble together a series of revenue enhancements that will allow the state to meet its obligations to public education, health care and service providers and a 21st century transportation system. The following revenue options should be considered for passage by May 31.

The IFT has supported SB 750 with its income tax and a sales tax on consumer services. The IFT supported SB 2288 which utilized the income tax alone. IFT is also modeling other approaches such as:

- an income tax increase with no property tax relief;
- a sales tax "swap" that expands the sales tax base to include consumer services while lowering the overall state rate on all tangible goods and services from 5% to 4% or less.

The following is a list of revenue options for state government to adopt.

Income tax
- 1% $3.8 billion
- 1.5% $5.7 billion
- 2.0% $7.6 billion

Graduated Income Tax
- On personal incomes over $250,000
- $2.7 billion

Sales Tax on selected Consumer Services
- $2.1 billion

Gasoline Tax @ 8 cents per gallon
- $500 million

Cigarette Tax @ $1.00 per pack
- $300 million

Internet Sales Tax
- $160 million

Gaming Expansion

## Conclusion:
State government has not raised broad based revenue since 1989 nor reformed its antiquated revenue system. The IFT urges the General Assembly to face this current crisis and long-term needs by raising the revenue necessary to provide quality educational opportunities and public services the citizens of Illinois deserve.

A Union of Professionals

**Illinois Federation Of Teachers**
An affiliate of the AFT, AFL-CIO

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# LEGISLATIVE FACT SHEET

## IFT Supports Funding Reform and New Revenue Options

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Fight for America's Future
IT'S DOLLARS AND SENSE

# Fight for Illinois' Future

## The IFT's guiding principles in the campaign for needed revenue

Like many other state governments across the nation, Illinois faces its worst fiscal crisis in modern history. The Illinois General Assembly and governor must act to save state government services and public education from severe cuts that will harm the people, students and economy of our state. Illinois must respond to this crisis to help families in trouble, improve infrastructure and assist our schools.

The resources that will be available from President Obama's federal stimulus package will help close our state budget gap. Federal funds for health care will significantly reduce the amount owed to Medicaid and health care providers, as well as other state vendors.

However, Illinois' share of the federal stimulus plan will not resolve our state's budget crisis. The stimulus package is a short-term boost, not a permanent solution. Only new revenue from state government can bring long-term fiscal solvency to our state budget. A combination of new state and federal funds will help meet the state's obligations to public education, public services and working families. These new dollars will provide jobs while improving roads, mass transit and schools. It is time for state government leaders to address the revenue crisis that faces Illinois.

### The IFT believes any new funding must:

- draw from sustainable revenue streams;
- enable the state to reach EFAB recommended levels of school funding;
- be used to raise state funding support of higher education;
- restore staff levels in state agencies;
- pay down current debt to health care providers and other service vendors;
- enable the state to capture federal resources for road construction, transit and educational facilities; and,
- reduce the unfunded liability of the public pension systems.

### Nobel economics laureates support revenue increases during economic downturns

Critics opposed to revenue increases cite the current recession as a reason to cut taxes. Our response to their opposition is best stated by two Nobel Prize winners in economics,* who declare that cutting state government services and public employees in a recession is actually **more** costly to the economy than raising taxes. They agree that raising revenue helps the overall economy by generating a significant net increase in economic activity.

*Professor Paul Krugman, Princeton University, 2008 Nobel Prize in economics
"*Fifty Herbert Hoovers,*" NY Times, Op-Ed, Dec. 29, 2008

*Professor Joseph Stiglitz, Columbia University, 2001 Nobel Prize in economics,
*"Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?"* Center on Budget and Policy Priorities, Washington D.C. Nov. 6, 2008.

## The IFT calls on state leaders to adopt measures to generate new revenue to meet the long-term needs of Illinois.

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# LEGISLATIVE FACT SHEET

## MAINTAIN DEFINED BENEFIT PENSION PLANS

### Background

- Defined Contribution (DC) plan: Specifies the amount of money contributed by the employer and employee. The retirement benefit is based on the accumulated investment earnings on those contributions at retirement. The ability of DC participants to make sound investments directly impacts the amount of money that is available for retirement.

- Defined Benefit (DB) plan: Specifies a benefit for the member at retirement based on length of service and final average salary multiplied by a certain percentage (2.2% under TRS). The employer and the member both contribute to a DB plan. The employer contribution in a DB plan is calculated by actuaries who determine the amount of money that needs to be set aside today to pay for a benefit at the time of retirement.

### Position

**The Illinois Federation of Teachers believes that the current DB pension plan structure in Illinois is sound and should be sustained.** DB pension plans are the only vehicle that can guarantee a set benefit at the time of retirement. Because public educators are not able to access Social Security through their employment and other public employment compensation does not keep pace with salaries in the private sector, it is essential that Illinois DB pension plans continue to be the primary retirement plan structure.

### The Debate

- DC proponents argue that placing new hires in a DC plan will solve the state pension liability problem.
  *Fact:* **Switching to a DC plan from a defined benefit plan would *not* solve Illinois' public employee pension crisis.** The switch does nothing to eliminate the unfunded pension liability that Illinois owes to its five public employee pension systems. In fact, pension contributions would rise in the foreseeable future if a switch is made from a DB to a DC plan.

- DC proponents argue that switching to a DC plan would save the state of Illinois money.
  *Fact:* **A change to a DC plan would *not* save the state of Illinois money.** The reason for the state's increased pension contribution is the underfunding of these systems since their inception. Switching to a DC plan would not eliminate the DB

plan. Illinois would have to run two separate retirement systems (one for Defined Contribution and one for Defined Benefit) side by side for at least the next 75 years.

- DC proponents argue that when fully phased in, a DC plan will save money by reducing the state required contribution.
  *Fact:* **Currently, on average it costs the state of Illinois 8.2 percent of payroll to fund the benefits being earned today.** This amount is projected to decline over the next 25 years. If Illinois offered a defined contribution that was comparable to the private sector, it would pay 6.5 percent into Social Security, 4.5 percent on average into each defined contribution account plus an additional 2 percent on average in administrative fees for the defined contribution plan. This equals a total state cost for DC plans that is 13 percent, nearly 5 percent more than DB plans.

- DC proponents argue that the private sector has converted to DC plans, so should the public sector.
  *Fact:* **Public educators in Illinois do not earn Social Security credits during their teaching career.** In the private sector employees earn Social Security benefits as part of their employment. For the vast majority of public educators in Illinois the DB pension plan is their only source for retirement security.

## Quick DC Facts

- Nebraska shut down their DC plan after discovering the DB plan investment returns doubled that in the DC plan.
- DC plans do not provide for death and disability benefits for members.
- A West Virginia study confirmed that a properly funded DB plan is cheaper than a DC plan with equivalent benefits.

## Quick DB Facts

- When given a choice, members of these systems choose DB plans over DC plans.
- Member contributions to DB pension plans far exceed those in DC plans.
- The Teachers' Retirement System of Illinois administrative and investment expense is extremely low. It only costs $0.30 per $100 in TRS assets. This compares to an average administrative fee of $1.40 for every $100 invested in a DC plan.

## Final Thoughts

IFT believes that DB plans provide the best vehicle for retirement planning and when properly funded are more cost efficient than DC plans.

***IFT OPPOSES A SWITCH FROM DB TO DC RETIREMENT PLANS.***

A Union of Professionals

# Memorandum

American Federation
of Teachers, AFL-CIO

AFT Teachers
AFT PSRP
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To: Jeff Zahler

From: Ed Muir, Associate Director
Matthew Di Carlo, Associate
Research & Information Services

Date: January 6, 2009

Subject: Impact of state budget cuts

A key argument supporting both federal aid to state and local government and tax solutions for state level budget gaps is the importance of the services that our members provide to working families and to society as a whole. Healthcare, education and public safety each have a value that is beyond calculation. A second and more concrete argument concerns the value that our members' work contributes to the overall economy. While we often look at that value in terms of the quality of services and reforms, during this current crisis we should also be prepared to look at it just in terms of the direct economic effect of our members' work.

State spending has a "ripple effect" on the size of the overall economy. In a 2008 paper released by Moody's Economy.com, economist Mark Zandi estimates that federal aid to states stimulates their economies (i.e., GDP's) by a factor of 1.36.[1] In other words, for every dollar a state spends, there is total of $1.36 in new economic growth. This is outside of any long term investment effect from the services themselves.

However, just as state government spending has a stimulative effect on the economy, so too does budget cutting have the opposite effect—contracting the economy. That's because budget cuts will generate a rise in unemployment and a decreasing demand for goods and services. In this sense, state budget cuts will serve to magnify the current economic crisis by further de-stimulating an already anemic economy.

A recent report by the Center for Economic Policy Research (CEPR) attempts to quantify this de-stimulating effect—and how it translate into job losses—by turning the logic of the Zandi factor on its head.[2] The author assumes that each dollar cut from a state's budget will *contract* its economy by the same factor (1.36).

For instance, imagine that a state had a one billion dollar shortfall. If it were to simply cut this much from the budget it would take 1.36 billion (1 billion x 1.36) out of the economy. If it were to cut one-half billion, it would take $680 million total out of the economy.

In either case, an inevitable consequence of this de-stimulus is job losses in both the public and private sectors (though mostly the former). CEPR has devised a method to project job losses for each state stemming from the cut-driven contractions. They do so by estimating an average "price" of just under $100,000 for each job in the economy. In the example above, a one billion dollar budget cut would lead to 13,671 jobs lost.[3]

The basic idea of this exercise is to provide some idea of the job losses each state can expect as a consequence of any spending cuts it may employ to close budget gaps. CEPR provides estimates for the effect on each state, using recent budget data from the NCSL. These projections are listed in the tables below, one for FY 2009 and one for FY 2010 (both taken directly from the CEPR report). During the last recession states made cuts equaling to an average of 40 percent of their budget gaps, with federal aid, new taxes and savings filling in the rest. The CEPR report calculates both the economic effect of absorbing all of each state's current budget gaps as well as the economic effect of closing 40 percent of the total gap with cuts. Of course, these estimates are subject to change as states' projections of their budget gaps change. As the gaps change, the formula to predict job losses can be recalculated using:

**JOBS LOST** = (((*projected gap* * 1.36) * *proportion made up by cuts*) / 99,481)

At the national level, if states respond to their current year shortfalls by cutting their budgets at a similar rate to that of 2001 (40 percent), the CEPR formula projects that the resulting de-stimulus will cost around 170,000 jobs, or 1.2 percent of the current active workforce. At the extreme end of the continuum, if all states made up 100 percent of their gaps with cuts, the total job loss would be around 426,000 jobs, or 2.9 percent. It bears noting that, in either case, these implied job losses are only those stemming from the budget cuts themselves, and do not include jobs lost to the general economic crisis.

We think this information would be useful to affiliates. We are hoping for guidance as to how best this information might be distributed as part of the overall campaign plan.

MDC : pc opeiu#2 afl-cio

cc: Tina Flournoy
Jewell Gould
Phil Kugler
John Ost

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[1] Zandi, Mark M. 2008. "*Assessing the Macro Economic Impact of Fiscal Stimulus 2008*." West Chester, PA: Moody's Economy.com. http://www.economy.com/mark-zandi/documents/assissing-the-impact-of-the-fiscal-stimulus.pdf.

[2] Sherman, Matthew. 2008. "*Will Workers Survive State Budget Belt-Tightening?*" Washington, D.C.: Center for Economic and Policy Research. http://www.cepr.net/documents/publications/2008-12-Will-Workers-Survive-State-Budget-Belt-Tightening.pdf.

[3] The actual cost per job is estimated to be $99,481. A one billion dollar budget cut has a $1,360,000,000 effect on the economy: 1,360,000,000 divided by $99,481 is 13,671.

**TABLE 1: Implied Job Loss from FY2009 State Budget Cuts**

| State | FY2009 Shortfall/Cut ($ millions) | Economic Effect ($ millions)[5] | Implied Job Loss w/ 40% Cuts (thousands)[6] | Implied Job Loss w/ 100% Cuts (thousands) |
|---|---|---|---|---|
| Alabama | 123.5 | -168 | -0.7 | -1.7 |
| Arizona | 1,235 | -1,679.6 | -6.8 | -16.9 |
| California | 8,400 | -11,424 | -45.9 | -114.8 |
| Colorado | 99.7 | -135.6 | -0.6 | -1.4 |
| Connecticut | 391.8 | -532.8 | -2.2 | -5.4 |
| Delaware | 128.7 | -175 | -0.7 | -1.8 |
| District of Columbia | 131 | -178.2 | -0.7 | -1.8 |
| Florida | 2,142 | -2,913.1 | -11.7 | -29.3 |
| Georgia | 2,100 | -2,856 | -11.5 | -28.7 |
| Hawaii | 220 | -299.2 | -1.2 | -3 |
| Idaho | 27 | -36.7 | -0.2 | -0.4 |
| Illinois | 2,300 | -3,128 | -12.6 | -31.4 |
| Iowa | 35 | -47.6 | -0.2 | -0.5 |
| Kansas | 136.8 | -186 | -0.8 | -1.9 |
| Kentucky | 456.1 | -620.3 | -2.5 | -6.2 |
| Maine | 140.3 | -190.8 | -0.8 | -1.9 |
| Maryland | 138 | -187.7 | -0.8 | -1.9 |
| Massachusetts | 1,200 | -1,632 | -6.6 | -16.4 |
| Minnesota | 426 | -579.4 | -2.3 | -5.8 |
| Mississippi | 85.5 | -116.3 | -0.5 | -1.2 |
| Nebraska | 5.3 | -7.2 | 0 | -0.1 |
| Nevada | 337 | -458.3 | -1.8 | -4.6 |
| New Hampshire | 250 | -340 | -1.4 | -3.4 |
| New Jersey | 400 | -544 | -2.2 | -5.5 |
| New Mexico | 253 | -344.1 | -1.4 | -3.5 |
| New York | 1,475 | -2,006 | -8.1 | -20.2 |
| North Carolina | 1,200 | -1,632 | -6.6 | -16.4 |
| Ohio | 1,180.7 | -1,605.8 | -6.4 | -16.1 |
| Oregon | 142 | -193.1 | -0.8 | -1.9 |
| Pennsylvania | 2,000 | -2,720 | -10.9 | -27.3 |
| Rhode Island | 350 | -476 | -1.9 | -4.8 |
| South Carolina | 724.4 | -985.2 | -4 | -9.9 |
| South Dakota | 7 | -9.5 | 0 | -0.1 |
| Tennessee | 800 | -1,088 | -4.4 | -10.9 |
| Utah | 354 | -481.4 | -1.9 | -4.8 |
| Vermont | 88 | -119.7 | -0.5 | -1.2 |
| Virginia | 973.6 | -1,324.1 | -5.3 | -13.3 |
| Washington | 413 | -561.7 | -2.2 | -5.6 |
| Wisconsin | 281 | -382.2 | -1.5 | -3.8 |
| **TOTAL** | **31,150.4** | **-42,364.6** | **-170.6** | **-425.8** |

SOURCE: Sherman, Matthew. 2008. "Will Workers Survive State Budget Belt-Tightening?" Washington, D.C.: Center for Economic and Policy Research.

**TABLE 2: Implied Job Loss from FY2010 State Budget Cuts**

| State | Projected FY 2010 Shortfall ($ millions) | Economic Effect ($ millions) | Implied Job Loss w/ 40% Cuts (thousands) | Implied Job Loss w/ 100% Cuts (thousands) |
|---|---|---|---|---|
| Arizona | 2,600 | -3,536 | -14.2 | -35.5 |
| California | 19,500 | -26,520 | -106.6 | -266.6 |
| Connecticut | 2,495 | -3,393.2 | -13.6 | -34.1 |
| Delaware | 215 | -292.4 | -1.2 | -2.9 |
| Florida | 4,650 | -6,324 | -25.4 | -63.6 |
| Georgia | 2,100 | -2,856 | -11.5 | -28.7 |
| Hawaii | 730 | -992.8 | -4 | -10 |
| Idaho | 150 | -204 | -0.8 | -2.1 |
| Iowa | 625 | -850 | -3.4 | -8.5 |
| Kansas | 959 | -1,304.2 | -5.2 | -13.1 |
| Louisiana | 1,300 | -1,768 | -7.1 | -17.8 |
| Maine | 412 | -560.3 | -2.2 | -5.6 |
| Maryland | 1,226 | -1,667.4 | -6.7 | -16.8 |
| Minnesota | 2,600 | -3,536 | -14.2 | -35.5 |
| Nebraska | 274 | -372.6 | -1.5 | -3.7 |
| Nevada | 750 | -1,020 | -4.1 | -10.3 |
| New Jersey | 2,500 | -3,400 | -13.7 | -34.2 |
| New York | 12,518 | -17,024.5 | -68.4 | -171.1 |
| North Carolina | 900 | -1,224 | -4.9 | -12.3 |
| Oregon | 650 | -884 | -3.6 | -8.9 |
| Rhode Island | 460 | -625.6 | -2.5 | -6.3 |
| South Carolina | 600 | -816 | -3.3 | -8.2 |
| Vermont | 118 | -160.5 | -0.6 | -1.6 |
| Virginia | 1,500 | -2,040 | -8.2 | -20.5 |
| Washington | 2,336 | -3,177 | -12.8 | -31.9 |
| Wisconsin | 2,500 | -3,400 | -13.7 | -34.2 |
| **TOTAL** | **64,668** | **-87,948.5** | **-353.4** | **-884** |

SOURCE: Sherman, Matthew. 2008. "*Will Workers Survive State Budget Belt-Tightening*?" Washington, D.C.: Center for Economic and Policy Research.

# IEA Testimony to the Illinois Senate Committee on Deficit Reduction

On behalf of the 133,000 members of the Illinois Education Association, I thank you for the opportunity to express our concerns for the FY10 Education budget for Elementary and Secondary Education.

Let's be clear; Illinois doesn't have a spending problem. Illinois has a revenue problem. Our state doesn't have the money to pay for current, necessary services.

Once such service is the providing of Special Education services in schools. Special Education is an obligation. It is not something a school district can opt out of. It is mandatory.

The state is supposed to reimburse districts for one-third the cost of providing services; that would mean the state would reimburse districts $19,000 per recipient student.

Last year, the General Assembly approved the first reimbursement increase in a generation, by $1,000, to a total of $9,000. That still leaves districts picking up $10,000 per student in mandatory costs.

This cost shifting has caused both overburdening of local property tax payers and led to shifting of resources away from other worthwhile programs in our schools.

Our point is this: reducing the state's deficit by continuing to refuse to meet the obligation to local school districts is unacceptable.

Funding for special education should be increased by basing the state's Special Education Personnel grant on the cost of special education employees and by increasing local school districts' tax-levying authority for special education.

IEA further believes the state student reimbursement rate for students placed in public alternative settings should be equal or higher to that of students placed in a private facility. **Current reimbursement rates should not be reduced to achieve this parity.**

Special education is not the only statewide education mandate.

The state will soon require statewide implementation of Response to Intervention or RTI. This is despite the fact that there is not sufficient funding for district level implementation, nor does the state board of education have the capacity to play a sufficiently supportive role in professional development and other support systems.

If current funding levels remain, we risk RTI becoming the latest underfunded mandate.  The result will be poor implementation, costs passed on to local taxpayers, and bad rather than best education practice in implementing RTI.

As you look for the answers to the state revenue crisis, please keep in mind that we can't afford any more schemes or sleight-of-hand tricks like those past governors and legislatures gave us.

Many of the people in this room remember the great promise that the profits from the state lottery would boost education funding.  Of course, that was untrue.

The lottery money went in the education fund pocket and was taken out of the general revenue pocket.  The lottery has never generated an extra penny for public schools.

We cannot allow a similar "shell game" to be played with the with the stimulus money targeted for education and IDEA and Title 1 in particular.

**To do so would be a cruel hoax upon the students, parents, and educators across the state and undermine the intent of the program, which is to preserve high quality public education for all students.**

Again, thank you for your time.  Doing the right thing is never easy and it often is expensive.

The people of Illinois are looking to this General Assembly to, at long last, come up with real solutions to these very real problems.

**Senate Committee Hearing**
**March 4, 2009**
**Springfield, IL, Capitol Building**
**Rm. 212**

## *Committee on Deficit Reduction*

Outline of remarks by:
Dr. Brent Clark, Executive Director
Illinois Association of School Administrators

Thank you for taking testimony from the Illinois Association of School Administrators regarding deficit reduction for the Illinois budget as it relates to education funding. Representing public school districts, I would suggest the following in response to the questions that were posed to me regarding this topic.

Question 1: What areas of the state budget do you want preserved and why?

Answer 1: The funding areas that would most widely and deeply affect the financial viability of school districts would be Special Education Funding (attachment 1), Foundation Level Funding (attachment 2), Mandated Categorical Funding (attachment 3), School Construction (attachment 4), and unfunded mandates (attachment 5).

Question 2: What revenue enhancements would you recommend be implemented to support those areas?

Answer 2: It is imperative that whatever is the final determination of the state legislature and governor regarding a revenue enhancement; it must be reliable and sustainable. Without that assurance, districts cannot budget for personnel and programs beyond one year.

Some suggested sources of enhanced revenue would be an expansion of the sales tax base for services and an increase in the personal income tax rate. The motor fuel tax may also be enhanced for a capital program beyond roads and bridges to include public schools.

Question 3: What three areas of a school's budget are the most troublesome in terms of having enough money to offer an adequate education to all students?

Answer 3: Without question or hesitation, the cost to fund special education is spiraling out of control. We are taking money that should be going to regular education and spending it on special education. Regular education isn’t protected by federal law and special education is mandated and horrifically underfunded.

In addition, the other items mentioned in Answer 1 remain the same.

Finally, the timeliness of state payments is constantly a concern for school officials. These school officials are accountable on every imaginable level and certainly to their school boards, local taxpayers, and students. When they produce a school budget, they must show a certain amount of faith in the state’s ability to fulfill their financial commitments on time. If you fail to deliver on your promises, there is no way they can deliver on their promises to their communities and those that depend on their services.

I will gladly take any questions.

# Illinois Education Roundtable 2009 Policy Briefs

## Special Education Funding

**State of Illinois funding for Special Education Personnel should be established and sustained at 33% of the average Illinois teacher salary. In addition, non-certificated reimbursement should be linked to average teacher salary.**

**Statement of the Problem:**

- Districts receive partial reimbursement for certified and non-certified staff that work with Special Education students.
- In 1977, districts received $6,250 for each certified Special Ed staff member, which comprised 50% of the average teacher salary. In 1985, the rate increased to $8,000 for certified personnel and $2,800 for non-certified personnel. These rates contributed 35% of the average teacher salary. This appropriation did not increase for twenty two years.
- In 2007, the General Assembly increased the reimbursement to $9,000/$3,500 for certified/non-certified staff. This contributes approximately 16% of the average salary.
- Program costs continue to rise and reimbursement has failed to keep pace. If adjusted for inflation, districts should receive over $17,000 per certified staff using the Employment Cost Index, based on the 1985 funding level.

**Preferred Solution:**

- Increase personnel reimbursement for certified/non-certified staff to $19,765/$6,918 (previously proposed in SB 2288), approximately 33% of the average teacher salary.

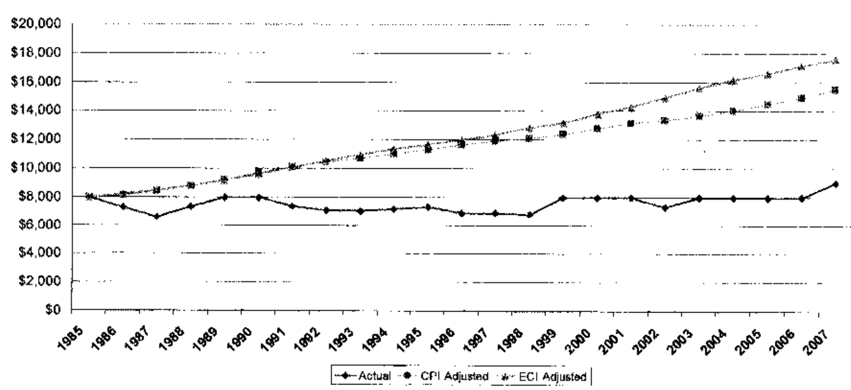
**Resources Required:**

- The increased funding would cost approximately $500 million. (previously proposed in SB2288)

**Additional Implications, Resources, or Issues:**

- All school funding should increase by the Employment Cost Index (ECI) annually.
- Additional revenue may be phased in over several years.
- Legislation should allow districts to levy for the shortfall of Special Education costs outside of the tax cap and should allow non-PTELL districts to levy actual Special Education costs instead of being restricted by the limiting rate.

**Special Ed Personnel Reimbursement Annual reimbursement compared to ECI/CPI**



# Illinois Education Roundtable 2009 Policy Briefs

**Foundation Level Funding (Adequacy)**

The Education Funding Advisory Board (EFAB) be convened on an annual basis and that adequate resources be allocated in a long-term funding solution to fully support an EFAB recommended Foundation Level by 2010.

**Statement of the Problem:**

The Illinois Constitution affirms "The State has the primary responsibility for financing the system of public education". The state does not provide an adequate foundation level funding source.

The Education Funding Advisory Board (EFAB) was legislatively convened in 1997. Its mission is to biennially recommend a minimum per-pupil foundation level based on a methodology which incorporates the basic education expenditures of low-spending schools exhibiting high academic performance. EFAB defined "adequate" to mean the actual cost of an academic curriculum of sufficient quality to permit an efficiently operated school district to obtain the result of having two-thirds of its students pass the Illinois standardized tests. EFAB contracted with Augenblick & Myers for a replicable methodology to produce an adequate funding level. Their foundation level recommendations produced by the adequacy model have never been implemented.

**Preferred Solution:**

- The current recommendation for FY2009 from the EFAB model would provide a foundation level of $7,388/student (based on ECI). The current FY2009 foundation level funding from the state is $5,959…a difference of $1,429/student for just this year. That difference equates to approximately $2.15 billion a year.

**Resources Required:**

- $2.15 billion per year confirms Illinois needs school funding reform. In order for reform to be maintained over time, reform should include, but not be limited to the following:
  - Reinstitute EFAB in accordance with current statutes;
  - Increase the income tax rate;
  - Expand the sales tax base.

**Additional Implications, Resources and Issues:**

- The white paper of September 2008, "Money Matters: How the Illinois School Funding System Creates Significant Educational Inequities that Impact Most Students in the State" from the Center for Tax and Budget Accountability, clearly shows the huge funding gaps of the state help sustain the huge achievement gaps in the state. As the cry for more academic accountability increases so must the realization that to reach that goal requires sufficient funds.
- An adequate foundation level is only one piece of the funding reform puzzle. It is imperative that Illinois look at the structural deficit that is comprised of other growing needs of the state with a stagnant or diminishing revenue stream. Pensions, health care issues, construction, etc. are an integral part of a funding reform package: adequate school funding reform cannot stand alone.
- Growing towards a 21st century world Illinois needs to address adequacy in education funding and seek funding reform now. Data shows that revenue reform can help provide an adequate education for all kids in Illinois.

Illinois Education Roundtable 2009 Policy Briefs

## Mandated Categorical Funding

**Sufficient funds must be annually appropriated to fully fund current categorical programs. Further, any new mandates must be fully funded by new revenues from State of Illinois sources.**

**Statement of the Problem:**

- Mandated Categorical (MCAT) funding provides partial reimbursement for nine programs required by the state. Even MCATs that are fully funded leave a significant portion of Special Ed programs under funded, forcing schools to assume responsibility for the shortfall, taking money away from other programs and services.
- For eleven of the past fifteen years, three of the six Special Ed MCATs were prorated as low as 86%.
- Costs continue to increase:
  - The cost of transporting a Special Ed student is 80% higher than a regular student, which is compounded by the dramatic increase of general transportation costs.
  - The number of students requiring extraordinary services has steadily increased. The cost of educating a student with a severe disability or multiple disabilities can exceed $30,000. This leaves a growing shortfall between costs and reimbursement.
- In spring 2008, ISBE estimated the shortfall between special education expenditures and reimbursement was over $900 million. Since Special Ed services are mandated by the state and federal government, local taxpayers are responsible for the shortfall.

**Preferred Solution:**

- Fully fund Mandated Categorical programs.

**Resources Required:**

- Full funding of MCATs is estimated to require an increase of $145 million for FY2010.

**Additional Implications, Resources, or Issues:**

- Consider streamlining the funding of special education categorical programs. For example, there is a proposal that would eliminate the Special Ed Extraordinary categorical and add the additional funding to the Special Ed personnel reimbursement categorical.
- Legislation should allow districts to levy for the shortfall of Special Education costs outside of the tax cap and should allow non-PTELL districts to levy actual Special Education costs instead of being restricted by the limiting rate.

Illinois Education Roundtable 2009 Policy Briefs

**School Construction**

The General Assembly must establish a continuous program for school construction and maintenance funding.

**Statement of Problem:**

Illinois school districts continue to be confronted with the issue of providing safe, appropriate instructional facilities for the students of Illinois. For some districts, this is manifested in ever-increasing enrollment that requires new construction on an annual basis. For others, enrollment may be stagnant and there is no need for additional facilities, but the condition of existing facilities requires extensive maintenance efforts or replacement of facilities that have exceeded their useful life. The ability to provide instructional technology enhancements in older school buildings is often hampered by the inability of districts to afford necessary facility renovations.

The 2008 ISBE Capital Needs Assessment Survey identified $7.8 billion in identified construction needs in 456 Illinois school districts. Due to lack of funding, there are 370 temporary classrooms reported in operation and a need for 1,106 additional classrooms for pre-kindergarten and kindergarten classrooms. Following are summary data from the study:

- $1.7 billion to build 116 school buildings,
- $1 billion to build 214 building additions
- $5 billion for general repair and remodeling of aging schools
    - $3.1 billion required for compliance under the Health/Life Safety codes

Currently, the entire cost of any new facility construction, existing facility renovation/maintenance or any facility upgrade currently falls entirely upon local district taxpayers.

**Preferred Solution:**

- General Assembly shall establish a continuous program for funding school construction and maintenance in Illinois public schools. Program should continue to include a process/formula by which districts are ranked based on need.
- Amend existing legislation to make the 1% County Sales Tax for school construction/maintenance binding if approved by voters.
- Amend school code to increase bonding limits for elementary, high school and unit districts.

**Resources Required:**

- $7.8 billion in state and local funds for school construction and maintenance.
- The Education Roundtable recommends:
    - $50 million in annual state funds dedicated to a maintenance matching fund for districts.
    - $150 million in one-time funding for entitlements granted in 2002.
    - $1.5 billion in annual state funds to support the School Construction Grant Program (Public Act 90-548)

**Additional Implications, Resources or Issues**

- Long-term dependence solely on local funding or the 1% county sales tax will result in growing inequity among school district facilities.

# MANDATES ENACTED SINCE 1992

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| PA 87-0626 | Requires schools to use recycled paper (if economically feasible). |
| PA 87-0652 | Requires schools to install sprinkler systems in new buildings or when remodeling. |
| PA 87-1265 | 5 + 5 Early Retirement – requires employer to pay 20% of the employee's highest annual salary per year purchased (over $50 million over the two year program). |
| PA 88-0612 | Requires fingerprint check for school bus drivers. |
| PA 89-0610 | Requires remediation plan for certain students failing in school;<br>Requires new "Prairie State Achievement Exam". |
| PA 90-0108 | Requires crossing control arms on school buses. |
| PA 90-0146 | Requires the use of soybean ink in school publications (if economically feasible). |
| PA 90-0425 | Requires employers to report newly hired employees to the Department of Employment Security. |
| PA 90-0548 | Requires schools to have a policy on "social promotion";<br>Requires schools to have a policy on "no pass, no play"; |
| PA 90-0582 | TRS 2.2 flat rate pension formula – requires school districts to pay a .58% contribution of TRS payroll (over $30 million statewide in the first year). |
| PA 90-0620 | Requires teachers to teach pupils "discipline and respect" for others. |
| PA 90-0688 | Requires public agencies to develop and implement an investment policy. |
| PA 91-0099 | Requires schools to have a registry of parents of children who want to receive notification before pesticides are applied on school grounds. |
| PA 91-0525 | Requires schools to adopt an integrated pest management plan (if economically feasible). |
| PA 91-0102 | Requires each school district to establish a Local Professional Development Committee to review teacher re-certification plans. |
| PA 91-0518 | Requires school districts to implement an enhanced 911 telephone system. (average cost estimated at $65,000 per district) |
| PA 91-0785 | Requires all school bus emergency exits to be outlined with reflective tape by August 1, 2000. |

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| PA 92-0497 | Requires that the course of instruction given in grades 10-12 concerning the Illinois Vehicle Code must include instruction on special hazards existing at, and required extra safety and driving precautions that must be observed at, highway construction/maintenance zones and in emergency situations. |
| PA 92-0260 | Requires a school board, in consultation with its parent-teacher advisory committee and other community-based organizations, to include provisions in the student discipline policy to address students who have demonstrated behaviors that put them at risk for aggressive behavior, including bullying. Also requires the provisions to include procedures for notifying parents or legal guardians and early intervention procedures based upon available community-based and district resources. |
| PA 92-0027 | Adds Hispanics to the list of specific ethnic groups who are required to be studied in the teaching of the history of the United States. |
| PA 92-0438 | Requires a school district to post its current budget, itemized by receipts and expenditures, on the district's Internet web site if the district has a web site, and requires the district to notify its students' parents that the budget has been posted. |
| PA 92-0505 | Requires school districts to contribute to the Teachers' Retirement System .5% of the teacher payroll to cover the cost of the Teachers Retirement Insurance Program (TRIP). (First year cost approximately $40 million). |
| PA 92-0604 | Requires school districts to transfer a student from one attendance center to another within the district upon the request of the student's parent or guardian if the student is in a school that does not meet adequate yearly progress. |
| PA 92-0631 | Requires school districts to add to the school district report card the amount of money that the district receives from all sources. |
| PA 92-0663 | Requires school boards to adopt and implement a policy that prohibits any disciplinary action that is based on the refusal of a student's parent to administer psychotropic medication. The policy must require in-service training for teachers every two years. |
| PA 92-0763 | Requires public schools to incorporate activities to address intergroup conflict and for all school boards to adopt a policy for this instruction and to make information available to the public that describes the manner in which the board has implemented the anti-bias education provisions. |
| PA 93-0088 | Requires sex education materials and instruction to advise pupils of the provisions of the Abandoned Newborn Infant Protection Act. |

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| PA 93-0355 | Requires school districts to develop, establish, and implement a new teacher induction and mentoring program. |
| PA 93-0406 | Requires public schools to include a unit of instruction in the U.S. History class that studies the role and contributions of Asian Americans. |
| PA 93-0426 | Requires school districts to do additional standardized testing in math and science. |
| PA 93-0470 | Requires schools that do not make adequate yearly progress to file a school improvement plan, a district restructuring plan, provide supplemental services for students, and allow for the transfer of students from one school to another. |
| PA 93-0523 | Requires school boards to make a verbatim audio or video recording of all closed meetings. |
| PA 93-0591 | Requires employers (including school districts) to provide an employee who is a victim of domestic or sexual violence an unpaid leave from work. |
| PA 93-0581 | Raises the minimum wage for workers (including those in school districts) to $6.50 per hour. |
| PA 93-0803 | Requires school districts to identify, track, and report on the educational progress and outcomes of dropouts who have re-enrolled in school. |
| PA 93-858 | Raises the compulsory school attendance age from 16 to 17 years of age. |
| PA 93-0909 | Requires a school district to submit a teacher applicant's fingerprints to the State Police when requesting a background check. |
| PA 93-0910 | Requires school districts to have a policy on medical emergencies, to have an automated external defibrillator in each indoor physical fitness facility, and to have a trained AED user in each facility during school-sponsored activities. (estimated first year cost $10-12 million) |
| PA 93-0946 | Requires school districts to receive proof of a dental exam from students entering kindergarten, second, and sixth grades. |
| PA 93-0966 | Requires school districts to provide information related to student obesity to the Department of Public Health. |
| PA 94-0014 | Requires school districts to provide steroid abuse prevention education to students who participate in interscholastic athletic programs. |
| PA 94-0028 | Requires public bodies that have a website that is maintained by full-time staff to post on its website the agenda of any regular meetings and a notice of the schedule of regular meetings. |

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| PA 94-0151 | Requires school districts to meet specific criteria if offering gifted education. |
| PA 94-0219 | Requires school districts or regional superintendent of schools to perform a check of the Statewide Sex Offender Database for each applicant for employment with the school district. |
| PA 94-0285 | Requires school districts to provide instruction on the slave trade. |
| PA 94-0346 | Requires school districts to use 2% bio-diesel fuel in their buses. |
| PA 94-0410 | Requires school districts to meet specific criteria if offering gifted education. |
| PA 94-0478 | Requires school districts to provide instruction on genocide. |
| PA 94-0600 | Requires school districts to complete an additional fire drill each year and requires that at least one of these include participation by the local fire department. It also requires school districts to invite all emergency response units to a yearly meeting in order to evaluate the school's emergency response plans and to file a report stating the results of the evaluation. |
| PA 94-0676 | Requires school districts to increase the high school graduation requirements for science, math, and English. |
| PA 94-0714 | Requires school districts to file as an attachment to its annual budget a report indicating for the prior year the name of the vendor, the product or service provided, and the actual net revenue and non-monetary remuneration from each of the contracts or agreements. It also requires the report to indicate for what purpose the revenue was used and how and to whom the non-monetary remuneration was distributed. |
| PA 94-0792 | Requires school districts to permit the self-administration of medication by a pupil with allergies by the use of an epinephrine auto-injector. |
| PA 94-0845 | Requires school districts to prohibit a school bus from idling its engine for more than 10 minutes within any 60 minute period in certain counties. |
| PA 94-0881 | Requires newly elected school board members to take an oath of office. |
| PA 94-0916 | Requires the clerk or secretary of the school board to furnish quarterly reports to the Regional Superintendent and the Secretary of State that includes the names of pupils who withdraw from high school because of extraordinary circumstances. Also requires the school district to establish, in writing, a set of criteria for use by the superintendent in determining whether a pupil's failure to attend school is the result of extraordinary circumstances, including but not limited to economic or medical necessity or family hardship. |

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| PA 94-0929 | Requires that, as a part of consumer education in high school, the instruction must include an understanding of the basic concepts of financial literacy. |
| PA 94-0945 | Requires school districts, before hiring applicants for employment, to check the newly created Statewide Child Murder and Violent Offender Against Youth Database, in addition to the statewide sex offender data base. |
| PA 94-0994 | Requires the principal or teacher of a public or private elementary or secondary school to notify the parents of children attending the school during school registration or during parent-teacher conferences that information about sex offenders is available to the public. |
| PA 94-1039 | Requires school districts to establish a new principal mentoring program and principal evaluation plan. |
| PA 95-0058 | Requires that school districts have the designated Integrated Pest Management person attend a training course. |
| PA 95-0084 | Requires school districts to establish a green cleaning policy and to only purchase and use environmentally-sensitive cleaning products (if economically feasible). |
| PA 95-0148 | Requires school districts that consolidate or reorganize to hire educational support personnel (ESP) based on the seniority of those ESPs previously working for the school districts involved in the consolidation. |
| PA 95-0155 | Requires school districts to have a plan to offer a summer breakfast or lunch program for the duration of their summer school program in each school that has at least 50% of the students eligible for free or reduced-price lunch. |
| PA 95-0168 | Requires the inclusion of the consequences of alcohol consumption and the operation of a motor vehicle in "safety education" instruction. |
| PA 95-0176 | Requires that each school bus display at the rear of the bus a sign with the telephone number of the owner of the school bus and requires procedures for accepting and documenting phone calls to the number. |
| PA 95-0232 | Requires school districts to adopt a policy before collecting biometric information (fingerprints, retina scans, etc) from students. |
| PA 95-0241 | Requires school districts to give a 90 day written notice to educational support personnel (ESP) before being laid off because of a third party contract; requires a public hearing to discuss the proposal to contract with a third party; and requires the school board to provide a cost comparison of using current ESPs versus entering into a third party contract. |

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| PA 95-0260 | Requires that each school district have a policy to ensure that the school bus driver is the last person leaving every school bus and that no passenger is left behind. |
| PA 95-0305 | Requires that school districts hire a licensed person to inspect and test fire sprinkler systems and control equipment. |
| PA 95-0310 | Requires school districts to provide in drivers' education courses six hours of driving – in a car with an instructor – with no use of proficiency examinations for practice driving or driving simulators. |
| PA 95-0339 | Requires school districts to include in classroom drivers' education classes, instruction on distracted driving as a major traffic safety issue. |
| PA 95-0349 | Requires school districts to create and maintain a policy on bullying. The policies must be filed with the State Board of Education, and must be updated every 2 years and re-filed. |
| PA 95-0396 | Requires school districts to give written notice to educational support Personnel (ESP) when the employee's work hours are reduced. |
| PA 95-0416 | Requires school districts that apply for a school construction grant to receive certification for their project from a "green building" rating system. |
| PA 95-0558 | Requires school districts to provide an in-service training program for employees conducted by persons with expertise in domestic and sexual violence and the needs of expectant and parenting youth at least once every 2 years. |
| PA 95-0712 | Requires school districts to provide automated external defibrillators at all outside athletic facilities. |
| PA 95-0741 | Requires school districts to have a procedure for recycling materials (if economically feasible) and to develop a comprehensive waste reduction plan. |
| PA 95-0756 | Requires a driver of a school bus to open the service door and driver's window before crossing a railroad track or tracks. |
| PA 95-0763 | Requires employers (including school districts) to grant unpaid leave to its employees who are civil air patrol members performing a mission. |
| PA 95-0764 | Requires high schools to include sexual assault awareness in the comprehensive health education program. |
| PA 95-0863 | Requires instruction in home-buying and mortgages in high school consumer education courses. |

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| PA 95-0869 | Requires instruction in schools regarding internet safety. |
| PA 95-0958 | Requires employers (including school districts) to provide insurance coverage to students who have taken a leave from college courses because of an illness or injury and to continue coverage of all dependents up to age 26 (age 30 for veterans of the armed forces). |
| PA 95-0969 | Requires teachers' institutes to provide instruction regarding chronic student health conditions. |
| PA 95-0972 | Requires employers (including school districts) to provide insurance coverage for marriage therapists. |
| PA 95-0973 | Requires employers (including school districts) to provide insurance coverage for eating disorders. |
| PA 95-0978 | Requires employers (including school districts) to provide insurance coverage for the shingles vaccine for persons over 60 years old. |

VOICES FOR ILLINOIS CHILDREN

BUILDING BETTER LIVES

# Protect children's learning, <u>especially</u> in the toughest times

**Testimony for the Senate Committee on Deficit Reduction**
***Wednesday 4 March 2009***

Voices for Illinois Children is a multi-issue children's advocacy organization, championing the well-being of children from their earliest years of life to adulthood. We work to promote a range of important programs that are critical to kids' learning. And we're particularly concerned about preserving them from threats posed by our state's mammoth fiscal crisis.

Illinois is ailing badly on many levels from crumbling finances and a shaky revenue system. Yet even in this year of tough funding decisions, we strongly urge legislators to live by the doctor's dictum: "First, do no harm." Our state's most vital investments in the learning and lives of children cannot be cut without great pain to kids, their families and communities, and Illinois' future workforce and social stability.

These hard times are exactly the time that children and families need help the <u>most</u>. We cannot afford to fail our kids now; we will not get a second chance to help them off to a good start in learning and in life. The resulting consequences are very serious. As Benjamin Franklin is quoted as saying, "The only thing more expensive than education is ignorance."

Voices long has called for fairly crafted revenue increases to stabilize and strengthen education, health and human services. We renew that call today, as our fiscal crisis underscores the importance of adequacy and fairness in funding. After detailing several program concerns, we will close with a reiteration of our revenue recommendations.

In the area of education, the focus of today's hearing, our top concerns include these:

**Early childhood education –** ISBE's $380.3 million Early Childhood Block Grant funds several "Preschool for All" initiatives that are voluntary for families. Their objective is to ensure children can enter school best-prepared for success:

- **PreKindergarten** for children 3 to 5 years of age (89 percent of grant funds)

- **Developmental services** for at-risk infants and toddlers (11 percent of the grant)

These are critically important priorities, considering national surveys of kindergarten teachers who reveal that as many as one in three children enters school unprepared for their formal education. In recent years, we have heeded those statistics and have worked to make Illinois a respected, national leader in early childhood education.

In 2003, we – policymakers, advocates, community leaders and others – established the Illinois Early Learning Council. We all worked through the council to assemble a thoughtful, multiyear plan for the improvement and expansion of early childhood programs – gradually, as resources allowed, and building upon the successes of existing programs in a variety of settings of parents' choice. These settings include not only schools, but child care and other community-based programs, which form a substantial piece of the early childhood puzzle.

Our overall goal has been to ensure that, one day, all parents might be able to secure high-quality, early learning opportunities for their young children, if they wish – always keeping our top priority upon first serving those children who are most at-risk of academic failure.

Legislators overwhelmingly approved this Preschool for All plan in 2006, and we all have worked annually to secure what resources we could for these goals. In fact, since FY2004, we've been able to commit about $197 million more to this vital work, increasing programs' access and quality. There's encouraging progress to report on both fronts. Illinois consistently gets high marks for program quality from the National Institute for Early Education Research. And our work to grow children's access has met with success – even as our unmet needs remain challenging:

- In the past six years, ISBE has been able to extend nearly 280 new grant awards to schools and community-based providers throughout the state, helping to establish entirely new programs and expand upon existing efforts for children from birth to age 5. Today, outside Chicago, more than 1,000 program grantees serve children in all 102 Illinois counties, from Rockford to Marion and Quincy to Danville.

  Still, even with the funding increases of recent years, we've fallen $28 million shy of the growth originally envisioned in Preschool for All plans, meaning we're still behind the stage we had planned to be in meeting families' needs in 2009.

- More than 95,000 children, aged 3 to 5, are taking part in high-quality preschool programs today, compared with about 56,000 in FY2003. Combined with Head Start and preschool special education enrollments, we now serve more than 147,000 children 3 to 5 years with high-quality early childhood services – marking substantial progress on our way toward the Preschool for All goal of serving 190,000 youngsters.

  Yet ISBE's official waiting list for services still stretched to about 17,500 names last year. This doesn't count the thousands of children whose parents want services, yet who are not even checked for waiting-list eligibility because local educators know resources are too tight to offer any hope for the time being.

Capital concerns frustrate educational efforts throughout Illinois, and are particularly paramount in early childhood settings. Until we secure dedicated funding to help improve and expand upon early learning facilities, a space crunch will continue to severely limit many communities' abilities to meet families' needs.

- Nearly 18,000 infants and toddlers are receiving developmental services through the birth-to-3 "set-aside" in the Early Childhood Block Grant, the funding mechanism of Preschool for All.

  However, in the past three years, funding increases have only been great enough to allow ISBE to fund 4 percent to 11 percent of infant and toddler programs' applications for new services.

Proportionally, early childhood funding increases have been well within reason. Despite these years of welcome and important growth, the Early Childhood Block Grant today totals only about 5 percent of the ISBE budget – even as its grant-funded programs struggle to help children in an age group representing five years of a child's first 18 years of life and learning.

More resources are necessary to keep on track with our goals of improving young children's earliest years of learning and development. More must be done to help ensure that parents who depend upon state-assisted child care can afford the co-payments that often claim an unfairly large share of their income. At the very least, we need to protect our foundation of early learning supports from crumbling, and preserve these wisest of investments of the public dollar.

**Children's mental health –** The social and emotional development of children is essential to their health, academic success and overall well-being. Investments in the Illinois Children's Mental Health Partnership priorities – split between ISBE ($3 million) and IDHS ($3 million) – have begun to bolster children's development by:

- Strengthening school districts' capacity to identify and meet the early intervention mental health needs of students, via collaborative partnerships within communities' support systems.

- Implementing the Illinois Social and Emotional Learning Standards, to enhance children's social readiness and ability to achieve academic success.

- Supporting the Positive Behavior Intervention and Supports program in schools throughout Illinois, with particular emphasis on children and youth with significant behavior problems and/or mental health needs.

Illinois is a nationally acknowledged leader and model in promoting children's mental health and social and emotional learning through innovative programs. While we've made considerable progress, children's needs remain considerable, too; only one out of 10 children who need mental health services is able to obtain them.

ISBE's $3 million investment remains unchanged since FY2007, and is only half of the initial goal that the Partnership set for that agency five years ago. Plus, the state's $6 million total (ISBE and IDHS) investment in Partnership priorities remains $14 million short of the total, $20 million needed to implement all ICMHP priorities.

Research has shown prevention and early intervention programs are cost-effective, improve school readiness and achievement and reduce the need for special education. We must continue our progress and not cut-back on these already scarce resources.

**Home-visiting / "parent-coaching" programs –** Several voluntary, IDHS programs – totaling about $20 million – offer "coaching" to new parents of at-risk children from birth to age 3. Through such efforts as Healthy Families Illinois and Parents Too Soon, moms and dads can learn how to foster the healthiest possible relationship with their children, how to strengthen their development and how to connect with community-based resources.

However, the approximately 7,500 children whose families rely on this help represent only about 7 percent of at-risk youngsters who stand to benefit. We must protect these children, their families and the programs they need.

**General State Aid and mandated categoricals –** GSA funding of about $4.6 billion represents the most basic building block of state resources for elementary and secondary education, offering schools the flexibility they need for such priorities as hiring teachers and obtaining classroom supplies.

It includes "poverty grants" targeting extra resources to school systems with high concentrations of children in poverty, to provide an extra learning boost. Another $1.8 billion in categorical funding helps to meet such pressing needs as special education and lunch and breakfast programs.

However, school systems still struggle to fully cover their special education costs. Plus, our current "foundation level" of $5,959 per pupil still falls short of the $6,405 recommended by the Education Funding Advisory Board in 2005 as the minimum funding level necessary to ensure that two-thirds of students are performing at grade level. Adjusted for inflation, that figure today is about $7,388. Recent years of funding growth have helped schools throughout Illinois, yet still have not reflected the guidance of this expert research.

So, how do we at Voices for Illinois Children propose shoring-up these important investments in the well-being of kids, families and communities?

**Fair and adequate revenues** – Even at a time of fiscal crisis such as this, a general revenue increase is advisable if it can shore-up critical state programs upon which kids and families depend, and if it can be done fairly. Voices advocates a "Fairness for Working Families" approach that accomplishes both.

It consists of:

- **An income tax increase** – In approaching a multibillion-dollar deficit, Illinois must turn to a revenue source that's big enough to handle the work. The income tax is this tool. Plus, it reflects families' ability to pay, making it the fairest of taxes.

  Yet even our income tax is not as fair to families as it could be, and combines with other state and local taxes to claim a disproportionately large share of the earnings of low- and moderate-income families, compared with wealthier households.

- **A tax-fairness package** of three components –

  - **An increase in the Illinois Earned Income Tax Credit**, targeting tax relief to low- and moderate-income families

  - **Creation of a state Child Tax Credit,** piggybacking on the federal CTC and targeting tax relief to families raising children

  - **An increase in the income tax's personal exemption,** providing some tax relief for all families

The individual variables of this fairness package can be set at various levels to shape its effects differently. But, taken together, these measures can lower the tax bills of many low- and moderate-income families, even within the context of an income-tax increase producing greater resources for important state services. That's because greater tax responsibility is shifted further up the earnings scale, resulting in a more progressive tax structure without having to employ graduated rates.

We strongly urge policymakers to consider these possibilities for helping to solve our longstanding but worsening fiscal problems. Deep state spending cuts would devastate many kids and families who already are suffering from cuts or payment delays in the programs on which they depend. And cuts also could damage our state economy further, according to two experts: Joseph Stiglitz, a Nobel Laureate and economist at Columbia University, and Peter Orszag, who directs the President's Office of Management and Budget.

Orszag and Stiglitz insist measures to raise new state revenues more fairly are preferable to budget-cutting moves that would inadvertently hurt the fiscal activity necessary to jump-start a failing economy. Voices emphatically agrees with this analysis.

Voices is pleased to work with policymakers on revenue options that can help protect our state's crucial yet threatened investments in children, families and communities. Children are young only once; it's our responsibility to help those years form a solid foundation for success in learning and in life.

**Memo**
**From: Ireta Gasner**
**Date: March 3, 2009**

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1. **What areas of the state budget are you interested in protecting and why are those areas important?**
    - Specifically related to early childhood education, the areas of the state budget we would like protected are The Early Childhood Block Grant and Home Visiting programs funded through the Department of Human Services, Healthy Families and Parents Too Soon budget lines. Another area of need not currently being addressed is the need for early childhood capital funds for construction and renovation focused on areas with the greatest demonstrated gap between need and current facilities.
    - We are also interested in protecting those programs that support the health and economic stability of families with young children including child care, mental health, All Kids, Family Care, TANF, and some maternal and child health programs.
    - Protecting these programs is critical for the future of Illinois for three main reasons. First, all learning begins at birth with 85% of the brain developing in the first three years of life. However, we only spend 4% of our education dollars during these years. We need focus our investments to support children during the most critical years which lay the foundation for all future success. Second, investing in these programs will help address Illinois' ranking as one of the top ten states with the worst achievement gap in the country. Too many of our children enter kindergarten without the skills they need to be ready to learn. Finally, it offers Illinois the greatest return on investment. This is not only due to increased positive school outcomes but also reduced social spending on programs such as special education and use of public benefits. Illinois stands to save as much as $14 dollars for every dollar we invest on early childhood programs.

2. **What revenue enhancements would you recommend be implemented to support those areas?**
    - The Ounce of Prevention Fund has historically and can continue to support revenue options that will provide new resources to fund early childhood programs. Last summer, we testified at education funding reform hearings that if there is a reform package that provides significant new funds for education, early childhood should receive 15% of that funding. Given the evidence cited here and in my written testimony, investments in early childhood are critical for the future economic and social stability of Illinois.

**The Federation of Independent Illinois Colleges and Universities**

**Comments of David Tretter, President**
**Delivered to the Illinois Senate Committee on Deficit Reduction**
**March 4, 2009**

Chairman Trotter, Chairman Murphy, and Honorable members of the committee, my name is David Tretter and I am the President of the Federation of Independent Illinois Colleges and Universities. Our organization represents the public policy interests of 58 non-profit private colleges and universities. The private colleges in Illinois now educate more students and a more diverse student population than do our public universities. The private colleges all over our great state continue to meet the higher education needs of our citizens, and are especially important in these tough economic times by leveraging the capacity of our institutions to educate nurses, teachers, and engineers.

I will briefly present some comments to you this morning related specifically to areas of the state operations budget that are most vital to college students and the higher education institutions our organization represents. Secondly, I will address the questions you face regarding revenue enhancements to support the state budget's priorities.

**Monetary Award Program (MAP)**

Since its creation in the 1970's the Monetary Award Program, administered by the Illinois Student Assistance Commission has been a national leader among need-based student aid programs. Unfortunately, since this current state budget crisis began in 2001, funding for the MAP program has dramatically fallen off of the pace previously established.

After 2 years of flat-funding, last year the General Assembly appropriated an increase of $18 million, which was unfortunately vetoed by former Governor Rod Blagojevich.

According to an Illinois Student Assistance Commission report issued just last week, demand for financial aid is rising dramatically for this current year and for the fall of 2009 as well. This report shows 77 percent of students receiving MAP grant assistance have a household income of less than $40,000 per year, and 48 percent are reporting less than $20,000 in household income. Yet with the help of the MAP grant, the Federal Pell Grant and other aid, these students are succeeding in colleges across Illinois.

Our own member institutions are doing more than ever to keep students enrolled, providing emergency tuition aid and tapping every resource possible, on top of the $850 million of scholarships and aid that our colleges provide to students every year from our own resources. Yet, we believe in this unprecedented time of need, a substantial increase in the MAP program can help maintain college affordability in Illinois. We are requesting that the MAP program be funded at the level of $451 million for FY 2010.

This would be a $68 million increase over the FY ’09 level (a 17 percent increase, after 3 years with no increases). It would allow ISAC to provide grants to the rising tide of eligible applicants at all levels of need and simultaneously increase MAP award sizes to fully fund the FY 2011 statutory maximum award size of $5,968 per qualifying student.

The size of MAP awards has not kept pace with needs. Just twelve years ago, MAP awards covered 100 percent of tuition at all public universities and as much as 40 percent of the cost at some private institutions. Now that number has decreased so that MAP covers only 70 percent at some public universities and around 20 percent at many private colleges and universities. This growing affordability gap is becoming insurmountable for students who qualify for MAP assistance. Increasing the size of these awards is essential to maintaining the dream of college attainment for our state’s neediest students.

MAP remains our top priority, but we have additional priorities that we feel are important to the state:

**CAPITAL**

Related to infrastructure, the private non-profit colleges and universities have some serious needs that I’d like to address briefly.

The current economic crisis has had a direct and immediate impact on deferred maintenance, expansion plans and infrastructure improvements. The institutions that belong to our association have nearly 200 projects of various sizes that are “shovel ready,” but cannot begin due to lack of credit resources and the shrinking equity positions that many endowments and private donors have seen. The Federal stimulus law has sent to Illinois more than $374 million of funding for “other government services.” Higher education infrastructure improvements are permitted uses of that money.

Accordingly, we request that the Governor and the General Assembly agree to appropriate a portion of that pool of funds for higher education "shovel ready" projects on campuses of both private and public universities, to help fulfill the intent of that law.

As for the state capital plan, for the past several years we have been talking to you about the need for state assistance to help our institutions comply with several unfunded mandates as well as to make energy efficiency upgrades. The most notable of these mandates include help with complying with the terms of the Dormitory Fire Sprinkler Act, the Americans with Disabilities Act. We have proposed that the state invest 50 percent of what our institutions require to fulfill our obligations under these acts. That would require $275 to $350 million of state capital funding for the various institutions, over a 3 to 5 year period.

The geographic diversity of our institutions, the relative importance each one of them has to their local economic base and the importance our sector plays with regard to the entire higher education system in our state, underscores our belief that state investment in these priorities would be appropriate and is necessary.

As for how you should pay for a capital plan, we would support most of the concepts that have been previously discussed. An increase in the motor fuel taxes may be appropriate and our organization would support an increase, presuming the capital plan included funding for certain higher education infrastructure needs.

**Health Services Education Grants (HSEGA)**

The Health Services Education Grants enables graduate health professional programs to serve students across the state. In fact, most of the eligible institutions use the proceeds of the grant to directly decrease student tuition and fees. These grants are provided to non-profit hospitals and colleges and help keep tuition low, provide for increased capacity to train additional nurses, MDs and various specialists, and offer additional incentives for minority students to enter the field of health care. Last year the General Assembly appropriated $21 million for the program, a $4 million increase over the previous year's appropriation of $17 million in recognition of the important role that private colleges and universities serve in educating the majority of healthcare professionals. It was zeroed out by ex governor Blagojevich. We urge you to restore funding for this program. (See Attachment 1)

**Matching Grants**

The research matching grant program has attracted significant funds from outside of Illinois. During fiscal year 2007, it is estimated that the State Matching Grant Program helped Illinois higher education institutions in attracting an estimated $111.6 million into Illinois. This means that for every $1 spent in State Matching Grant Program funds, $12 was raised from federal and other external sources, a 12:1 ratio. President Obama's stimulus plan includes billions of dollars of research funding to various federal departments. Our state's leading research institutions (public and private) will need state matching dollars to help attract those funds, and to do so now. I urge you to look closely at restoring the research matching grant funding. For further info, click here:
(http://www.ibhe.org/Board/agendas/2006/October/ItemCA-4.pdf )

**Revenue Enhancements**

The most difficult question each of you faces this year is not which worthy program to support, but how to pay for it. From our perspective there are three options:

1. Raise Taxes
2. Borrow
3. Rely on Federal Assistance

While none of these options are particularly attractive, the challenge on the revenue side, as in many states, is that the overwhelming majority of state funds come from income and sales taxes. In fact, a recent report by the Illinois Commission on Governmental Forecasting from January of this year shows that nearly 80 percent of revenue collected is in the form of individual and corporate income tax and sales tax. Short of imposing new forms of taxation on the Illinois system, income and sales taxes have to be considered as the most likely places to generate predictable and reliable revenue.
(http://www.ilga.gov/commission/cgfa2006/Upload/0109revenue.pdf , Page 4)

We believe it is appropriate to consider an increase in the state income tax, at least temporarily, and in lieu of a constitutional amendment to create a graduated income tax, certain exemption levels should be increased. The state's fiscal condition is clearly abysmal, and from our perspective on state government operations and public policy priorities – draconian cuts in state services in this economic environment would present additional hardships to many Illinois citizens.

Lastly, we believe that a second look at the “Income/Property Tax Swap” legislation from the past few years be seriously considered. When the bill was first introduced a few years ago, the real estate market was much healthier. Obviously, that has changed drastically. With the proper assurances and firewalls built in to protect the taxpayer, some relief on property taxes might just insure that more Illinois residents can continue to make their mortgage payments.

Thank you and I am happy to take questions.

ATTACHMENT 1

## Increasing Demand for Health Care

**According to a recent study by the Illinois Board of Higher Education:**

- Overall, Illinois colleges and universities are under-producing by 13 percent the total number of health care workers needed.

- Between 2000 and 2010, employment in health care professions will grow by approximately 53,000 or 20 percent.

- Of the projected average annual position openings of 10,800 between 2000 and 2010, approximately half will be new positions, and half will replace existing workers.

- The fields in which Illinois is projected to have the greatest need for workers annually are:

  Registered nurses (4,151)
  Licensed practical nurses (928)
  Medicine (668)
  Health diagnosing and treating practitioners—all other (624)
  Pharmacists (501)
  Medical/Clinical laboratory technologists/technicians (479)
  Medical Records/Health Information Technicians (411)
  Speech Language Pathology/Audiology (349)
  Dental Hygienists (337)
  Emergency Medical Technicians/Paramedics (318)

**Nationally, according to the Bureau of Labor Statistics, between 2002 and 2012:**

- Overall demand for health care positions will increase:

  - Healthcare practitioners and technical occupations – 26 %
  - Healthcare support occupations – 34%

- Five of the 10 fastest growing professions will be health related, and require a postsecondary education. The increase in demand for these professions will be 49 percent over the ten-year period.

- The occupation with the largest increase in absolute numbers will nursing, with a demand for over 600,000 additional positions by 2012.

- The labor force group, Asian and other, and the Hispanic labor force are projected to increase faster than other groups, 44 percent and 36 percent, respectively. The black labor force is expected to grow by 21 percent, more than twice as fast as the 9 percent growth rate for the white labor force.

## Homeland Security

In the event of a state or national tragedy, a shortage of trained and qualified health care professionals could hamper emergency treatment and adversely affect care of victims.

## Contribution of Independent Colleges and Universities

- Illinois' independent colleges and universities produced over **56 percent** of all health related degrees in FY 2006. The following page provides a partial list of the degrees produced (Source, IPEDS, 2006)

**Health Professions Degree Production by Sector**

| | Private BA's | Total BA's | BA Private Share | Private Grad | Total Grad | Grad Private Share | Total Private | Total Awards | ALL Private Share |
|---|---|---|---|---|---|---|---|---|---|
| 51.0000 Health Services/Allied Health/Health Sciences, General | 0 | 1 | **0** | 0 | 0 | **0** | 0 | 1 | **0** |
| 51.0101 Chiropractic (DC) | 0 | 0 | **0%** | 92 | 92 | **100%** | 92 | 92 | **100%** |
| 51.0201 Communication Disorders, General | 25 | 212 | **12%** | 0 | 114 | **0%** | 25 | 326 | **8%** |
| 51.0202 Audiology/Audiologist and Hearing Sciences | 0 | 0 | **0%** | 12 | 12 | **100%** | 12 | 12 | **100%** |
| 51.0203 Speech-Language Pathology/Pathologist | 69 | 69 | **100%** | 86 | 136 | **63%** | 155 | 205 | **76%** |
| 51.0204 Audiology/Audiologist and Speech-Language Pathology/Pathologist | 0 | 169 | **0%** | 7 | 110 | **6%** | 7 | 279 | **3%** |
| 51.0401 Dentistry (DDS, DMD) | 0 | 0 | **0%** | 0 | 132 | **0%** | 0 | 132 | **0%** |
| 51.0501 Dental Clinical Sciences, General (MS, PhD) | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.0599 Advanced/Graduate Dentistry and Oral Sciences, Other | 0 | 0 | **0%** | 0 | 15 | **0%** | 0 | 15 | **0%** |
| 51.0602 Dental Hygiene/Hygienist | 0 | 36 | **0%** | 0 | 0 | **0%** | 0 | 36 | **0%** |
| 51.0701 Health/Health Care Administration/Management | 16 | 214 | **7%** | 271 | 271 | **100%** | 287 | 485 | **59%** |
| 51.0702 Hospital and Health Care Facilities Administration/Management | 0 | 58 | **0%** | 0 | 30 | **0%** | 0 | 88 | **0%** |
| 51.0704 Health Unit Manager/Ward Supervisor | 0 | 0 | **0%** | 0 | 10 | **0%** | 0 | 10 | **0%** |
| 51.0706 Health Information/Medical Records Administration/Administrator | 0 | 37 | **0%** | 0 | 0 | **0%** | 0 | 37 | **0%** |
| 51.0799 Health and Medical Administrative Services, Other | 86 | 86 | **100%** | 1 | 1 | **100%** | 87 | 87 | **100%** |
| 51.0901 Cardiovascular Technology/Technologist | 10 | 10 | **100%** | 0 | 0 | **0%** | 10 | 10 | **100%** |
| 51.0905 Nuclear Medical Technology/Technologist | 9 | 9 | **100%** | 0 | 0 | **0%** | 9 | 9 | **100%** |
| 51.0906 Perfusion Technology/Perfusionist | 4 | 4 | **100%** | 0 | 0 | **0%** | 4 | 4 | **100%** |
| 51.0907 Medical Radiologic Technology/Science – Radiation Therapist | 3 | 45 | **7%** | 0 | 0 | **0%** | 3 | 45 | **7%** |
| 51.0908 Respiratory Care Therapy/Therapist | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.0912 Physician Assistant | 5 | 27 | **19%** | 138 | 138 | **100%** | 143 | 165 | **87%** |
| 51.0913 Athletic Training/Trainer | 36 | 60 | **60%** | 0 | 0 | **0%** | 36 | 60 | **60%** |
| 51.1002 Cytotechnology/Cytotechnologist | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1005 Clinical Laboratory Science/Medical Technology/Technologist | 29 | 93 | **31%** | 32 | 32 | **100%** | 61 | 125 | **49%** |
| 51.1099 Clinical/Medical Laboratory Science and Allied | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Professions, Other | | | | | | | | | |
| 51.1101 Pre-Dentistry Studies | 0 | 51 | **0%** | 0 | 0 | **0%** | 0 | 51 | **0%** |
| 51.1102 Pre-Medicine/Pre-Medical Studies | 12 | 12 | **100%** | 0 | 0 | **0%** | 12 | 12 | **100%** |
| 51.1103 Pre-Pharmacy Studies | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1104 Pre-Veterinary Studies | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1199 Health/Medical Preparatory Programs, Other | 80 | 107 | **75%** | 0 | 0 | **0%** | 80 | 107 | **75%** |
| 51.1201 Medicine (MD) | 0 | 0 | **0%** | 697 | 107<br>3 | **65%** | 697 | 1073 | **65%** |
| 51.1401 Medical Scientist (MS, PhD) | 0 | 0 | **0%** | 14 | 15 | **93%** | 14 | 15 | **93%** |
| 51.1501 Substance Abuse/Addiction Counseling | 0 | 0 | **0%** | 0 | 68 | **0%** | 0 | 68 | **0%** |
| 51.1503 Clinical/Medical Social Work | 0 | 0 | **0%** | 6 | 6 | **100%** | 6 | 6 | **100%** |
| 51.1504 Community Health Serivces/Liaison/Counseling | 0 | 80 | **0%** | 11 | 11 | **100%** | 11 | 91 | **12%** |
| 51.1505 Marriage and Family Therapy/Counseling | 0 | 0 | **0%** | 32 | 32 | **100%** | 32 | 32 | **100%** |
| 51.1506 Clinical Pastoral Counseling/Patient Counseling | 0 | 0 | **0%** | 16 | 16 | **100%** | 16 | 16 | **100%** |
| 51.1508 Mental Health Counseling/Counselor | 0 | 0 | **0%** | 5 | 5 | **100%** | 5 | 5 | **100%** |
| 51.1509 Genetic Counseling/Counselor | 0 | 0 | **0%** | 5 | 5 | **100%** | 5 | 5 | **100%** |
| 51.1599 Mental and Social Health Services and Allied Professions, Other | 0 | 0 | **0%** | 16 | 16 | **100%** | 16 | 16 | **100%** |
| 51.1601 Nursing - Registered Nurse Training (RN, ASN, BSN, MSN) | 1724 | 2379 | **72%** | 40 | 40 | **100%** | 1764 | 2419 | **73%** |
| 51.1602 Nursing Administration (MSN, MS, PhD) | 0 | 0 | **0%** | 34 | 38 | **89%** | 34 | 38 | **89%** |
| 51.1603 Adult Health Nurse/Nursing | 0 | 0 | **0%** | 10 | 10 | **100%** | 10 | 10 | **100%** |
| 51.1604 Nurse Anesthetist | 0 | 0 | **0%** | 32 | 45 | **71%** | 32 | 45 | **71%** |
| 51.1605 Family Practice Nurse/Nurse Practitioner | 0 | 0 | **0%** | 11 | 55 | **20%** | 11 | 55 | **20%** |
| 51.1606 Maternal/Child Health and Neonatal Nurse/Nursing | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1608 Nursing Science (MS, PhD) | 0 | 0 | **0%** | 144 | 343 | **42%** | 144 | 343 | **42%** |
| 51.1609 Pediatric Nurse/Nursing | 0 | 0 | **0%** | 1 | 1 | **100%** | 1 | 1 | **100%** |
| 51.1610 Psychiatric/Mental Health Nurse/Nursing | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1611 Public Health/Community Nurse/Nursing | 0 | 0 | **0%** | 9 | 11 | **82%** | 9 | 11 | **82%** |
| 51.1612 Perioperative/Operating Room and Surgical Nurse/Nursing | 0 | 0 | **0%** | 0 | 2 | **0%** | 0 | 2 | **0%** |
| 51.1613 Licensed Practical /Vocational Nurse Training (LPN, LVN, Cert, | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.1617 Critical Care Nursing | 0 | 0 | **0%** | 3 | 3 | **100%** | 3 | 3 | **100%** |
| 51.1699 Nursing, Other | 3 | 3 | **100%** | 29 | 41 | **71%** | 32 | 44 | **73%** |
| 51.1701 Optometry (OD) | 0 | 0 | **0%** | 149 | 149 | **100%** | 149 | 149 | **100%** |
| 51.1901 Osteopathic Medicine/Osteopathy (DO) | 0 | 0 | **0%** | 178 | 178 | **100%** | 178 | 178 | **100%** |
| 51.2001 Pharmacy (PharmD [USA] PharmD, BS/BPharm | 0 | 0 | **0%** | 217 | 372 | **58%** | 217 | 372 | **58%** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| [Canada]) | | | | | | | | | |
| 51.2002 Pharmacy Administration and Pharmacy Policy and Regulatory | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.2003 Pharmaceutics and Drug Design (MS, PhD) | 0 | 0 | **0%** | 0 | 1 | **0%** | 0 | 1 | **0%** |
| 51.2004 Medicinal and Pharmaceutical Chemistry (MS, PhD) | 0 | 0 | **0%** | 0 | 4 | **0%** | 0 | 4 | **0%** |
| 51.2005 Natural Products Chemistry and Pharmacognosy (MS, PhD) | 0 | 0 | **0%** | 0 | 16 | **0%** | 0 | 16 | **0%** |
| 51.2099 Pharmacy, Pharmaceutical Sciences, and Administration, Other | 0 | 0 | **0%** | 0 | 3 | **0%** | 0 | 3 | **0%** |
| 51.2101 Podiatric Medicine/Podiatry (DPM) | 0 | 0 | **0%** | 64 | 64 | **100%** | 64 | 64 | **100%** |
| 51.2201 Public Health, General (MPH, DPH) | 0 | 0 | **0%** | 85 | 281 | **30%** | 85 | 281 | **30%** |
| 51.2202 Environmental Health | 0 | 17 | **0%** | 0 | 0 | **0%** | 0 | 17 | **0%** |
| 51.2205 Health/Medical Physics | 0 | 0 | **0%** | 14 | 14 | **100%** | 14 | 14 | **100%** |
| 51.2206 Occupational Health and Industrial Hygiene | 0 | 12 | **0%** | 0 | 0 | **0%** | 0 | 12 | **0%** |
| 51.2207 Public Health Education and Promotion | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.2208 Community Health and Industrial Hygiene | 0 | 150 | **0%** | 0 | 11 | **0%** | 0 | 161 | **0%** |
| 51.2211 Health Services Administration | 0 | 0 | **0%** | 0 | 9 | **0%** | 0 | 9 | **0%** |
| 51.2299 Public Health, Other | 0 | 0 | **0%** | 4 | 4 | **100%** | 4 | 4 | **100%** |
| 51.2301 Art Therapy/Therapist | 2 | 2 | **100%** | 36 | 40 | **90%** | 38 | 42 | **90%** |
| 51.2302 Dance Therapy/Therapist | 0 | 0 | **0%** | 15 | 15 | **100%** | 15 | 15 | **100%** |
| 51.2306 Occupational Therapy/Therapist | 0 | 0 | **0%** | 30 | 80 | **38%** | 30 | 80 | **38%** |
| 51.2307 Orthotist/Prosthetist | 0 | 0 | **0%** | 0 | 0 | **0%** | 0 | 0 | **0%** |
| 51.2308 Physical Therapy/Therapist | 0 | 1 | **0%** | 137 | 246 | **56%** | 137 | 247 | **55%** |
| 51.2310 Vocational Rehabilitation Counseling/Counselor | 0 | 0 | **0%** | 11 | 28 | **39%** | 11 | 28 | **39%** |
| 51.2399 Rehabilitation and Therapeutic Professions, Other | 0 | 21 | **0%** | 0 | 32 | **0%** | 0 | 53 | **0%** |
| 51.2401 Veterinary Medicine (DVM) | 0 | 0 | **0%** | 0 | 98 | **0%** | 0 | 98 | **0%** |
| 51.2501 Veterinary Sciences/Veterinary Clinical Sciences, General (Cert, MS, PhD) | 0 | 0 | **0%** | 0 | 15 | **0%** | 0 | 15 | **0%** |
| 51.2703 Medical Illustration/Medical Illustrator | 0 | 0 | **0%** | 0 | 7 | **0%** | 0 | 7 | **0%** |
| 51.3101 Dietetics/Dietitian (RD) | 33 | 119 | **28%** | 31 | 40 | **78%** | 64 | 159 | **40%** |
| 51.3201 Bioethics/Medical Ethics | 0 | 0 | **0%** | 34 | 34 | **100%** | 34 | 34 | **100%** |
| 51.9999 Health Professions and Related Clinical Sciences, Other | 30 | 30 | **100%** | 4 | 4 | **100%** | 34 | 34 | **100%** |
| Total | **2176** | **4114** | **53%** | **2763** | **4674** | **59%** | **4939** | **8788** | **56%** |

TESTIMONY OF R. EDEN MARTIN
PRESIDENT, CIVIC COMMITTEE OF THE
COMMERCIAL CLUB OF CHICAGO

BEFORE THE SENATE COMMITTEE ON DEFICIT REDUCTION
March 4, 2009

Good morning. I am Eden Martin, and I serve as President of The Commercial Club of Chicago and of its Civic Committee. The Commercial Club consists of 500 members from the business, professional, foundation and not-for-profit communities in the greater Chicago area. The Civic Committee includes 90 CEO's or senior officers of the major corporations, banks and professional firms and research universities in the area. The Civic Committee's mission is to help make Chicago a better place to live and work. Our number one priority over the years has been to help improve our educational system, particularly the schools that serve inner-city children in Chicago.

The purpose of these hearings is to consider the State's budget. Today, the focus is on expenditures for education – principally K-12 schools. This year – Fiscal 2009 – the State of Illinois has appropriated some $7.4 billion in own-source revenues for elementary and secondary education (as well as another $2.2 billion for higher education).

As you know, on Monday, March 2, 2009, the Civic Committee published an updated report on the state of the State's finances. It showed that: (a) Illinois is now facing a huge gap – over $8 billion per year – between revenues and costs, in its annual operations; (b) the State's accumulated debts and unfunded obligations now amount to $116 billion or more, depending on how some of these are calculated; and (c) Illinois is nearing a "tipping point" where the obligations will become so large that it will be virtually impossible to sustain operations in the future without enormous tax increases or service reductions, or both, that could drive businesses and investment out of the State.

It is essential that the State undertake serious reforms to its pensions and retiree health care arrangements, and to make major cuts and put in place programmatic efficiencies – amounting to billions of dollars annually.

K-12 education is a huge area of expenditure. My message today is that our K-12 educational system is very inefficient in Chicago. This is because CPS is a monopoly, and monopolies are inherently less efficient than enterprises in competitive markets – where customers have choices, and where, by exercising those choices, they can put pressure on service providers to do a better job. (I do not address here any question of relative inefficiency in downstate or suburban schools.)

When monopoly markets are converted to competitive markets, they typically produce goods and/or services that are either higher quality than before, or at lower cost, or both. You can expect that if the CPS monopoly were made competitive – if all or most students in Chicago were given the choice of a charter or contract school – the competition thus created would make *all* schools (both CPS and the new "choice" schools) both higher-quality and lower cost.

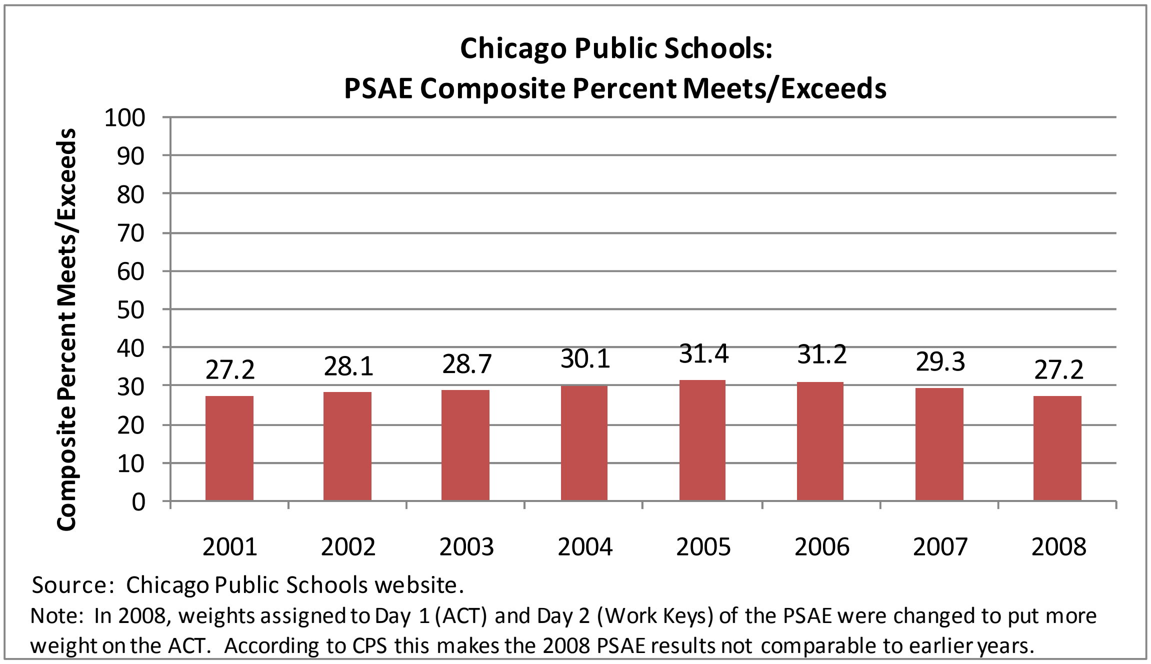
CPS today spends on average a little over $11,000 per pupil – about the same as DuPage County schools. The problem is not that this is too much. It is rather that the public gets so little for its money. The main reason we have advocated more charter schools is to create competition, which in turn will produce greater pressure and focus for improved quality.

It is worth noting that Chicago's charter schools operate with per-pupil funding from CPS that is much lower than the moneys available to the "regular" CPS schools. Estimates of how much lower range from $3,000 to $4,000 per pupil. The way to cure this inequity, however, is not to bring the other CPS schools down to the level of charter funding, but to bring the charters up to the CPS average.

The 2008 ISAT and PSAE scores are the most recent scores available for Illinois and Chicago – school-by-school. The last such tests students take are those for the 11th grade; so they are the best basis for assessing the performance of students throughout their entire K-12 school experience.

High school (11th grade) student performance trends as reflected in the 11th grade PSAE test results are essentially flat over the past 8 years —showing little or no improvement. (This 11th grade test is the last such exam given in the high schools, and by the spring of 11th grade, many students have already dropped out of school. A recent study by CPS's Office of High Schools and High School Programs reported that the 2006 CPS dropout rate was 44%). The PSAE composite in 2001 showed that only 27.2 percent of CPS students in 11th grade were "meeting" or "exceeding" State academic standards. These scores rose slightly during the first few years of the new decade, but then fell in 2006, 2007 and 2008 – and now stand at 27.2 percent, the same as 2001.

Thus, over 70 percent of Chicago's 11th graders (no similar tests are given in the 12th grade) continue to fail to meet State standards in math, reading and science on a composite basis. The chart below shows the trend of the composite PSAE scores for Chicago from 2001 to 2008.




While these results are disappointing at the aggregate level, they are even more disturbing when one examines the performance of individual high schools. Looking at the overall percentage of Chicago students who meet or exceed standards on the PSAE masks the huge difference in student performance between "selective enrollment" high schools and average neighborhood high schools.

Of the 99 reporting CPS high schools in 2008, only eight "selective enrollment" high schools exceeded the 62.5% benchmark (established under NCLB) for the percentage of students meeting or exceeding State standards in at least one subject in 2008. The remaining 91 Chicago high schools (some of which are also "selective enrollment") did not reach this benchmark; more than half of these schools have less than 20% of their students meeting State standards on the PSAE, and many have fewer than 10% of their students meeting State standards (see attached Appendix A).

The "meeting" standards test is not rigorous. A better measure of readiness to succeed in college is whether students "exceed" State standards. By that measure, only a tiny fraction of the students in Chicago's inner-city schools are educationally prepared for college – or for the demands of a job in our modern technological society, or for the demands of citizenship.

Because so few inner-city high school graduates are prepared for college, few earn a bachelor's degree. A study of the Consortium on Chicago School Research, released in April

2006, reports that of every 100 freshmen entering a Chicago public high school, only about six will earn a bachelor's degree by the time they are in their mid-20s. For African-American and Hispanic male freshmen, only about three out of every 100 will earn a bachelor's degree by the age of 25.

The consequences of the failures of big city school systems such as Chicago's are profound beyond statistics or description, and they fall predominantly on children from poor minority families.

The main reason why the Chicago schools fail (like those in many other big cities) is that the schools are monopolies. Like monopolies in the private sector, their customers do not have choices. Unlike school families in suburban environments which can relocate to communities with better schools, the poorer residents of inner-city Chicago do not have such options. Monopoly providers in both the private and public sectors know that their customers are trapped – that there are no consequences to the service providers if they fail. In such circumstances, the normal incentives that exist in competitive environments to work hard and improve do not exist; and the management techniques and cultures of high expectations that reflect those incentives are non-existent.

I believe that the way to achieve transformational change in Chicago's public schools is not by managing the monopoly better, or feeding it more resources, but by ending it. More choice and competition would surely lead to an incentive structure and "culture" aimed at achieving educational results. Boswell quoted Samuel Johnson to the effect that nothing so concentrates the mind as the prospect of a hanging. Similarly, nothing so focuses the minds of executives, managers and employees in competitive industries as the prospect of losing an important customer. Where customers can be lost – where they can move to a different supplier – the focus of attention is on serving them better. But when customers are trapped, the focus shifts to those who work for the enterprise, and to how that enterprise can be managed in their interests rather than the customers.

The immediate pay-off from more charter schools stems from the fact that such schools operate with greater flexibility and innovation, outside the strictures of the CPS bureaucracy and the restrictive provisions of the labor agreement with the CTU. (Even though they receive lower per pupil funding than regular CPS schools, charters generally perform better on State assessments, a topic we will address later.) But the longer-term and far more powerful pay-off will come from creating competitive markets – which will in turn shift the focus away from serving the interests of the bureaucrats and teachers, and toward educating children.

Competition is a concept of economics and human motivation. It is also a concept of freedom. The economic proposition is well understood. Where many suppliers produce goods or services and sell them in a market where there are many other sellers, buyers can choose.

They will choose based on quality and price. If one supplier produces widgets or legal briefs of poorer quality or greater price, buyers will choose another supplier. Because suppliers know this, they work hard to assure high quality and low price. This focus on results is unrelenting. If a particular producer cannot do as well on either the quality or price front, it will soon go out of business.

The pressures are all in the direction of constant improvement – better quality, greater productivity in production, lower cost and price. Markets which are competitive thus tend to satisfy more human wants than markets which are uncompetitive.

Competition creates pressures on managers and workers to do as well as possible; and there is discomfort and sometimes unpleasantness associated with the pressures. But the societal tradeoff is that the managers and workers who experience the pressure are also consumers, who enjoy the benefit of goods and services that are of higher quality and lower cost than would be the case in the absence of those pressures.

The net effect is that in competitive markets, human enterprises experience a pervasive array of incentives to achieve good results – better widgets and services produced at lower cost. Everyone who has worked in firms operating in competitive markets has experienced these incentives. Although there is more to life than money, economic motivations are important to most people, who therefore strive for promotions and excellent work reviews – and for the resulting economic rewards.

By contrast, in noncompetitive environments, these pressures and incentives either do not exist or exist to a far weaker degree. In monopoly markets, customers and clients do not have the same array of choices. If customers are dissatisfied with the quality of the widgets or the price of services, they have little or no alternative source of supply. In such cases, the suppliers can afford to relax. There is no need to be compulsive about quality or cost, or strategic direction, or the performance of employees. Quality degrades and costs increase. Prices tend to escalate – not only because costs are higher, but also because the monopoly firms have what economists call "market power," the ability to charge prices in excess of marginal costs.

Urban education in Chicago – the provision of school service from kindergarten through $12^{th}$ grade – is a monopoly. Virtually all Chicago schools that provide free public education from K-12 are run by CPS. To be sure, there are private schools – both church and secular. But these schools charge tuition. There may be scholarships, but it is rare for students to be able to attend these schools at no cost. Only a small fraction – less than 10% -- of school families have access to a charter school or contract school – schools funded publicly but managed by independent operators.

The Catholic schools in Chicago today offer far fewer alternatives than in the past, and the choice is not free. The Archdiocese has closed some 240 schools, and enrollment is now down from 366,000 in 1964 to about 100,000 at the end of 2005. Moreover, tuition in these schools has increased dramatically – up to $3,000 for elementary schools, and $6,700 for high schools. Even with these tuition revenues, the Archdiocese must rely on fundraising to cover over 30% of its costs of operating its schools.

For most of the families who live in Chicago's inner-city – those who are poor and minority – the option of sending their children to a private school at no cost is nonexistent; and the possibility of doing so on a tuition-paying basis is usually more theoretical than real.

Wealthy and middle-class families have the ability to move to the suburbs so their children can attend good suburban schools. Large numbers of them have in fact done so. Indeed, the low quality of Chicago's public schools has almost certainly played a part in pushing large chunks of Chicago's middle-income population out of the city and into the suburbs – a phenomenon which has further exacerbated income disparities between the suburbs and the city.

But for those who live in Chicago's inner-city communities, this ability to move to another school district is virtually non-existent. Residents generally lack the financial resources to move to the suburbs. And though they may move from one area of Chicago to another, the schools in all these areas are almost all managed and maintained by the same monopolist – CPS. Those schools receive approximately the same amount of money per student, and operate subject to the same CPS structure of policies and controls. Not insignificantly, they also operate pursuant to the terms of the same 300-plus page union agreement between CPS and the CTU.

For all these reasons, if one were to set out to design a monopoly system in which the customers/clients had few or no options and in which the elasticity of demand is near zero, that system would have the characteristics of the Chicago public school system.

It is therefore not surprising that one finds within CPS a total absence of the network of pressures and incentives that induce workers in competitive firms to perform well and efficiently. The absence of these pressures and incentives helps explain many of the characteristics of CPS' operations.

CPS has a chaotic system, or non-system, of recruiting and hiring new teachers. It does not have in place effective systems for inducting new teachers, or evaluating teachers. There is little or no purpose to evaluations. Most teachers in the probationary period are promoted to tenured positions. Once teachers are tenured, there is no practical way to get rid of them. Moreover, evaluations are irrelevant to compensation because the track-and-lane system built into the union contract deprives management of the ability to make salaries dependent on the quality of teacher performance. There are no bonuses.

CPS' central office does not manage particular schools; and there is little or no incentive on those who do manage the schools – the local principals – to go through the hassles that are involved in proceeding administratively against incompetent teachers.

No human service enterprise of 46,000 workers providing services to 415,000 people would be structured this way if it operated in a competitive environment. Or, to put it another way, in a competitive environment no human services entity structured and operating this way would long survive. The competitive alternatives would quickly deprive the monopoly of its customers and its revenue. And the threat of this loss would induce all service providers in the market to transform the way they do business.

I do not doubt that the teaching profession has its share of saints, and that there are many teachers in Chicago who do what they do primarily because of their enjoyment of the work and the satisfaction they derive from seeing that work reflected in the achievements of their students. Similar satisfactions may be enjoyed by other "professions" as well.

But it simply does not follow that these teachers – or any other category of "professionals" -- should somehow be insulated from competitive pressures and incentives.

It is frequently said that America has the best system of higher education in the world. If that is true, why is it true? Is it because we are inherently better at educating 19 year olds than 17 and 18 year olds? Or is it because there is something structurally different about the environments in which the educational services are provided?

Universities may not all be models of efficiency. But they operate in highly competitive environments – for students, for faculty, for money. The people who run our universities know that most students and their families have choices. The students with the best academic records and prospects for continued success have the best choices. So colleges and universities compete vigorously to attract them. This competition covers most if not all aspects of the services offered, as well as the collateral aspects of college life.

In Chicago's K-12 school system, these economic incentives are completely lacking. It cannot be an accident that the students who attend our excellent colleges and universities have a broad array of choices – and that those who attend schools within the CPS K-12 system do not.

To sum up: the Chicago Public Schools do not deliver efficient educational services to the school families of Chicago. The principal reason lies in the monopoly nature of the enterprise. Ending the monopoly would bring both an improvement in the quality of services and a reduction in the costs of those services.

The Civic Committee welcomes any reasonable reform that will bring cost savings to State and local government. But in the case of CPS, our primary concern is with quality – not cost. We believe that bringing competitive options to the school families of Chicago would, over time, improve the performance of the schools and the learning of their students. If competition enables the schools to save money, particularly in their non-educational and central office operations, so much the better.

The best way to bring competition and educational choice to Chicago is to lift the cap on charter schools. Charter schools are typically more innovative and operate with greater flexibility. They have greater ability to exercise quality control over their teachers, and to get rid of failing teachers. They can also vary the pay of successful and unsuccessful teachers. They are not bound by the operating rigidities of the existing CTU labor agreement. The number of charter schools for Chicago is now capped by law at 30. We are at that cap. Chicago now has over 10,000 school families and students in lines to get into the existing charter schools. The charter campuses offer choices to only a small fraction of the Chicago school population – perhaps in the range of 7-8%.

The recent record of the charter schools – though far from perfect – is better than that of the traditional public schools in the same neighborhoods. The charter schools often experience "start-up" problems just like traditional schools; but the longer they are in business, in general the better their relative performance.

A chart attached as Appendix B contains the most recent Chicago charter school performance data comparing the meets/exceeds percentages on 2008 State assessments of charter schools and their nearest neighborhood schools.

Fourteen out of nineteen charter elementary/middle schools for which this data is available outperformed the nearest neighborhood school on the 2008 ISAT. On average, charter schools outperformed neighborhood schools by about seven percentage points.

All six of the charter high schools for which this data is available outperformed the nearest neighborhood school on the 2008 PSAE. On average, charter schools outperformed neighborhood schools by about nine percentage points.

Too many data points and statistics tend to cause the mind to shut down. But consider this. In Chicago's 19 "magnet" and "selective enrollment" high schools, applying the ACT "college readiness" benchmark to $11^{th}$ graders who took the ACT test in the spring of 2008, about 45% of the students were deemed "ready" for college math – meaning they would have a decent chance to get a B or a C in a college freshman-level class. About 30% were "ready" in science. But in Chicago's other 69 neighborhood high schools – those which serve about three-quarters of the students in Chicago – *only about 6.4%* were "ready' for college math. And *only about 2.3%* were "ready" for college science. And this is after the drop-out process was already well advanced. The failure is massive.

Charter schools would give the students in those 69 inner-city neighborhoods an alternative – a better choice. The dynamics of choice and competition would, over time, make all schools better.

The citizens of Chicago and Illinois – and the school families of Chicago – are not getting their money's worth. Fundamental reform is urgently needed – but not just because of economics. It is needed because of fairness. The cap on charter schools in Chicago should be lifted.

# Appendix B

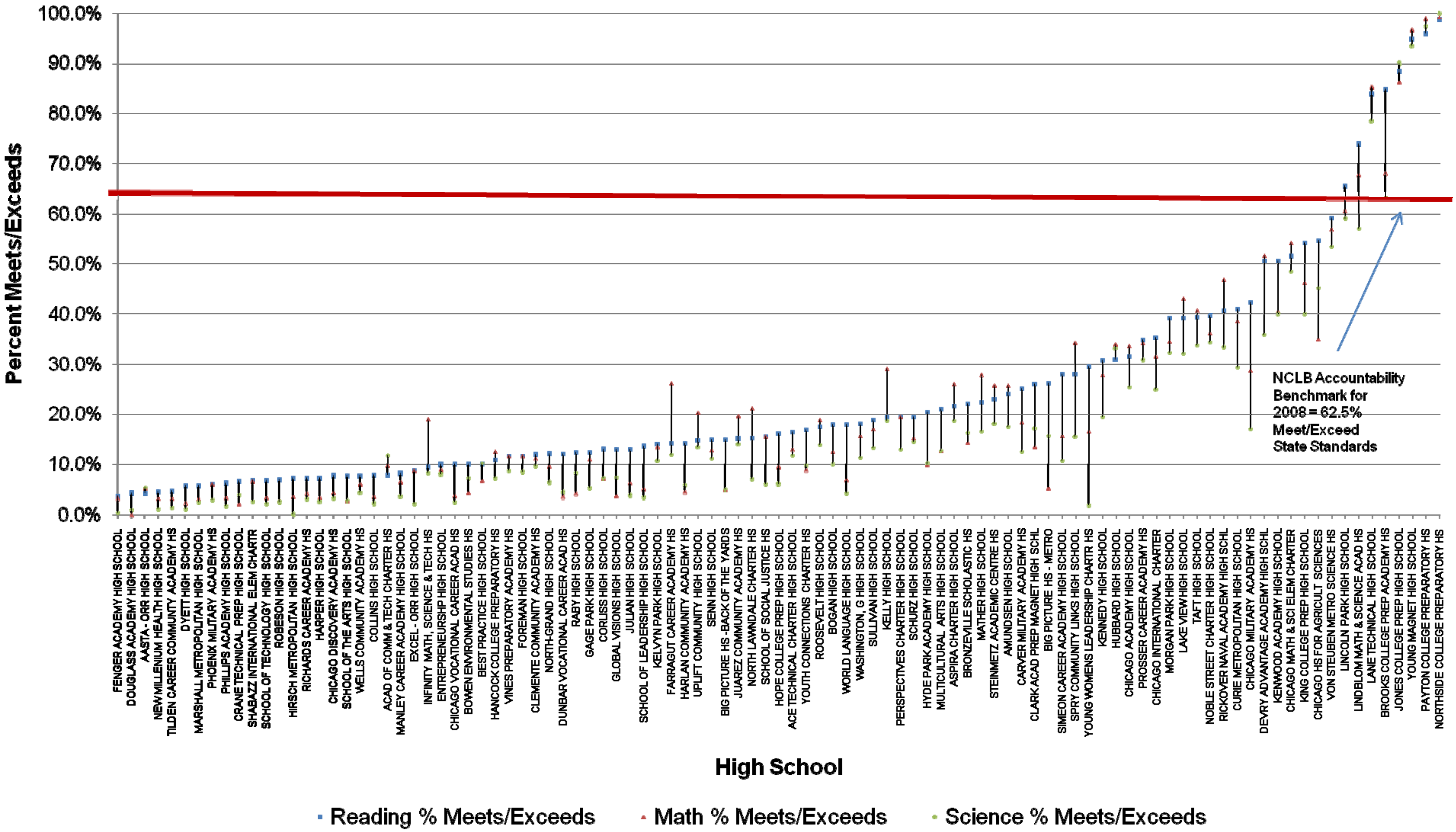
**Charters vs. Nearest Neighborhood Schools: Comparison of 2008 Meets/Exceeds Percentages on State Assessments**

| Charter School | Charter 2008 Composite M/E | Nearest Neighborhood School | Neighborhood School Composite M/E | HS or Elem/Middle | Difference Between Charter and Neighborhood School |
|---|---|---|---|---|---|
| ACT Middle School | 64.1% | Hefferan Elementary | 84.3% | Elem/Middle | -20.2% |
| Alain Locke | 81.0% | Calhoun North Elementary | 72.6% | Elem/Middle | 8.4% |
| ASPIRA Haugan Middle School | 60.8% | Volta Elementary | 75.8% | Elem/Middle | -15.0% |
| Betty Shabazz | 81.9% | Avalon Park Elem | 47.0% | Elem/Middle | 34.9% |
| Bronzeville Lighthouse | 51.5% | Attucks ES | 49.8% | Elem/Middle | 1.7% |
| Catalyst Howland | 47.6% | Johnson Elementary | 40.0% | Elem/Middle | 7.6% |
| Chicago Math and Science | 78.9% | Field Elementary | 63.4% | Elem/Middle | 15.5% |
| Chicago Virtual | 69.0% | Brown W. Elementary | 57.5% | Elem/Middle | 11.5% |
| Choir Academy | 72.1% | Abbott Elementary | 58.4% | Elem/Middle | 13.7% |
| Erie Elementary | 74.2% | Lafayette Elementary | 64.1% | Elem/Middle | 10.1% |
| Galapagos Elementary | 63.5% | Cameron Elementary | 55.0% | Elem/Middle | 8.5% |
| KIPP Ascend | 73.3% | Sumner Elementary | 72.4% | Elem/Middle | 0.9% |
| LEARN Charter | 80.3% | Lawndale Elementary | 49.8% | Elem/Middle | 30.5% |
| Legacy Charter | 57.1% | Mason S Elementary | 55.1% | Elem/Middle | 2.0% |
| Namaste | 89.0% | Greene, N Elementary | 76.9% | Elem/Middle | 12.1% |
| Passages Elementary | 79.8% | Peirce Elementary | 84.3% | Elem/Middle | -4.5% |
| Perspectives S Loop K-8 | 73.2% | Haines Elementary | 87.0% | Elem/Middle | -13.8% |
| Providence Englewood | 70.4% | Bass Elementary | 44.1% | Elem/Middle | 26.3% |
| Young Womens Leadership K-8 | 59.5% | Drake Elementary | 60.4% | Elem/Middle | -0.9% |
| **AVERAGE - ELEM/MIDDLE** | | | | | **6.8%** |
| | | | | | |
| Ace Tech High School | 12.7% | Phillips HS | 3.7% | HS | 9.0% |
| ACT Charter High School | 9.8% | Marshall HS | 3.9% | HS | 5.9% |
| ASPIRA Ramirez | 25.4% | Senn HS | 15.6% | HS | 9.8% |
| North Lawndale College Prep | 14.5% | Manley HS | 6.7% | HS | 7.8% |
| Perspectives S Loop 9-12 | 17.8% | Phillips High School | 3.7% | HS | 14.1% |
| Young Womens Leadership 9-12 | 16.0% | Dunbar HS | 6.6% | HS | 9.4% |
| **AVERAGE - HIGH SCHOOL** | | | | | **9.3%** |

Source: CPS Office of New Schools (January 6, 2009)

# Appendix A

## 2008 PSAE Results: 99 Reporting CPS High Schools




Source: Civic Committee Analysis

# Early Childhood Panel Outline for Deficit Reduction Committee

1. **Protecting the Early Childhood Block Grant and other key early childhood funding streams– Background and Overview** - *Voices for Illinois Children*

    a. Key early childhood birth to five funding streams (ISBE and others)
    b. History of Early Childhood Block Grant: funding, enrollment
    c. Current status

2. **The critical importance of early childhood investments –** *Ounce of Prevention Fund*

    a. Research relating to the impact of early childhood education
    b. Early childhood as a critical component to education system and reform

3. **Unique features of early childhood programs in Illinois and the need for early childhood capital -** *Illinois Action for Children*

    a. Key elements of the Early Childhood Block Grant
    b. Intersection with Child Care affordability
    c. Professional development for early learning professionals (ISBE and DHS)
    d. Early childhood capital infrastructure needs

4. **Revenue position statements from each organization**

# AMERICANS FOR PROSPERITY

Senate Hearing
Committee on Deficit Reduction
Topic: Education
Testimony filed by:
Joe Calomino, State Director
Americans for Prosperity
March 4, 2009

Mr. Chairman and members of the committee, I wish to thank you for inviting me to speak on the issue of fiscal discipline.

I also wish to commend the general assembly for working in a bi-partisan effort towards understanding and hopefully fixing the many structural problems we are facing in Illinois government today.

My name is Joe Calomino and I am the state director for the Illinois chapter of Americans for Prosperity.

For those of you that don't know, Americans for Prosperity is a national grassroots citizen lobbyist organization with over 450,000 members nationwide.

The Illinois chapter of AFP was formed in late 2006 and we currently have over 20,000 members in Illinois.

I want to be clear - AFP is not a think tank. There are many great think tanks throughout the nation. Organizations such as the Cato Institute, the Heartland Institute, and the Heritage Foundation come to mind. I encourage you to work with these organizations as well as those Illinois based think tanks that you'll be hearing from today.

AFP is a grassroots - government watchdog organization - whose mission is educating and empowering citizens to have their voices heard as it specifically relates to free-market, limited government issues –such as budget reform, government transparency and holding elected officials accountable for how they spend our hard earned tax dollars.

My testimony presupposes that there is a need for fiscal discipline specifically as it relates to the states educational system.

State and local governments are on the horns of a dilemma. Whether they respond to revenue shortfalls by increasing taxes or by cutting spending - the result is a great deal of volatility in the short run, and unconstrained growth in government in the long run.

Illinois uses the traditional incremental approach to budgeting. This approach assumes that existing programs and services are always necessary and therefore deserving of continued public funding.

The legislature and governor often begin the budget process by starting with the appropriations - each department received in the previous year's budget and then they choose to increase, maintain or minimally decrease funding levels.

**This system is not effective nor is it responsible.**

There are alternative approaches to budgeting that AFP supports that can reduce the volatility in revenue and spending over the business cycle, and constrain the growth of government in the long run.

Whether it is the model where constitutional provisions limit the growth of state expenditures to the sum of inflation and population growth, a zero-based budgeting system, or following the Lock Foundations 9 R theory of budgeting discipline, - make no mistake - constraining the growth **in revenue and spending** is no easy task, even in the states that do impose effective budgetary models.

It's really not so surprising, when you consider that when legislators do attempt to impose these types of fiscal discipline, they are often overwhelmed by special interests demanding increased spending for their interest group.

Thus, when legislators do cave into the special interests by mandating and earmarking funds for those groups, the outcome is unconstrained growth in spending that exceeds any prudent limits. This is especially true in recent years of the education lobby.

**For example,** the Illinois teachers' union has decried the zero-based budget plan for years, fearing that such a plan would mean budget cuts for schools. They instead call for hundreds of million dollars in new revenue enhancements and fees on businesses with little to no measures for accountability.

The education lobby has been successful in creating the myth that no viable alternative education model can work other than continued tax increases. Subsequently, the state continues to muddle along with the current failed education model.

AFP implores this committee and lawmakers as a whole to have the courage and leadership to impose an effective budget constraint in the face of opposition from special interests, bureaucrats, judges, and legislators who oppose such fiscal discipline.

Another fatal flaw in the states budget process is the lack of transparency and accountability.

**For example,** there should be no off-budget revenue and expenditures that are **not** subject to review by the entire legislature. Citizens have heard a great deal about earmarks reform at the federal level, but Illinois has their own earmark/pork barrel-spending problem.

Earmarks are usually off budget expenditures for pet projects that are tacked onto bills, usually at the end of the budget process. This pork barrel spending usually benefits constituents in a politician's district.

Because earmark spending is off budget, the spending is often not subject to a critical review as part of the standard budgetary process.

Over the past two and a half years AFP has joined forces with Washington DC based Judicial Watch in filing hundreds of FOI requests in an attempt to identify this type hidden spending. I can tell you from first hand experience, this has been a frustrating process to say the least.

Over the course of time, AFP has accumulated partial data highlighting this hidden spending from both the FY 2007 and 2008 budgets. I've included portions of this data in the packet of information submitted to this committee.

For the purposes of brevity we have identified hundreds of millions of dollars that have been appropriated as either member initiatives, add-ons, and/or MOU's specifically earmarked for education funding.

For the most part these dollars have been earmarked for afterschool and social service programs throughout the state. They are clearly appropriated as pet projects of lawmakers and/or special interest groups.

There are no open debates and/or justification for this type of spending. To compound the problem, once these dollars are appropriated there is very little oversight, which means it is wide open to waste and abuse.

In Fiscal-Year 2007 alone there was $36,305,000 in academic pork including items like:

- $13.4 million for construction at Harry S. Truman University
- $600,000 for track and field updates at Saint Xavier University
- $9 million for a science center at DePaul University
- $150,000 for clinical mannequins at Parkland Community College

In 2008, a $100,000 was appropriated to Dr. Rev. Jeremiah Wright Jr. at the Trinity Higher Education Corporation for what can be described as field trips to targeted colleges

And of course there is the well-documented pork received by Chicago State University at the behest of past Senate President Emil Jones.

Also, in Fiscal-Year 2007, $11.9 million was delivered to over 100 non-profit groups. Many of these recipients received taxpayer dollars even though they had not filed grant applications or had their credentials checked.

These grants circumvented the State Board of Education's rigorous application process and included such questionable expenditures as:

- A certain Senator's sister was given $25,000 to run a drama program with only four students.
- A Chicago women and her son received $30,000 to teach 12-20 students a hip-hop exercise class at a shopping mall.
- A religious group was awarded $30,000 to conduct an arts program at an elementary school, but never did. Instead, two group members patrolled the lunchroom.

I strongly encourage the committee to review and support some of the comprehensive government transparency language that will be debated in your chambers over the next several weeks.

I also suggest that this committee take the time to review the a pattern of spending too much on capital improvements to classrooms thus shortchanging students in the classroom.

There is a national movement that would require state school systems to spend at least 65 percent of their budget on teachers, students and supplies in the classroom.

This would probably mean that superintendents and maintenance unions would get a smaller piece of the pie, but the portion going to teachers and students would increase. Good for the students; bad for the status quo.

The Capital Development Board (CDB) receives between $500 million and $1 billion each year to spend on grants to school districts building new schools. But there is very little oversight of this process, which means it is wide open to waste and abuse.

For instance, many of the schools receiving large school construction grants in 2003 were schools that were declining in enrollment even though rapidly increasing enrollment is supposed to be one of the conditions of CDB school construction grants.

**One example** is Princeton Township High School, which received $6 million in matching funds in 2003 from the state for a new addition to its high school, even though enrollment was declining and has continued to decline since.

**In closing:**

It is clear that learning to live with a hard budget constraint requires an entirely different approach to state budgeting than traditional budgeting. A number of states have now introduced priority budgeting. In priority budgeting, budget allocations are based on a careful evaluation of how programs fit into the state's priorities, and how well those programs are working.

Administrations work with a guidance team composed of leaders of the public, private, and nonprofit sectors. The guidance team is given the task of overseeing the prioritization process, and reviewing the budget with experts drawn from the different government agencies.

I strongly encourage you to take the time to review Americans for Prosperity's policy paper on budget discipline written by our Distinguished Scholar and Advisor, Dr. Barry Poulson. That report is included in the packet I supplied to the committee.

I want to once again thank the chairman and the committee for allowing me to speak today. I am happy to help answer any questions and work with this chamber in the future if a need arises in the future.

Respectfully Submitted,

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# <u>Senate Committee on Deficit Reduction</u>

March 10, 2009 / Agenda*
9:00 AM, Room 212

Senator Donne Trotter Co-Chair
Senator Matt Murphy Co-Chair

*Hearing #2 General Topic: Healthcare & Human Services Funding*

| | |
|---|---|
| 9:00-9:15 – | Committee Organization |
| 9:15-9:30 – | IL Community Safety-Nets & Illinois Hospital Association<br>*Hospital Reliance on State Funding for Support* |
| 9:30-9:45 – | Health Care Council of IL & AARP<br>*Care for Illinois Seniors* |
| 9:45-10:00 – | Harmony Healthcare |
| 10:00-10:15– | IL Med Society, Primary Healthcare Association, Dental Society, Service Employees International Union<br>*Rates and Reimbursements* |
| 10:15-10:30 | Campaign for Better Healthcare, Shriver Center for Poverty Law, Voices for Illinois Children<br>*Access to Affordable Healthcare* |
| 10:30-10:45– | Civic Committee |
| 10:45-11:05– | IL Alcoholism & Drug Dependency Association (IADDA), National Alliance of the Mentally Ill (NAMI), ARC of IL, Illinois Association of Rehabilitation Facilities (IARF)<br>*Advocating on Behalf of Populations with Particular Needs* |
| 11:10-11:35 – | The Lucas Group |
| 11:35- 12:00 – | Closing Remarks from Committee Members |

* individuals and organizations wishing to testify but not listed on the agenda may submit written testimony to Senate staff and may be asked to testify at a later date

**ASSOCIATION OF SAFETY-NET COMMUNITY HOSPITALS**

**Presentation Before**

**THE SENATE COMMITTEE ON DEFICIT REDUCTION**

**March 10, 2009**

On behalf of the Association of Safety-Net Community Hospitals, I thank you for this opportunity to speak before the Senate Committee on Deficit Reduction.

Our Association was organized to increase the understanding by government entities and elected officials of the specific mission and needs of safety-net community hospitals in Illinois.  Our mission is critical because, with very limited exceptions, we serve only the neediest members of society.

Within the City of Chicago, safety-net hospitals account for 37% of all Medicaid days.  If public charity hospital services are excluded, our percentage of Medicaid days increase to 43%.  Individually, some of our members are over 60% Medicaid.  Clearly, by any definition, we serve a “disproportionate” share of our state’s Medicaid clients.

Our safety-net hospitals are themselves needy because we have limited opportunity, if any, to cross subsidize with commercial business; yet we face daunting financial pressures from rising costs (principally labor, pharmaceuticals and malpractice coverage), significant charity care and the need to keep pace with technology.

Among the critical issues safety-net hospitals face are the following:

- Increasing numbers of uninsured and underinsured patients
- Lack of capital for facility, technology, life safety and equipment improvement and/or replacement
- Disparity of cost vs. payment in Medicaid and Medicare funding
- Difficulty to recruit and retain staff physicians due to low payments and high malpractice
- Increased incidence of disease and complications due to lack of primary care access
- Difficulty to recruit and retain staff due to financial, benefit and community safety conditions
- Cook County Health Services diminishment/fragility
- Increased cost of leveraging funds (negative bond outlook)

- Increased mortality and morbidity due to lack of specialty care referrals
- Cost of providing cultural and language appropriate treatment and care management
- Increased education, medication and follow up needs due to lower community health indexes
- Decrease in or total inability to cost shift from better payment insured patients

The following are responses to the questions asked by Senator Trotter and members of the committee:

- It is critical that all funding sources for Medicaid, specifically including all "quarterly" payments, be maintained. The State has been extremely deficient in both the amount of annual appropriations and keeping payments current. By way of example, base inpatient Medicaid rates for hospitals have not been increased since 1995. Similarly, rates and payments to physicians and other providers are also substantially less than the cost to provide the care. Any attempt to reduce Medicaid funding will has a devastating impact on an already stressed delivery system.

- Under the Federal stimulus package there is an enhanced FMAP reimbursement level of over 60% and, as of April 1, nearly 62%. Provided all Medicaid funding is maintained and all opportunities to create "match" are optimized (including meeting the federal mandate that practitioners, NFs and hospitals be paid at 30 days), the State can realize annual benefits of over $1 billion. Notwithstanding, it is essential that these additional funding sources be used to bolster the current system and not to create new programs and obligations.

- In a study commissioned by the State of Illinois Commission on Government Forecasting and Accountability looking at the Certificate of Need program, the financial health of safety-net hospitals is listed as the greatest concern. The singular cause of financial risk to safety-net hospitals identified therein is the focus of specialty hospitals and ASTC's on "the more profitable patients to the exclusion of less profitable patients". This "cherry-picking" puts additional financial stress on all hospitals and safety-net hospitals in particular. SB 1617 has been introduced to deal with this problem and targeted solution sets are being considered.

- In addition to operating funding issues, capital needs for safety-net hospitals must be addressed; particularly for any life-safety concerns. Unfortunately, our revenues do not afford sufficient opportunity for facility, technology, life-safety and equipment improvements and/or replacements. If and when the legislature deals with Statewide capital concerns, we ask that a component be included for hospitals, particularly those serving a disproportionate share of the poor and uninsured.  This will allow safety-net hospitals to become more efficient and deliver a higher quality of service to the Medicaid recipients, uninsured and underinsured populations we serve.

- By maximizing FMAP, as discussed above, the State will greatly reduce its exposure to prompt pay penalties.   We estimate the annual savings could be as much as $ 50 million.

October 9, 2009

To: Senator Donne Trotter via Ron Holmes

From: Pat Comstock, Executive Director

RE: Information for Deficient Reduction Committee

The Health Care Council of Illinois appreciates your invitation and welcomes the opportunity to speak before your committee on March 10, 2009.

The responses included in this memo represent our initial thoughts on the issues before your committee. However, the timing of the distribution of your memo made it difficult to provide thoughtful responses in some areas.

Our normal practice is to poll our members for their thoughts on these issues prior to establishing our public policy approaches. As we do receive this information from our members we will provide additional information for consideration by the Committee.

## 1. What areas of the state budget are you interested in protecting and why are those areas important?

**Budget Line: Medical Assistance: Skilled and Intermediate Long Term Care and Supportive Living Facilities (GRF)**

The Medical Assistance: Skilled and Intermediate Long Term Care and Supportive Living Facilities (GRF) budget line is one of two budget lines that provide, in part, for the end of life care of over of the state's very frail elderly residents in need of the 24 hour skilled medical care services in nursing homes. This population falls into two categories, very poor elderly residents who were receiving Medicaid health care services prior to entering the nursing home and others who paid for their nursing home care until they exhausted all of their resources and had to turn to Medicaid. This budget line also covers the care needs of low-income Illinoisans of all ages who are well enough to be discharged from the hospitals, but too ill to take care of themselves at home. One thing is consistent, for the state's

52,000 low-income residents in need of residential health care, this budget line is THEIR lifeline.

The face of nursing home residents has changed dramatically over the last few years. Over 40% of our residents leave and return to the community within 90 days of admission. In fact, the Department of Public Health recently reported that nursing homes experience, on the average, a 200% turn-over in residents each year. This number was only a 100% a few years ago.

Our longer term residents are older and sicker requiring more intense services. Almost half of the residents are over 80 years of age. Over half of residents are at the highest need level for assistance with eating, toileting, transferring, bathing, dressing, and personal hygiene. Almost a quarter are being monitored for acute medical problems and almost a third are in pain management programs. Over a third of the residents have incontinence problems. Sixty percent plus are in need of services for the cognitively impaired.

We cannot loose sight of the commitment that the General Assembly and the last two administrations have made to provide the highest possible quality of care to the state's frailest elderly. This new funding mechanism, commonly referred to as the MDS, is in its 3rd year of implementation. It is imperative that this commitment be honored and the phase-in proceed as agreed.

To demonstrate the impact of rate cuts, in the early 1990's nursing home providers received reimbursement equal to 86% of their cost to deliver care. Today that number has dropped to 78%.

The Medical Assistance: Skilled and Intermediate Long Term Care and Supportive Living Facilities (GRF) budget line combines with the Long Term Care Provider Fund (Special Fund) budget line to cover the State's portion of the nursing home expenditures.

## 2. What revenue enhancements would you recommend be implemented to support those areas?

In general, HCCI supports increases in such sin taxes as smokeless tobacco and cigarette that would increase revenue paying into the Long Term Care Provider Fund (Special Fund), which would permit full funding of the long term care nursing services reimbursement rate (MDS), closing the gap on reimbursing actual overhead costs (support rate), and, overtime, reduce reliance on GRF. For example, as of 1/1/09, the average daily rate for nursing home care in Illinois is $117.51 while the average daily cost is $150.39.

In addition, HCCI has in the past indicated it's willingness to support an increase in the income tax as long as a portion of the tax be dedicated to paying for existing social and human services. Over the next 27 months, any money paid out of the Long Term Care Provider Fund (Special Fund) and the Medical Assistance: Skilled and Intermediate Long Term Care and Supportive Living Facilities (GRF) will result in a 60% federal match, which will give the state an extra bang for its buck and help the nursing home industry meet its goal of payment predictability.

Unlike the provider taxes that have helped the state pay its hospital bills, the federal government caps long term care provider taxes at 5.5%, which Illinois is close to reaching. HCCI has worked with the Department of Healthcare and Family Services to attempt to craft a plan that does not place residence at risk of loosing services, but has been unsuccessful to date.

### 3. What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?
### 4. How can the state improve service delivery while reducing expenses?

Authority was granted over three years ago to automate Illinois' existing ineffective labor intensive Medicaid eligibility system. Central Management Services was working towards the mandated computerized entry system, which had a required start date of October 1, 2007. It was envisioned that the system would replicate the Web-based tracking system currently employed by the hospitals. Fully implementing this system would reduce labor demands, avoid billing delays, and eliminate wasteful duplication of adjustments. (PA 95-0458/Clayborne)

### 5. How can Illinois reduce healthcare fraud to save taxpayer dollars?

Healthcare fraud is virtually impossible in the nursing home billing system:

- Nursing homes do not initiate bills to the State. Instead the Department of Healthcare and Family Services provides a list of residents that the facility must verify were in the nursing home on a date certain.

- Every three months, every nursing home electronically transmits a MDS (Minimum Data Set) assessment to the state that has over 700 detailed aspects of patient care. It allows the state to electronically audit any anomalies in care and billing practices and to follow up with an on-site review. There is also a provision for on-site review performed by the Department of Healthcare and Family Services.

- Audited cost reports are required to be submitted to the state annually. These reports serve as a basis for the support component of the nursing home rate.

## 6. What deficit reduction measures do you support?

The federal stimulus package, signed into law in February, increases the federal Medicaid match from 50% to nearly 60% for a period of 27 months beginning April 2009. It is estimated that Illinois will receive nearly three billion additional dollars over the next two years. To qualify for the funds, the state will need to lower the payment cycles of certain Medicaid providers to 30 days by June 1, 2009. Nursing homes are among this provider group. To make this possible, HCCI urges that the enhanced stimulus money be used to first lower payment cycles, ensure that reimbursement rates for existing programs reflect the true cost of providing services, and that the 30 day payment cycle be maintained ensure payment predictability.

HCCI opposes the use of rate cuts and freezes to maintain or cut costs. Over the long term, such tactics place the health and safety of nursing home residents at risk by crippling the ability of the facility to respond to patient care demands.

HCCI believes that Illinois should fulfill its current obligations to its citizens receiving Medicaid services all across the continuum before any new programs are implemented or before programs are expanded.

**Testimony for the Deficit Reduction Committee**
**March 10, 2009**
**9:00 AM, Room 212 Capitol Building**

Thank you Mister Chairman and Members of the Committee:

AARP would like to highlight with you the importance and value of the following reforms and services:

**Health Insurance Reform:** Since the recession began, 14,000 individuals in the nation lose their health insurance every day. In Illinois, 650 residents lose their jobs daily – many of them also lose their health care coverage. There are almost 750,000 uninsured adults in Illinois who do not qualify for public health insurance coverage. Furthermore, private insurance is increasingly unaffordable: in Illinois, a family of four pays an annual average premium of $5,438, while an individual would pay $2,500.

At AARP we believe the State of Illinois should take a first step in making healthcare more accessible and affordable for the taxpayers. The insurance industry should guarantee access to health insurance regardless of pre-existing conditions. The state should pass legislation to prevent insurance companies from charging more based on health status or gender, and establish an Office of Patient Protection to conduct external independent reviews of denied claims and rate increases. Without any additional burden to tax payers, Illinois can establish new guidelines to allow small businesses and self-employed individuals better access to affordable policies.

**Health Information Technologies**: The American Reinvestment and Recovery Act dedicates more than $20 billion nationwide in federal funding to implement electronic health records and data exchange. We believe that the state should also recognize these essential building blocks for health care reform, including support for health information technology that includes critical privacy provisions, anti-fraud protections, health care comparative effectiveness research, and nurse and primary care training. These changes are critical because we cannot fix our economy if we do not address our broken health care system.

**Older Americans Act Services**: These are services coordinated and funded by the Area Agencies on Aging. They include home delivered meals, transportation services, information and assistance with finding help for older adults and their caregivers and many more. These services are available to all seniors regardless of their financial status, but increases in the cost of providing these services have put severe strain on these programs causing them to limit the amount of service they provide and the areas they cover. These services are supported by federal funds and local matching dollars in addition to state dollars. Reductions to funding will result in further limitations on the number of services they can provide and on the regional coverage areas.

**Community Care Program and Care Coordination:** The Community Care Program, through a federally matched Medicaid Waiver, provides home and community based care options for older adults that are eligible for institutional services. While this program meets the needs of older adults in the environment seniors prefer, it also provides a significant cost savings to the state. These services are provided at only a fraction of the cost of facility based care and every single client on the program meets the disability threshold for nursing care. Reductions in funding for these services have already created an unprecedented back log in bills carried from one year to the next. If funding continues to fall short these seniors will have only one option for service and that is nursing facility placement. On average, this option will more than double the amount the state will pay for care currently provided by the Community Care Program.

**Long Term Care Ombudsman:** The long term care ombudsman program protects the rights of older adults in long term care facilities. This program works at a local level often with volunteers that visit long term care facilities to ensure that the residents are safe and receiving the care they need. The ombudsmen work closely with monitors from the Department of Public Health to identify and resolve problems faced by seniors in facilities.  A part of the funding for this program comes from the federal Civil Monetary Penalty Fund which is expected to be reduced next year.

**Elder Abuse and Neglect:** The Elder Abuse and Neglect program received reductions in funding last year.  These services are critical for protecting older adults that are being abused.  Law enforcement is not enough.  Often the abuser is also providing critical care and if there are no support options available, the abused senior feels they must continue to live in a dangerous environment.  Additionally, a few years ago self neglect laws were passed by the legislature and added to the Elder Abuse and Neglect Act, but no funding has been appropriated to implement the provisions of the law.

**Home Health:** Home Health Care services include skilled nursing, home health aide, occupational, physical and speech therapy provided in the home for treatment of an illness or injury.  The services are prescribed by a physician to home bound patients. Without this care patients would have to receive higher cost of care services in a hospital, rehabilitation facility or nursing home.

**Conclusion:** AARP wants to make it easier for every American to get health care—including those aged 50-64, who often have the most difficulty accessing affordable, comprehensive health care coverage.  We believe the insurance reform proposals strive to cut the waste out of our health care system by paying for health care in smarter ways. These proposals will increase quality and reduce costs.

In addition, the above Long-Term Care services allow older adults to remain safe and independent as they get older and begin to struggle with the effects of aging.  But these services also represent exceptional cost savings to the state through federal and local matching funds, as well as cost efficient alternatives to state funded institutional placement.  AARP encourages this committee and all elected leaders to support funding for these programs and also to recognize the additional cost to state funds and human dignity that would result from cuts to these services.  AARP stands ready to support fair and equitable revenue enhancements proposed by the legislature that will ensure the support of necessary services.

**Testimony of Harmony Healthcare**
**Illinois Senate Committee on Deficit Reduction**
**March 10, 2009**

**What areas of the state budget are you interested in protecting and why are those areas important?**

Harmony Health Plan of Illinois is interested in the protection and increased utilization of managed care in the Medicaid program. The Medicaid managed care program in Illinois serves over 145,000 Medicaid beneficiaries who have voluntarily chosen a managed care health plan as their healthcare delivery system of choice. Today, Illinois' Medicaid managed care program, provides quality, accessible and affordable healthcare to Medicaid eligibles.

**What revenue enhancements would you recommend be implemented to support those areas?**

Continued funding of HFS' Medical Programs Medicaid Managed Care & Managed Care Entities line item. We also recommend full funding of the Medicaid program to allow all providers to be paid on a 30 to 60-day payment cycle during and beyond the 27 month enhanced FMAP period.

**What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?**

**Cost Savings**: Expanded use of Medicaid managed care. Contractually, health plans are paid a capitated rate that is set at a 4% to 5% discount of fee-for-service costs. Managed care companies also assume 100% of the financial risk for the members they serve, providing Illinois' growing Medicaid program with cost predictability & administrative efficiency. Another cost savings mechanism that has been implemented in the Medicaid managed care program is 82% medical expense ratio guarantee; that is managed care companies must spend at least 82% of each dollar it receives from the State on health and medical services to ensure that health plans are spending an appropriate amount on healthcare. The savings potential for other State's utilizing managed care has been well documented, for example in Wisconsin, the State has seen a 9% savings over FFS; Michigan, even greater savings of 14% over FFS and in Missouri the story is the same with 11% savings over FFS.

**Access**: Harmony Health Plan's contracted provider network consists of 58 hospitals, 951 primary care physicians and 3,490 specialists. On average every Harmony member has immediate access to 35 acute care facilities, 15 trauma centers, 29 rehabilitation centers and 7 neonatal ICU level III centers. Harmony adheres to Geo-Access standards for network adequacy that guarantees our members timely and appropriate geographic access to contracted network of primary and specialty care providers.

Other value added access features include a 24/7 Nurse Line, compliance with strict appointment time standards as required by our contract with HFS and our local customer service center in Chicago staffed by 20 Illinoisans who are available to assist our members and providers.

Another major benefit to our providers is that through our contracted network of providers we are able to provide timely payment to through capitation arrangements that guarantee payment by the 10th of the month for services to be rendered in that month. Another feature is that 96% of submitted claims are paid in 10 days. This is very appealing to downstate, non-expedited and out-of-state Medicaid providers.

**How can the state improve service delivery while reducing expenses?**

We believe an appropriate next step to continue reforming Illinois' Medicaid managed care program is to implement a Performance Based Auto Assignment program that assigns new Medicaid beneficiaries to high performing health plans based on their performance on quality, access and administrative measures determined by the State / HFS. This program provides an additional non-financial incentive to healthcare delivery systems to invest in the quality of care delivered to its members, continued improvement regarding access to care and sound medical management.

Putting this approach into practice in Illinois we believe will result in demonstrated success by:

- Improving the quality and continuity of care for individuals receiving the services;
- Controlling costs by increasing the number of members in mandatory managed care programs
- Achieving total program and administrative cost savings of at least 5% per year;
- Spending less than traditional fee-for-service Medicaid programs in other states.

**What deficit reduction measures do you support?**

We believe that Illinois and this committee should consider utilizing more Medicaid managed care to reducing spending and contain costs in its Medicaid program.

**MEMORANDUM**

**TO:** **Honorable Members, Senate Committee on Deficit Reduction**

**FROM:** **James E. Tierney, Vice President**
**Erin O'Brien, Director**
**Alison Burnett, Director**
**Robert John Kane, Legal Counsel**

**RE:** **Medicaid Physician Reimbursement**

DATE: March 10, 2009

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In recent years DHFS has targeted Medicaid physician fee schedule increases to specific procedures. In 2006, as a result of a lawsuit settlement, DHFS increased rates for Maternal and Child Health Providers for 12 primary care services. Earlier this year, the state increased the payment rates for neonatal critical care, pediatric specialty consultations, adult preventive care, and adult office visit services. These were much needed increases, however there now exist discrepancies between rates paid for treating children vs. providing care to adults. Also, there has not been an across the board payment increase since 1999 when payment rates increased on average 5%. This piecemeal approach has resulted in Medicaid rates continuing to fall below Medicare rates and failing to keep up with inflation. For example, in the last 10 years practice costs have risen 30%, far exceeding Medicaid payment increases. This effectively means that physicians who treat Medicaid patients are subsidizing Medicaid services since reimbursements have significantly lagged inflation.

Estimates of overall Medicaid rates in comparison to Medicare rates vary from 56% to 63%. This puts Illinois near the bottom of the rankings in terms of Medicaid fee for service payments. In fact, Illinois ranks 42$^{nd}$ among the states in terms of Medicaid rates as a percentage of Medicare according to a 2003 study by the Kaiser Family Foundation. More recently, in 2006 the consulting team for the Adequate Health Care Task Force reported that according to estimates provided by DHFS, physician services are paid at approximately 56% of Medicare physician rates. Incorporating Medicaid's more restrictive payment policies would result in an even lower percentage.

***Medicaid rates since 2000***

Since 2000, groups of codes have experienced increases such as the pediatric preventive codes discussed above, and there have been payment rate decreases as well. Below are several examples comparing rates in 2000 with current rates.

## *Medicaid Rates 2000 Compared to 2009*

| HCPCS Code | Description | Medicaid 2000 | Medicaid 2009 | % increase or decrease |
|---|---|---|---|---|
| 42820 | Remove tonsils and adenoids | $205.55 | $194.20 | - 6% |
| 99213 | Office visit | $30.00 | $46.56 | +55% |
| 99243 | Office consult (adult) | $49.15 | $51.30 | +4% |
| 99243 | Office consult (child) | $49.15 | $99.86 | + 51% |
| 99253 | Initial inpatient consult | $49.15 | $46.45 | - 5% |
| 99232 | Hospital Visit | $23.17 | $24.90 | + 7% |
| 99283 | Emergency department visit | $34.16 | $32.20 | - 6% |
| 92012 | Eye exam | $24.58 | $23.30 | - 5% |
| 90806 | Psychiatric Exam | $50.25 | $47.50 | - 5% |
| 71020 | Chest X-Ray | $22.80 | $21.50 | - 6% |
| 54160 | Circumcision | $75.00 | $99.80 | + 33% |
| 76805 | OB ultrasound | $76.15 | $71.90 | - 6% |

## *Medicaid Compared to Medicare*

Like Medicaid, Medicare has some of the lowest payment rates for physicians. This year a proposed payment reduction was replaced with an increase of one percent. Without Congressional action, physicians face a 20% cut in 2010. Clearly the situation is not sustainable and this cut threatens the financial viability of physician practices.

Adding to the pressures that physicians face is the link that some private payers establish with Medicare rates. A number of physician contracts are tied to a percentage of Medicare rates, so there is a potential that as Medicare rates decline, so will private rates. Historically, physicians have been able to treat Medicaid patients by covering some of their losses through private payment rates. However, severely low Medicaid rates and the scheduled drop in Medicare rates coupled with the drop in private payer reimbursements provide physicians limited, if any, ability to cost shift.

Comparing the Medicaid payment rates for some services and procedures to the Medicare rates can be illustrative of the problem. The following chart shows the reimbursement discrepancies.

## *Medicaid Compared to Medicare Rates*

| HCPCS Code | Description | Medicaid 2009 | Medicare (Chicago) 2009 | % of Medicare |
|---|---|---|---|---|
| 42820 | Remove tonsils and adenoids | $194.20 | $293.09 | 66% |
| 99213 | Office Visit | $46.56 | $65.32 | 71% |
| 99243 | Office consult (adult) | $51.30 | $135.08 | 38% |
| 99243 | Office consult (child) | $99.86 | $135.08 | 74% |
| 99253 | Initial inpatient consult | $46.45 | $122.78 | 38% |
| 99232 | Hospital Visit | $24.90 | $70.54 | 35% |

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| | | | | |
|---|---|---|---|---|
| 99471 | Pediatric critical care | $510.67 | $843.23 | 61% |
| 99283 | Emergency department visit | $32.20 | $66.35 | 49% |
| 92012 | Eye exam | $23.30 | $75.14 | 31% |
| 90806 | Psychiatric Exam | $47.50 | $98.45 | 48% |
| 71020 | Chest X-Ray | $21.50 | $35.39 | 61% |
| 93307 | Echo exam of heart | $91.00 | $197.49 | 46% |
| 54160 | Circumcision | $99.80 | $259.19 | 39% |
| 76805 | OB ultrasound | $71.90 | $159.98 | 45% |

***Decline in Physicians' Real Income Continues***

According to the Center for Studying Health System Change, between 1995 and 2003, average physician net income from the practice of medicine declined about 7% after adjusting for inflation. Medical specialists' real income remained unchanged during this time period while primary care physicians experienced a 10.2% decline in real income and surgeons' real income declined by 8.2%. These changes are in contrast to the wage trends for other professionals who saw a 7% increase. During this time period, Medicare payment increases were 13%, but this increase lagged inflation, which was 21%. More recently, from 2004 to 2009 Medicare rates on average increased a total of less than 5% while inflation increased over 10%. Compounding the low Medicaid and Medicare payments is the decline in private payer payments. According to the Medicare Payment Advisory Commission, in 1995 commercial payments were 1.43 times Medicare payments on average and by 2003 this fee ratio had fallen to 1.23. This downward trend in real incomes will have an impact on physician ability to provide charity care and to treat Medicaid patients.

Physicians have a long history of providing free or charitable care to those in need and physicians comprise an important part of the safety net. In the past, physicians were better able to provide charity care because they knew they could rely on payments received from insured patients to help absorb the losses of providing free care. However, Medicare and Medicaid payments that don't even keep pace with inflation, and the high cost of medical liability insurance may affect Illinois physicians' future ability to provide charity care. According to the Center for Studying Health System Change, while the physician commitment to charity care remains strong, financial and time pressures may be contributing to decreases in the percentage of physicians providing charity care.

***Increasing Medicaid Rates is a Step Towards a Solution***

- At a minimum, Medicaid rates need to be increased to equal current Medicare rates with annual updates linked to inflation. While Medicare is experiencing its own problems in terms of keeping up with practice cost increases, using Medicare as a benchmark at least initially would help Illinois physicians.

- Without increased rates, access to needed medical care, especially specialty care for Medicaid/AllKids patients will suffer. Physician reimbursement must be adequate and fair in order for physicians to continue to serve Medicaid/AllKids patients. While physicians have a strong commitment to serving those in need, they can not continue to do so when their practice expenses continue to increase much more rapidly than increases in Medicaid reimbursement.

- Physician Medicaid payments in Illinois are just 5% of total Medicaid program costs.

- As the state strives to expand access to public programs, physicians will not be able to bear the brunt of this expansion by subsidizing care that has been promised by the state.

- Both the Adequate Health Care Task Force and the Legislative Joint Task Force on Rural Health & Medically Underserved Areas have recommended significant increases in physician reimbursement as a means to increase access to care and attract more physicians to Illinois.

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Illinois State Dental Society



***MEMORANDUM***

TO: Senator Donne Trotter

FROM: Dave Marsh, Director of Government Relations

DATE: March 9, 2009

SUBJECT: Senate Committee on Deficit Reduction

Thank you Mr. Chairman and members of the committee for allowing The Illinois State Dental Society the opportunity to discuss the state of dental care for the underserved population of Illinois.

As you are aware the Illinois State Dental Society has been promoting our solution to this critical need through our *Bridge to Healthy Smiles* campaign.

**Background**

For more than three decades, government-sponsored dental health care programs have been grossly under-funded by the State of Illinois. In 2002, the General Assembly even voted to reduce Medicaid dental funding by seven percent to help balance the state's budget.

Illinois has one of the lowest funding rates in the U.S. for most dental procedures. Dentists who treat patients covered by programs such as Medicaid, KidCare, All Kids, Family Care and Illinois Covered are reimbursed only about $46 for every $100 in fees. About 64 percent of a typical dentist's fee is the basic cost of care. Funding rates do not even cover the out-of-pocket costs of keeping doors open, supplies, and staff salaries.

The federal government has designated 66 counties in Illinois as Dental Health Professions Shortage Areas (HPSAs). Underserved areas are determined based on the number of dentists compared to the overall population, or the number of dentists enrolled in the Medicaid program compared to the Medicaid population. Because of low funding rates paid by the state to dentists who treat patients in government health care programs, these underserved areas have great difficulty recruiting and retaining dentists. The problem is growing, with four additional HPSAs added between February 2008 and January 2009.

There is an undeniable link between overall health and oral health. Studies show that poor oral health may be linked to heart disease, stroke, pre-term childbirth and oral cancer.

Oral cancer is the fourth most common cancer in the United States among African-American males and the seventh most common cancer among Caucasian males. More than 40 percent of persons diagnosed with oral cancer die within five years of diagnosis, mostly due to late diagnosis.

In Illinois, 55 percent of third graders have experienced cavities, 30 percent have untreated cavities, and four percent have urgent treatment needs. In Cook County, 64 percent of third graders have experienced cavities and 38 percent have untreated cavities.

For patients who need specialty care the drive could be more than five hours to find a dentist who specializes in their condition. The cost to the state was an additional $500,000 just to transport patients from underserved areas to receive this critical care.

The *Bridge to Healthy Smiles* campaign is led by a diverse coalition of oral health care advocates and community groups committed to bringing dental care to the two million Illinois children and adults who rely on government sponsored health care. Our three point legislative plan offers a long term solution:

- Increase funding so more dentists can serve low income Illinois families
- Fund the Student Loan Repayment Program and Establish a Dental Tax Deferral Program
- Fund 10 dental clinics in 10 underserved counties

<u>Increase in dental funding means improved access to care for families:</u> It has been clearly shown in the six states where funding increases brought dental payment rates to a level that simply covered expenses, provider participation increased by at least one-third and in some cases doubled. That's according to a 2008 study by the National Academy for State Health Policy. Raising dental funding rates in Illinois would bring better care to thousands of working poor Illinois families. And the change is long overdue. To provide necessary dental services, the funding rates must be raised to at least 64 percent of the average cost for dental procedures.

<u>Fund Dental Clinics:</u> Public dental clinics have long served as a primary source of health care for many residents in underserved areas. Many clinics provide comprehensive dental services, from fillings to extractions, providing accessible and quality dental treatment that local residents need and deserve

<u>Attract Dentists:</u> The *Bridge to Healthy Smiles* campaign creates an incentive for new dentists to begin their careers in communities where people have inadequate access to dental care. The average new dentist has accumulated $160,000 in educational debt by the time he or she graduates. Our student loan repayment program will allow dentists to apply for loan forgiveness in exchange for working in designated underserved areas. For new dentists, it provides financial assistance as well as practical experience with a diverse array of patients. For the entire community, it provides improved access to dentists as well as the diagnostic, restorative and specialty care services that are currently unavailable.

<u>Tax Deferral Program</u>: Dentists who treat public aid patients can opt to defer payments from the state directly into an investment portfolio. This will allow them to voluntarily participate in a tax deferral investment plan to help save for retirement. It is similar to an existing plan offered to state employees. Student Loan Repayment Program: The Loan Repayment Assistance for Dentists Act, intended to attract dentists to rural Illinois, became law in 2007. The state still has not funded or implemented the law. Funding this program will allow 10 graduates from the University of Illinois College of Dentistry and

Southern Illinois University School of Dental Medicine to apply for grants of $25,000 annually to be used toward paying down student loan debt. In exchange, these grantees agree to treat Medicaid patients in underserved areas of the state. Similar programs have shown success in other states.

**Response to Committee on Deficit Reduction**

The problem, as we see it with the dental portion of the Medicaid program is that enrollment during the past five years has increased from 1.6 million in FY03 to 2.4 million in FY08. This is a 50% increase in only five years. This additional 800,000 individuals added to an already over burdened system has resulted in a major failure in providing dental care to the uninsured.

The formula of additional enrollees, low reimbursement rates, and an inadequate number of dental clinics has produced a system where the wait for dental care is between 8 and 12 months on average. Illinois has one clinic per 8,400 children who rely on government assistance.

**Solutions**

1. It is critical that the underlying structure of Medicaid dental care be addressed. While it may be true that under the federal economic stimulus package states are prohibited from reducing eligibility, it is unclear whether this provision prohibits states from applying more stringent stipulations in verifying eligibility for Medicaid. Reducing the Medicaid enrollment in the short term could free up needed funds to begin fixing the infrastructure and safety net for this population.
2. Increase the number of dental clinics. Our proposal asks for 2 million dollars to build 10 new dental clinics statewide by 2010. A single dentist in a dental clinic can treat a minimum of 3,000 patients a year.
3. Savings could also be directed to increase the payment rates for specialty services. The state of Illinois is paying $500,000 for transportation costs for patients in need of this care instead of providing it in the areas where they live.
4. Survey results show that if the reimbursement rate is increased enough to cover overhead costs an additional 1,000 dentists would participate in the state Medicaid program.

In summary, we do not feel that it is an appropriate time to burden taxpayers with additional costs on a system that is broken. Until we fix the underlying problems and develop a safety net of clinics and provider rates that address the cost of providing services to the most needy, the dental crisis will continue.

Thank you again for allowing the Illinois State Dental Society the opportunity to address the dental concerns related to the underserved in Illinois.

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Dear Members of the Committee:

My name is Maggie Laslo and I am the Director of Government and Public Affairs for the Service Employees International Union, Healthcare Illinois and Indiana. We represent over 85,000 workers throughout Illinois and Indiana, including home care workers through the Department on Aging and DHS-Division of Rehabilitation Services, home child care providers through the DHS-Child Care Assistance Program, and thousands of nursing home and hospital workers whose facilities are predominantly funded through Medicaid. I am here today to encourage you to protect all of these vital services in the budget for fiscal year 2010.

As requested, below are SEIU Healthcare Illinois's answers to the questions presented.

*1) What areas of the state budget are you interested in protecting and why are those areas important?*

Home care workers – both home care aids and personal assistants – are an essential component of Illinois' health care system. SEIU Healthcare Illinois represents over 35,000 home care workers who work as personal assistants and homemakers through the Department on Aging's Community Care Program and DHS-Division of Rehabilitation Services' Home Services Program. These workers offer some of Illinois' most vulnerable populations - older adults and people with disabilities - a safe, effective, and affordable way to stay in their homes and retain their independence while receiving the vital care they need. Home care workers protect and safeguard the health and well being of these consumers by assisting them with activities of daily life such as personal care, transportation, laundry, meal preparation, cleaning and other activities. Any cut to these programs would force consumers out of their homes and into nursing homes and other long-term care facilities. Home care not only allows for greater comfort and independence for these consumers, it also saves the state millions of dollars each year by offering an alternative to increasingly overcrowded long-term care institutions that cost more for both consumers and the state. As the economy worsens and baby boomers increase demand for long-term care, our members are seeing the effects on Illinois' seniors and people with disabilities first-hand. The need for affordable, high quality home and community-based services has never been more important. Our nation's long-term care system is already ill equipped to meet rising demand. Cuts to vital long-term care programs would be devastating to the needs of older adults and people with disabilities. In the midst of a significant state budget crisis, now is not the time to cut cost-effective programs or threaten the care and independence of our state's seniors and people with disabilities by moving them into more costly institutions.

Illinois' long-term care facilities serve more than 100,000 residents, from the young to the elderly. At current funding levels, these facilities are already struggling to provide quality, adequate care for residents and decent wages and benefits for direct care workers. The average wage for a direct care worker is $9.50 hour-- far below a living wage-- and benefits like health insurance are usually inadequate if they exist at all. The current extensive payment delays have only exacerbated these problems. Neither residents nor workers in Illinois' long-term care facilities can afford cuts. Cuts in current levels of funding could result in nursing home closures endangering our most vulnerable citizens and forcing more Illinois workers into crisis. Instead of cutting-- improving the salaries and benefits of direct care workers is critical to providing quality care and reducing turnover levels among Illinois' long-term care workers.

The Child Care Assistance Program is another essential Illinois program that must be protected – especially when economic times are tough. Illinois' Child Care Assistance Program gives low-income families access to quality, affordable child care so that parents are able to work or go to school. Currently, over 170,000 children receive care from approximately 40,000 child care providers around the state. SEIU Healthcare Illinois represent 35,000 of these providers, all of which offer child care services in their homes through this program. Our members provide critical early childhood care for Illinois' children and ensure that parents have access to safe, reliable child care while at work. Cuts to the Child Care Assistance Program would impact working families around the state. Without the Child Care Assistance Program, parents who are currently working would have to cut back their hours and be at risk of losing their jobs, or would be forced to quit working altogether in order to care for their children. The last thing Illinois needs or can afford is an unnecessary increase in unemployment and more barriers to finding work during a recession.

Finally, Illinois must ensure that families maintain access to vital healthcare services in their communities during this time of economic crisis. As unemployment rises and more families lose their health insurance, our already-strained community hospitals become even more important. We're already seeing the effects of payment delays caused by the budget crisis – hospitals are closing, already-low staffing levels are being cut, emergency room wait times are increasing, and routine exams and tests are taking months. Without a real, long-term solution to the budget crisis, these problems will only get worse. The state cannot afford to make any cuts to health care spending. Too many lives will be in serious jeopardy. Instead, the state must generate new revenue to ensure that

Illinois hospitals can serve the growing population of those in need of life-saving care now and in the future.

*2) What revenue enhancements would you recommend be implemented to support those areas?*

As we look to the year ahead, finding a lasting solution to the state's growing budget crisis must be a top priority. SEIU Healthcare Illinois understands that legislators must make difficult decisions in tough economic times, but quality care and critical state programs must be protected. Working families cannot stand a round of drastic cuts that threaten the services and care they depend on. The only alternative is to find new revenue and fix our broken system.

Illinois' current revenue system is fundamentally flawed. It places an unfair and disproportionate burden on low- and moderate-income families and it brings in an insufficient amount of revenue to appropriately and adequately fund vital state services, including education, health care and human services. SEIU Healthcare Illinois supports an income tax increase, along with other sources of new revenue, that will be significant enough to both address the structural deficit and allow for the appropriate and necessary growth of critical programs. Any income tax increase must also include provisions to ensure fairness for working families such as an increase in the Earned Income Tax Credit, an increase in the standard exemption and the creation of a Child Tax Credit to protect low- and moderate-income families.

There are many ways to structure a reform of Illinois' broken revenue system, but an income tax increase paired with these provisions is the only way to fix the inadequacy and lack of fairness that have helped cause the crisis we now face. This will ensure that an income tax increase significant enough to protect essential programs will not hurt the Illinois families who depend on them.

*3) What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?*

We do not have anything to offer at this time in terms of reforms in state-provided healthcare services but we are willing to look at any proposals the General Assembly has to offer.

*4) How can the state improve service delivery while reducing expenses?*

One specific way to reform state programs to address both access to services and reducing expenses would to "re-balance" the long-term-care industry. The State of Illinois must take significant strides to shift care, where possible and desired by consumers, from long-term-care institutions and into programs that allow older adults and people with disabilities to remain in their homes through home- and community-based services. Such a shift would move towards a consumer-directed model in which people are in control of their own care in their own homes, saving the state significant financial resources. Providing quality, accessible and adequate community-based services to those who need them, allowing an individual to remain in their community versus an institution, can save the state thousands of dollars per year per consumer.

Further, such a re-balanced system must have a single point-of-entry for long-term care services. Currently the State has numerous long-term care programs offered through various departments and divisions. In turn, consumers often face a confusing maze of bureaucracy, while also finding differing levels of services depending on which department they end up in. This fragmented system is both an inefficient use of resources and a detriment to the needs of consumers who badly need quality and effective long-term care services to meet everyday needs. A single point-of-entry that allows consumers a choice in the type of care they receive will greatly improve service delivery while also eliminating layers of bureaucracy and inefficient use of resources.

A single point-of-entry long-term care system, with greater expansion of community-based services, will save taxpayers significant money while also greatly improving services to older adults and consumers with disabilities.

*5) How can Illinois reduce healthcare fraud to save taxpayer dollars?*

We don't have anything to offer on this point at this time but we are willing to look at whatever proposals the General Assembly has to offer.

*6) What deficit reduction measures do you support?*

SEIU Healthcare Illinois supports reducing the deficit via income tax increases, as mentioned above, that are adequate to address the State's deficit, while also allowing for both appropriate growth to programs and provisions that protect working families from being disproportionately hurt by income taxes.

Campaign for Better Health Care

*The Voice of Illinois Consumers*

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March 10, 2009

**TO:** State Senator Donne Trotter
Senate Committee on Deficit Reduction Hearing March 10, 2009
**FR:** Jim Duffett, Executive Director
Campaign for Better Health Care

**Major Questions:**
1. *What areas of the state budget are you interested in protecting and why are those areas important?*
2. *What revenue enhancements would you recommend be implemented to support those areas?*
3. *What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?*
4. *How can the state improve service delivery while reducing expenses?*
5. *How can Illinois reduce healthcare fraud to save taxpayer dollars?*
6. *What deficit reduction measures do you support?*

Mr. Chairman and Committee Members. My name is Jim Duffett and I am the Executive Director of the Campaign for Better Health Care. CBHC is the largest statewide health care grassroots advocacy coalition in Illinois. Thank you for inviting us today.

The major area of the state budget that we concentrate on is health care. Health care for consumers, specific programs helping the most vulnerable, making sure our provider community and the delivery of health care is on sound footing, and the overall economics of health care policy – how it affects Illinois families, Illinois businesses and all levels of government is fair and responsible.

Why is this important – health care is the key to economic security and opportunity. Health care and the need for affordable, accessible, quality and guaranteed health care affects every aspect of our society (education, economic development – growth, employment, and many other areas) and depending on what policies we have in place or enact – it will either drain and be a major financial burden on all aspects of society or be the largest economic stimulus for our state and nation.

We believe in shared responsibility and shared opportunities. We all have a responsibility: individuals, providers, businesses, insurers, and government. By lessening the financial burden around health care and giving people a peace of mind that they will have health care insurance, makes the impact of other revenue enhancers less frightening and more palpable. The number one reason people are facing foreclosure today is because of medical debt.
President Obama's recent economic stimulus plan is a major down payment for health care reform. This major positive step forward by the Obama Administration does not preclude and frankly

necessitates the Illinois General Assembly to take steps this spring that will save the taxpayer's money, improve access to services, and reduce costs to the state.

• **First – SCHIP Reauthorization Program:**
This is extremely important for Illinois, but in a different way from most other states that do not, like Illinois, are committed to cover all children. What the increased federal funding does for Illinois is to help to fund a program already in existence. The federal dollars cover 65% of the program costs, and to the extent that they can be spent on children currently being covered with only state funds, the federal funds free up state funds for other health care purposes.

State government in Illinois has been on a years-long and admirable path to expand and improve health coverage for everyone in the state. The renewed federal activity should not slow that down or change the basic underlying goal, but it can and should alter the immediate agenda so that Illinois can thoughtfully maximize and prepare for the federal changes in this federal-state joint venture. Here is an agenda for this new SCHIP funding:

*<u>SCHIP Funding</u>*:
• Ensure that the ALL Kids Program is secure going forward by keeping most of the freed-up state funds in the program to keep the payment cycle manageable and strategically *increase access to specialist care by adjusting rates* for that care;

• *Aggressively enroll* children;

Enrolling more children's will not only make the children of Illinois healthier, but in terms of savings it will do the following:
- In these tough economic times, it will save the parents of these children needed resources to spend on other needed items;
- It will save the provider community resources, which will save the insured and businesses money and government. How? Who pays for uninsured children? The provider community has only so much blood in the turnip. They eat part of the costs, part of the costs are paid by the patient, and part is passed onto the rest of us in higher health care costs – those of us who are fortunate to still be insured and to businesses who are trying to cover their employees. In addition, as the mounting debt of uncompensated care grows – local providers seek additional revenue from state, county and local governments. These government resources do not need to be used for health care and can be used for other needs (deficit) if and only if these recommendations are enacted.

• **Second – FMAP Funding: - Another Revenue Enhancer**
Another major recent success of the Obama Administration's Stimulus Plan is the FMAP funding. This is the percentage of reimbursement that the State of Illinois receives from the federal government for the Medicaid Program. The FMAP funding increase is technically general revenue when it comes into the state treasury. However, it must be kept within the healthcare budget because it is drawn down as a result of Illinois' Medicaid spending. Importantly, one of the largest components of the state's budget deficit is the debt owed to health care providers under Medicaid and related programs. This is creating a crisis: beneficiaries' access to care is being threatened, all providers face growing debt and many potential closures, and the insured population are facing higher health care costs because of this.

**What Needs to Happen: A budget neutral proposal with vision, action and savings:**
1) Illinois <u>*MUST not decrease the current state level of funding* for the Medicaid Program,</u> even with the increase funding from the Federal Government;

2) *__Paying down the payment cycle__* and debt owned to the provider community is the top priority for these resources;

3) __Re-establish the *Health Care Justice Commission*__ *(Task Force)* - $2-5 million. As the Obama Administration and Congress moves forward with a federal-state health care reform plan, Illinois must be ready to maximize this opportunity (funding) and have a plan ready to deal with a number of access deficiencies that Illinois has;

4) __Enactment of the *Roadmap to Health*__ (state public programs – deficit reduction) - $15 million. This cost containment plan will begin developing systems to increase coordination, develop a chronic care network, utilization of health I.T. systems, and develop other components to increase the quality and efficiencies of our current state programs. A study conducted by nationally renowned economist Kenneth Thorpe from Emory University showed that the state of Illinois has the ability to save over $250 million in four years – This is another example of a deficit reduction measure.

5) __*Workforce Development Plan* ($3 million)__: Illinois must have the professional workforce infrastructure to accommodate the nearly 2 million uninsured and hundreds of thousands of underinsured Illinoisans that will be in need of health services. A comprehensive plan must be developed – this too will save money throughout the economy.

6) __*Health Disparities* ($5 million):__ How our health care system interacts and delivers care to a wide range of Illinoisans must be a top priority. As we move forward to expanding health care for all Illinoisans, the opportunity is now to make sure our system understands our diversity, has established policies and systems to handle the diversity of our population. This will save money through: better outcomes, decrease in medical errors, and a more productive workforce.

**• *Additional savings and fraud -- that save state government and Illinoisans money*.**
As I mentioned earlier we believe in shared opportunities and shared responsibilities. We all must compromise and take responsibility. One large stakeholder in our current health care industry is the insurance industry. There are bills pending in the House (Harris) and the Senate (Collins) that will __not__ cost the state money, but will save the state tens of millions of dollars, provide a breath of fairness and economic stability for Illinois families and businesses by once and for all fairly regulating the insurance industry. I will not go into detail on all the elements, but one such reform is around the Medical Care Ratio or commonly known as the Medical Loss Ratio. This is the figure that shows how much of hard working Illinois businesses and families insurance premiums actually go to provide health care services. For example:

- The federal Medicare Program spends more then $.97 cents per every dollar on health care services.
- Illinois' Medicaid Program spends more then $.93 cents
- Currently the average insurance company in Illinois spends barely $.80 cents on the dollar on health care services, some spend as little as $.50 cents.

Small businesses around this state understand who is getting ripped off. Under these proposals a ceiling would be sent at $.85 cents. Forcing efficiency and resulting in cost savings for government, businesses and Illinois families.

One smoke and mirrors (deficit reduction) being proposed by the insurance industry is Medicaid managed care. It has been tried in the mid-1990s throughout the Chicagoland area and the only savings that were made were by the insurance industry CEO's. It cost providers, taxpayers, patients and others not only money but also their lives.

• **Lastly, other revenue enhancers:**
- A cigarette tax whose revenue would be focused on prevention, public health and other related services.
- A progressive employer assessment to fund a targeted health care program for small businesses. The cost of inaction has greater economic implications on everyone. Currently the majority of businesses are not only providing health care insurance to their workers, but have an extra unfair burden (Hidden Health Care Tax) by paying higher insurance premiums for those workers whose employers do not provide health insurance. The majority of small businesses want to provide insurance, but can not afford it. There are others who can afford it, but prefer to be "free loafers" at the expense of other employers. A progressive employer assessment as outlined in Senator Koehler's and Representative Ryg's legislation would add an economic savings to government, providers, Illinois businesses and families.

Thank you for your time and we are more then happey to happen in any other way.

SENATE COMMITTEE ON DEFICIT REDUCTION
MARCH 10, 2009

**Testimony of John Bouman**
President, Sargent Shriver National Center on Poverty Law ("Shriver Center")

Good morning, Chairmen Trotter and Murphy and members of the committee. Thank you for this opportunity to testify regarding the state's health coverage programs and the budget deficit. I am President of the Shriver Center, a non-profit law office that uses policy development, communications and diverse advocacy strategies to promote opportunity for low income people and communities. We work on a wide range of issues. On healthcare, we were leaders in the creation of the FamilyCare and All Kids programs, and we are active on many other healthcare issues regarding coverage, access and quality. I personally have practiced law on behalf of clients interacting with the state's healthcare programs since 1975.

This testimony is organized to answer the six questions that committee staff asked witnesses to address:

**1. What areas of the state budget are you interested in protecting and why are those areas important?**

All Health Coverage Programs.
We strongly urge the Senate to support full retention, without any cuts in eligibility or provider rates, of all of the state's public health coverages, including Medicaid, FamilyCare, All Kids and other programs such as the Breast and Cervical Cancer screening and treatment program. In fact, we urge the Senate to support modest enhancements of the All Kids program by improving the rates of pay for specialized health care. This is provided for in SB 1515. As we explain below, this is possible without expanding the expenditure of state funds from the current budget.

These programs are critically important. All of them (with the exception of the FamilyCare expansion for families with income between 185% and 400% of the poverty level, which was the subject of the controversy with former Governor Blagojevich) have been thoughtfully considered, voted upon and funded by the General Assembly. Thus there has been a strong consensus that these programs, at their current levels, are a priority for Illinois.

*Seniors and disabled.*
To get any truly significant budget relief from cuts to Medicaid, the state would have to look at cutting the program for seniors and the disabled, simply because this is where the significant money is. Roughly 80% of Medicaid spending is for this population, which is roughly 20% of the covered people. But, for seniors and the disabled, health coverage has everything to do with quality of life, maximum productivity and opportunity, and a humane and dignified life. Our position is that, other than the economies to be gained from disease management programs and community based care, cutting health care for seniors and the disabled is unwise public policy and against this state's core values.

*Children and families*
To get any significant budget savings in the programs for children and families, the state would have to cut a gigantic swath through the programs, not tinker around the edges. The expense comes predominantly from the large numbers of enrolled people, because the per person per month cost is not very high. These are inexpensive populations to cover, but the coverage is smart and produces a large return. For children and their parents or other caretakers, health coverage translates into the chance to connect with a primary care doctor (a “medical home”) and to fully commit to primary care, prevention, and early diagnosis and treatment. In big picture health care policy, prevention and early diagnosis and treatment are essential strategies to help resolve the health care crisis for EVERYONE by reigning in costs such as unnecessary emergency room usage, acute care episodes and inpatient hospital stays that could have been avoided, and lifelong medical problems that could have been averted during childhood.

Consistent with this big picture health system reform strategy, Illinois is correctly focusing in All Kids on smooth enrollment and immediate connection to a primary care physician who coordinates care for the child. It makes no sense whatsoever in that context to restrict enrollment with unnecessary and costly bureaucratic rules like requiring two pay stubs or imposing an asset limit. Research has shown that ideas like these do not prevent fraud more than current measures and only serve to increase administrative costs and keep ELIGIBLE people off the program by increasing “hassle”. All of these people will then only come to the program when they are sick or hurt enough to require emergency room treatment, thus feeding the cost explosion in the healthcare system, which affects ALL of us, not just those eligible for these programs.

Preventive and maintenance care for children is also smart because it maximizes their learning ability and long term earning potential. Preventive and maintenance care for parents maximizes their employability and productivity. The state’s health coverages are an important part of helping the family bottom line and reducing debt and stress.

*Federal funds*
A condition for accessing the maximum enhanced federal matching funds under the American Recovery and Reinvestment Act of 2009 (ARRA) is that Illinois maintain Medicaid eligibility and procedural access to the program at the same levels as in July 2008. Cutting the eligibility levels for the program or making the program procedurally less accessible would cost Illinois almost $3 billion in federal funds.

**2. What revenue enhancements would you recommend be implemented to support those areas?**

*Maximize federal funds*
Illinois should do all in its power to maximize federal funds, especially from the stimulus package, but also otherwise. One major strategy for this is to issue bonds to pay down the payment cycle. Illinois will access the enhanced federal match for those expenses, which will in turn help pay the debt on the bonds. Sen. Schoenberg has a bill that would do this, SB 324.

Illinois should also be sure to maximize the federal matching funds newly available to the All Kids program through the reauthorization of the State Children's Health Insurance Program (which was H.R.2, passed in January). Illinois will now receive 65% match for children it had been covering with state funds – children in families at 200-300% of the federal poverty level, and legal permanent resident children who have been in the country less than five years. These new federal funds thus "free up" state funds. It is unclear right now just how much money this is, but the Congressional Research Service estimated that Illinois would get as much as $145 million in additional federal SCHIP funds. Not all of this will "free up" state funds, but a significant portion of it will. That is what makes it possible for Illinois to address specialty care rates and still have an overall decrease in the spending of state funds on the program.

*Increase the General Revenue Fund*
The Shriver Center strongly supports the long overdue reform of the Illinois revenue system so that it fairly and adequately funds the state's needs and policy priorities, including its current healthcare programs and reasonable additional expansions needed to partner with the federal government on comprehensive reform. Specifically, we support increasing the income tax (and earned income and other tax credits that insulate lower middle income people from any increase); expanding the sales tax base to apply to more services; and other revenues needed to resolve the structural deficit and make ends meet.

**3. What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?**

The state is on the right track with Primary Care Case Management for most children and families and Disease Management for people with chronic conditions. Both strategies have produced savings and have the potential to save more. Disease Management has greater short term potential. PCCM's impact will be more long term, because its core strategy involves primary care that reduces emergency room use and acute care episodes while fostering healthier people over time.

Additional community based care for some people with disabilities would avoid the costs of institutionalization.

Illinois should not cut drug treatment programs as it did last year. This causes other cost increases throughout the healthcare system, in addition to other systems in state and local government.

The Shriver Center fully supports the written testimony of Health and Disability Advocates filed in this committee today that opposes the idea put forward by the Chicago Civic Committee recently claiming that there are significant savings available in Medicaid by switching the program to mandatory managed care. Mandatory managed care in Illinois has an unsuccessful track record. Moreover, the providers of managed care currently serving Medicaid patients have never been able to document the level of care they actually provide – they have not been accountable. This is crucial. As described above, the policy as to children and their parents is and should be to emphasize preventive and primary care, and early diagnosis and treatment. It makes no sense to transfer the program out of the very promising PCCM model and into an unproven HMO-style environment in which the providers have never been accountable for whether they actually provide precisely that kind of primary and well-child care.

**4. How can the state improve service delivery while reducing expenses?**

In addition to the programs in item 3, the state should take full advantage of the federal funds and policy initiatives on health information technology and comparative effectiveness programming. These initiatives will help to control costs and improve health outcomes. They are also building blocks for the full reform of the health care system.

**5. How can Illinois reduce healthcare fraud to save taxpayer dollars?**

The state should increase electronic verification of eligibility and of health care service provision. However, it should be careful not to legislate expensive anti-fraud provisions based on anecdote and not evidence.

**6. What deficit reduction measures do you support?**

We fully support reasonable economies and the prevention of fraud, but all of this combined cannot provide more than a fraction of the relief needed to balance the budget. As noted above, the only way to obtain sufficient funds and create a long-lasting solution is to maximize federal funds and reform the Illinois revenue system.

John Bouman, Shriver Center, Chicago IL, (312) 368-2671, johnbouman@povertylaw.org

VOICES FOR ILLINOIS CHILDREN

BUILDING BETTER LIVES

# Protect children's health & well-being, <u>especially</u> in the toughest times

### Testimony for the Senate Committee on Deficit Reduction

***Tuesday 10 March 2009***

Voices for Illinois Children is a multi-issue children's advocacy organization, championing the well-being of children from their earliest years of life to adulthood. We work to promote a range of important programs that are critical to kids' health, learning and overall well-being. And we're particularly concerned about preserving them from threats posed by our state's mammoth fiscal crisis.

Illinois is ailing badly on many levels from crumbling finances and a shaky revenue system. Yet even in this year of tough funding decisions, we strongly urge legislators to live by the doctor's dictum: "First, do no harm." Our state's most vital investments in the health and well-being of children cannot be cut without great pain to kids, great hardship to their families and communities, and great costs to Illinois' future workforce and social stability.

These hard times are exactly the time that children and families need help the <u>most</u>. We cannot afford to fail our kids now; we will not get a second chance to help them off to the healthiest possible start in life.

Voices long has called for fairly crafted revenue increases to stabilize and strengthen health and human services and our education system. We renew that call today, as our fiscal crisis underscores the importance of adequacy and fairness in funding these priorities that are critical to children. After detailing several program concerns, we will close with a reiteration of our revenue recommendations.

In the area of health and human services, the focus of today's hearing, our top concerns include these:

**Children's mental health –** Children's academic success and overall wellness cannot be ensured without addressing their mental health needs. Research indicates that children's social and emotional well-being is as important as their physical and cognitive health. Investments in the policy priorities of the Illinois Children's Mental Health

Partnership (ICMHP) total $6 million, split evenly between IDHS and ISBE, and have begun to bolster children's development by:

- Expanding children's mental health services, including services for children from birth to age 5 and for youth who have experienced trauma (e.g. violence, abuse);

- Providing early intervention services to children and adolescents who might not meet the criteria for a formal mental health diagnosis, but who still require services to help prevent more serious problems in the future;

- Implementing the Illinois Social and Emotional Learning Standards in schools, to strengthen children's social wellness and ability to achieve academic success; and

- Providing psychiatric services to children and youth in areas of the state where communities do not have access to a board-certified child physiatrist, through the Telepsychiatry Pilot Project.

This work has its roots in the 2003 passage of the Children's Mental Health Act, which led to the creation of the Illinois Children's Mental Health Partnership (ICMHP). The Partnership is a statewide group of agencies, organizations and individuals committed to improving the scope and quality of mental health programs, services and supports for Illinois children and their families. Working together, Partnership members developed a strategic plan for building a comprehensive mental health system, and identified several key priorities most in need of investment.

Through these efforts, Illinois has been able to serve more children at younger ages and earlier stages of need with more effective mental health supports. Our state has reduced fragmentation of services and enhanced interagency collaborations. And the Partnership's work has helped the state avoid approximately $19 million a year in costs of unnecessary psychiatric hospitalizations and related expenses.

Illinois has become a nationally acknowledged leader and model in promoting children's mental health and social and emotional learning through innovative programs. Yet, while we've made considerable progress, children's needs remain considerable, too. In Illinois, one out of 10 children suffers from a mental illness severe enough to cause impairment, yet only 20 percent of the children who need services ever receive them.

The state's $6 million investments in Partnership priorities remains $14 million short of the total amount needed to implement all of ICMHP's initial priorities – an important down payment toward better meeting children's mental health needs.

Research has shown prevention and early intervention programs are cost-effective, improve school readiness and achievement and reduce the need for special education. We must continue our progress and not cut-back on these already scarce resources.

**Home-visiting / "parent-coaching" programs –** Several voluntary, IDHS programs – totaling about $20 million – offer "coaching" to new parents of at-risk children from birth to age 3. Through such efforts as Healthy Families Illinois and Parents Too Soon, moms and dads can learn how to foster the healthiest possible relationship with their children, how to strengthen their development and how to connect with community-based resources.

However, the approximately 7,500 children whose families rely on this help represent only about 7 percent of at-risk youngsters who stand to benefit. We must protect these children, their families and the programs they need.

So, how do we at Voices for Illinois Children propose shoring-up these and other important investments in the well-being of kids, families and communities?

**Fair and adequate revenues** – Even at a time of fiscal crisis such as this, a general revenue increase is advisable if it can shore-up critical state programs upon which kids and families depend, and if it can be done fairly. Voices advocates a "Fairness for Working Families" approach that accomplishes both.

It consists of:

- **An income tax increase** – In approaching a multibillion-dollar deficit, Illinois must turn to a revenue source that's big enough to handle the work. The income tax is this tool, and we believe the personal income tax should be raised as high as 5 percent to help cover Illinois' most critical needs.

  This tax reflects families' ability to pay, making it the fairest of state revenue sources. Yet even our income tax is not as fair to families as it could be, as it combines today with other state and local taxes to claim a disproportionately large share of the earnings of low- and moderate-income families, compared with wealthier households. This problem can be remedied with some simple fairness reforms that the context of an overall rate increase would allow.

- **A tax-fairness package** of three components –

  - **An increase in the Illinois Earned Income Tax Credit**, targeting tax relief to low- and moderate-income families

  - **Creation of a state Child Tax Credit,** piggybacking on the federal CTC and targeting tax relief to families raising children

  - **An increase in the income tax's personal exemption,** providing some tax relief for all families

The individual variables of this fairness package can be set at various levels to shape its effects differently. But, taken together, these measures can lower the tax bills of many low- and moderate-income families, even within the context of an income-tax increase producing greater resources for important state services. That's because greater tax responsibility is shifted further up the earnings scale, resulting in a more progressive tax structure without having to employ graduated rates.

Another option to consider is adding more services to the base of our existing state sales tax, which currently includes very few services and thus fails to realistically reflect our present-day economy. In the context of service-tax inclusion, Illinois might even be able to lower its state sales-tax rate and still produce some necessary, net-revenue gains.

We strongly urge policymakers to consider these possibilities for helping to solve our longstanding but worsening fiscal problems. Deep state spending cuts would devastate many kids and families who already are suffering from cuts or payment delays in the programs on which they depend. And cuts also could damage our state economy further, according to two experts: Joseph Stiglitz, a Nobel Laureate and economist at Columbia University, and Peter Orszag, who directs the President's Office of Management and Budget.

Orszag and Stiglitz insist measures to raise new state revenues more fairly are preferable to budget-cutting moves that would inadvertently hurt the fiscal activity necessary to jump-start a failing economy. Voices emphatically agrees with this analysis.

Voices is pleased to work with policymakers on revenue options that can help protect our state's crucial yet threatened investments in children, families and communities. Children are young only once; it's our responsibility to help those years form a solid foundation for health and success in life.

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# NAMI Illinois

National Alliance on Mental Illness

NAMI ILLINOIS AFFILIATES

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Champaign County
Cook County North Suburban
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DeKalb, Kane So. & Kendall Counties
DuPage County
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Greater Belleville
Greater Chicago
Greater Decatur
Grundy County
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Metropolis-Southern Most Illinois
Morgan/Scott Counties
Mount Vernon
Northern Illinois (Rockford)
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Northwestern Memorial (Chicago)
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Southern Illinois University Carbondale
South Suburbs of Chicago
Southwest Suburban (Oak Lawn)
Springfield
Stark County
Tri-County (Peoria)
University of Illinois Champaign
Vermilion County
Will County

Proud Member of Community Health Charities

The Illinois mental health system is a vital lifeline to some of the state's most vulnerable citizens. The state's current fiscal crisis cannot be used as an excuse for the same old answer of "cutting" funds or cutting programs. Instead, it's time to use this opportunity to establish funding approaches that improve service quality and target top priorities. A vision, combined with strong leadership, can substantially improve the system and provide better services to people with mental illness.

The public servants at state agencies are working hard to make the most of limited resources, but they face many challenges in their attempts to manage a system in need of an overhaul. Illinois' public mental health system lacks financial resources and the foundation of a well designed public policy to effectively serve all of its citizens with the most severe mental illnesses. We are failing to provide acceptable quantity and quality of service for far too many of our neediest neighbors.

The good news is that the public mental health system in Illinois can be strengthened. Illinois has a strong base of public administrators, service providers, university research partners, family and consumer advocates, legislative leaders, and concerned citizens who understand the problem and are committed to improving our public mental health system. What is needed is strong executive leadership to support all efforts with comprehensive, thoughtful, long-term policy that works in the interest of the citizens of Illinois who have severe and disabling mental illnesses.

Building an effective mental health system that serves every member of the community requires simultaneous action in many areas.

**<u>DMH Provider Agencies Need Additional State Financial Support</u>**: We know how difficult the current state budget challenges are and how difficult it will be to increase funding for DMH providers of service, but there is simply no way to serve Illinois' citizens well with the current resources. Provider organizations have been flat-funded for four years and budgets were once again cut in FY09. Adjusted for inflation, that means that already thin resources have actually <u>shrunk</u> by 15-20% over the past four years. In addition, while the conversion to a Medicaid based system has dramatically increased state Medicaid revenue, it has also increased provider administrative costs and compliance related risk without any increase in state payment, further shrinking resources for direct care. Providers are financially stretched and cash poor, leaving their clients and the families and friends who support them uncertain about future care. Immediate needs for the public mental health system are:

- A 20% increase in funding for community mental health services to support the current level of work being done. Clearly, this is a challenge in the current environment but is possible by moving money now spent on institutional care to community programs, injecting mental health trust funds into community care, and maximizing Medicaid match opportunities.

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- Implementation of an on-going "prompt payment" system so that cash-poor providers do not need to borrow from banks or live with the constant threat of missing payrolls.
- Creation of a statewide post-payment audit risk management system to insulate providers from the risk of devastating repayment demands in the aftermath of Medicaid audits. It should be noted that repayment is not generally driven by fraud, but by immaterial or minor technical compliance issues that occasionally arise given the nature of Medicaid paperwork and the huge number of small transactions being audited.

**<u>Move Money from Institutional Care to Community Care</u>**: As many as 15,000 Illinois citizens live in IMDs "institutions for mental diseases" and nursing homes simply because they have mental illnesses. The cost of this "solution" exceeds $300 million annually, most of which is state money because IMDs are prohibited from billing Medicaid. Illinois' reliance on institutional care is unusual and there is no question about the ability of most of the individuals in institutional care to live fuller, better lives in less expensive community alternatives.

The solution requires leadership and the political will to implement public policy that is in the interest of citizens with severe mental illnesses. There is a need to:

- Reduce IMD capacity in Illinois by 15% a year for the next five years. There may be a need for a small number of short-term, transitional IMD beds, but the number should be limited.
- Prohibit by regulation the use of nursing homes for people who have mental illnesses, but no medical conditions that require significant levels of nursing care.
- Use the savings from these initiatives to create effective community services. In addition to the nearly $170 million that the state spends directly on IMDs, the conversion of these resources to community alternatives could also leverage approximately $85 million in additional Medicaid match. Those funds should also be reinvested to expand community services.

**<u>Create a Central and Strengthened Mental Health Authority</u>**: Responsibility for public mental health services in Illinois is scattered across multiple state agencies. The Division of Mental Health currently manages the core of the system through a Medicaid Waiver Program and some small grants. Healthcare and Family Services manages an expensive network of intermediate care facilities that house 15,000 people with severe mental illnesses. The Division of Rehabilitation Services is responsible for employment assistance to people with disabling mental illnesses. The Division of Child and Family Services and public school systems functionally absorb most responsibility for providing services to children with severe mental illness. Responsibility for housing supports for people with severe mental illness are scattered across a wide range of agencies in the State such as IHDA. Mental health services associated with corrections are managed by the Department of Corrections and county jails. Formal mechanisms which integrate these disparate and sometimes competing systems are weak and have no teeth for enforcement true collaboration.

No one in Illinois has clear and ultimate responsibility for this fragmented set of services and for policies associated with the needs of people with severe mental illness. And, the scattered nature of these services resulting from a lack of collaboration often decreases access and usability for people with severe mental illness and their families. There is a need to:

- Create a high level task force with the responsibility and genuine authority to create an integrated public system for serving people with severe mental illnesses.
- Create a public mental health authority with the responsibility and genuine authority to develop and lead an integrated public system for serving Illinois' citizens with severe mental illnesses.



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# The Arc of Illinois

March 10, 2009

Testimony to the Senate Committee on Deficit Reduction

Tony Paulauski, Executive Director

I want to thank you members of the Senate Committee on Deficit Reduction for this invitation to provide testimony before your committee today. My topic relates to important services and supports to individuals with developmental disabilities and revenue enhancements.

1. What areas of the state budget are you interested in protecting and why are those areas important?

All community services/supports to children and adults with developmental disabilities within the Division of Developmental Disabilities generally funded by the home and community based waiver. We would also request restoration of $4.2 million in cuts to grant-funded services. These important services include respite care, supported employment, family support at other services. Restore the cuts to The Autism Program (TAP) and to fully fund the Illinois Life Span Program at $540,000. Lastly to restore, if implemented, the projected cut of $10 million to services within the Division of Developmental Disability.

2. What revenue enhancements would you recommend be implemented to support those areas?

The Arc of Illinois supports any increase in new revenues if those new revenues benefit services to individuals with developmental disabilities including increasing income taxes. Priority needs to concentrate on paying disability service providers on a timely basis, increasing community rates to cover actual cost of providing community services and providing services to the over 16,000 individuals on the Illinois Waiting List.

3. What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?

The Arc would oppose any effort to direct individuals with developmental disabilities or special health care needs individuals into a managed care system.

4. How can the state improve service delivery while reducing expenses?

We need to rebalance the Division of Developmental Disabilities away from institutional services and redirect those funds into the community system.

Every national study on our system has criticized Illinois for its over reliance on institutional care. Illinois has 9 state institutions housing about 2,200 individuals with developmental disabilities. Those institutions cost the state approximately $325 million or about $141,000 per person. The state institution at Howe is now costing us about $60 million in state funding because the Centers for Medicare & Medicaid, CMS, found significant health and safety violations and withdrew its 50% Medicaid match! Other state institutions are also close becoming decertified by CMS as well. The death count at Howe is now at 31 with the most recent death last Monday, March 2nd while the Governor's staff and legislators were visiting the institution.

Because of the underfunding of the community system in Illinois, savings from institutional closure needs to be redirected into the community service system entirely. National ranking place our system at 51st in the development of small community living options and 47th in community spending. Other national studies on the system indicate community providers are underfunded by at least 30% in the rates paid by the state.

This is a revenue problem, not a reduction in expenses.

5. How can Illinois reduce healthcare fraud to save taxpayer dollars?

N/A

6. What deficit reduction measures do you support?

"The Blueprint for System Redesign in Illinois" provides the only real framework for policymakers. The "Blueprint" estimates that an additional $400 to $1 billion will be necessary to meet service demand over the next seven years.

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# Written Testimony for the Senate Committee on Deficit Reduction
# March 10, 2009

*What areas of the state budget are you interested in protecting and why are those areas important?*
Community services and supports for persons with developmental disabilities and mental illness are critical safety net services for the state's most vulnerable citizens. By statute, the state has pledged its commitment to support these populations and they have contracted with private providers to meet that commitment. Not only are these services critical to support the personal goals for independence and recovery but in these difficult times, the demand for community services rises due to increased anxieties of individuals and families and decreased opportunities for work. The DD community system underwent cuts to their grant programs this fiscal year – approximately $4 million. Many of the individuals served by the grants receive employment supports and assistance to achieve integration in the community. If the FY10 budget abandons the state's commitment to serving persons with developmental disabilities or mental illness – or even backs away from it – there is strong evidence to say that the state will end up paying more as individuals without their typical supports resort to more expensive modalities of service – emergency rooms, county jails and prisons. Additionally, without resources to continue to meet the state's legal responsibility to support persons in the least restrictive setting of their choice, community providers will no longer be able to accept more significantly involved persons from state operated facilities. Further, the community residential dream of settings of four or fewer become less and less likely as providers are forced to make four-beds into five; six-beds to seven or eight in order to make the option of community homes even viable.

*What revenue enhancements would you recommend be implemented to support those areas?*
It is hard for an outsider to project the best revenue sources and how to use them. We are aware of various ideas to generate revenue and have been on record in support of revenue enhancement that supports human services. We worked with the Center for Tax and Budget Accountability to craft revisions and discussions of SB750/HB0855 (current bills) and provided data on the community human services impact. IARF even developed legislation in 2008 (SB 2056), that in combination with the then SB/HB 750, would provide an annualized CODB for human service providers.

IARF has had discussions with its Board about the need to support new revenue proposals that preserve and enhance funding for vital disability and mental health services. It is our intention, when we analyze Governor Quinn's introduced FY10 budget and the revenue proposals to support it, to actively work with the boards of directors of every member agency to seek their endorsement of those revenue proposals. That is assuming community services and supports needs are addressed in the FY10 budget.

*What reforms would you recommend in state-provided healthcare services to save taxpayers' money and improve access to services?*
Illinois should use monies allocated to states in the American Recovery and Reinvestment Act of 2009 (ARRA) to invest in Electronic Medical Records for community services as well as other healthcare settings. Community mental health centers have advocated for the implementation of EMR in those settings. The barrier is the cost of purchase and implementation. With the stimulus monies, the state could purchase necessary licenses, equipment and the cost of installation and training for CMHC that it contracts with to streamline patient records and the potential fraud that exists when individuals move from provider to provider. The EMR also can enhance services for individuals with developmental disabilities as they transition from state operated facilities to community settings and from provider to provider in waiver settings.

*How can the state improve service delivery while reducing expenses?*
IARF supports the closure of Howe Developmental Center. The closure of Howe presents the state of Illinois with a unique opportunity – individuals can be served in less a restrictive environment in the community and the state can receive federal

Medicaid match for those community services through existing waivers. Right now Illinois is losing $30 million in federal match annually due to Howe's decertification. That $30 million could be re-invested into community services and Illinois would collect an additional $15 million in federal match from maximizing its Medicaid dollars. At a minimum, the state should conduct a third-party service and support assessment review to determine what supports individuals in state operated facilities need and how to provide those most effectively.

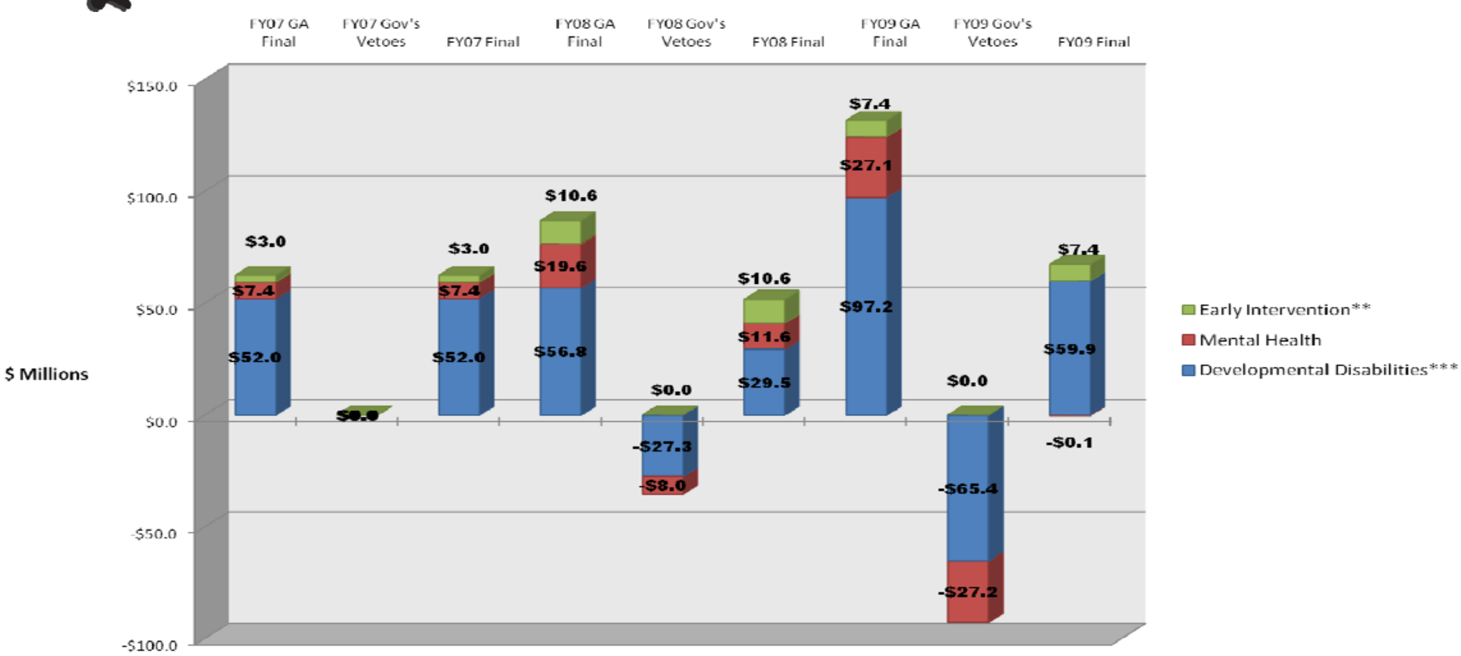
Illinois can improve service delivery while simultaneously reducing expenses by investing in an electronic medical records system. Research has shown that electronic medical records improve the quality of patient care, decrease medical errors, and produce positive financial returns on investments. The major barrier to electronic medical records is the cost of purchase and implementation. With the stimulus monies, the state could purchase necessary licenses, equipment, and the cost of installation and training for community agencies. Some areas where Illinois would see a cost savings are alternative drug suggestion reminders (notification when generics are available), reduction in adverse drug effects, reduction in billing errors, reduction in medical errors (illegible prescriptions), and reduction in unnecessary laboratory tests.

*What deficit reduction measures do you support?*
Community human service organizations are economic engines in their towns and cities. When times are good they are often one of the top employers in their areas, returning millions of payroll and purchasing dollars into the local economies. They also provide services and supports that are primarily Medicaid reimbursable generating hundreds of millions of dollars in federal claiming. When times are bad and the economy slumps, Medicaid FMAP is often increased as it has been for the next two years to ensure accessibility and benefits are not jeopardized. As a result of the temporary FMAP increase included in the ARRA, we know that services provided to persons who are developmentally disabled will generate an additional $250 million in FMAP ($9.3 million a month) during the 9 federal fiscal quarters of the authorized increase (through December 31, 2010). Mental health services will generate additional FMAP during these 9 federal fiscal quarters as well. This additional FMAP should be reinvested back into the system. This reinvestment, which could take the form of increased rates and reimbursements for services or improve the payment delays for these services, would mean additional funding that could be used to enhance services, increase pay for direct-support/non-executive staff, and fill much needed staff vacancies, which in turn would mean more money invested in the local economies.

51st and Failing

# Despite Modest Increases to Community Services, Illinois is still 51st and Failing!

### FY07 - FY09 Community DD, MH, and EI Funding Increases*




**Sources: General Assembly approved budgets FY07 – FY09 (P.A. 94-0798, P.A. 95-0348, P.A. 95-0734) and Governor's Vetoes (P.A. 95-0348 and P.A. 95-0734).*
***For FY08-FY09, early intervention services received increases due to a negotiated MOU*
****Includes $28.1 million in restorations from P.A.95-1001, but does not include the $4.2 million being reserved by DHS effective January 1, 2009*

- As indicated by the chart, although there have been modest increases in funding for community services, these increases do not reflect/quantify extensive payment delays experienced by community providers during FY08-FY09.
- Studies have shown that Illinois' community services' system is underfunded by as much as 25%, while other reports suggest the system needs to invest at least $200 - $250 million a year over the next several years to bring Illinois to mid-point among resource investment made by states nationally.
- Inadequate rates and reimbursements don't reflect the rising costs of providing services and supports, such as higher energy costs, transportation services for clients to and from residential locations to day programs, and the ability to maintain residential settings of 8 or fewer.
- According to the American Network of Community Options and Resources' (ANCOR) 2008 Direct Support Professional Wage Survey; at $9.04/hr, Illinois' private provider average wage for direct-support professionals is ranked 34th in the nation, even though Illinois is ranked 13th in per capita personal income.
- The $9.04/hr wage is only $1.04/hr over the Illinois minimum wage and $1,203 annually above the federal poverty level (FPL) for a family of three.
- According to "The State of the States in Developmental Disabilities: 2008", Illinois is ranked 51st in the nation in funding for community residential alternatives of six or fewer beds and 47th in funding for community-based waiver programs
- In its 2006 report, Illinois received an "F" from the National Alliance on Mental Illness in responding to consumers with mental health needs.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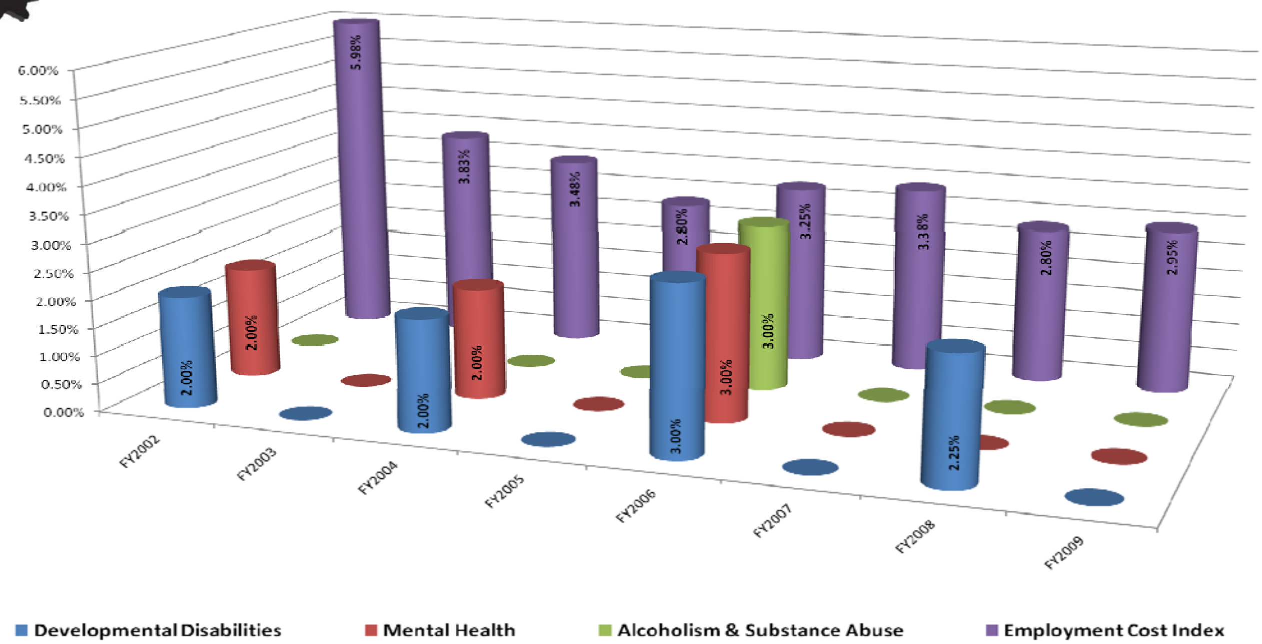
# Community Services Cost-of-Doing-Business (CODB) Increases/ Employment Cost Index (ECI) Comparison*: FY 2002 - 2009




**Employment Cost Index for total compensation, for private industry workers, by occupational group and industry (not seasonally adjusted), adjusted for State Fiscal Year*

Increases for Community Services since FY02 have been inconsistent and have not kept pace with inflation

- In FY 2002, community DD and MH providers received a 2% CODB, which amounted to $28.1 million (P.A. 92-0008), while the ECI was 5.98%. ASA providers did not receive a CODB.
- In FY 2003, community DD, MH and ASA providers received no CODB, despite an ECI of 3.83%.
- In FY 2004, community DD and MH providers received a 4% CODB in the General Assembly approved budget. However, DHS reserved 2% of that CODB, which left $11.06 million for a 2% CODB (P.A. 93-0014). ASA providers received no CODB. Meanwhile, the ECI was 3.48%.
- In FY 2005, community DD, MH, and ASA providers received no CODB, despite an ECI of 2.80%.
- In FY 2006, community DD, MH, and ASA providers received a 3% CODB, which amounted to $34 million (P.A. 94-0015). Although this did not originally include ICFDDs, subsequent legislation was passed and signed by the Governor authorizing a 3% increase for these providers (P.A. 94-0697). The ECI was 3.25%.
- In FY 2007, $32.8 million as a portion of the FY05 Hospital Assessment Program was earmarked for community DD and MH providers; however, this funding was not released. The ECI was 3.38%
- In FY 2008, community DD providers received $29.3 million for a 2.5% CODB in the General Assembly approved budget. However, the Governor vetoed $11 million from the line item, meaning some community DD providers received a partial year 2.5% CODB and others received a 2% partial year CODB (P.A. 95-0348). The ECI was 2.80%.
- In FY 2009, community DD, MH, and ASA providers received no CODB in the General Assembly approved budget, but received increases for wages and targeted rates. However, Governor Blagojevich vetoed $120 million from the budget, and DHS reserved $31.5 million in grant funding (P.A. 95-0734). The ECI was 2.95%.

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THE LUCAS GROUP

Lucas Group Partners

# Lucas Group Partners – Government Solutions

**Medicaid Cost Efficiency and Transformation:**

***Ideas for achieving fiscally responsible results and improving the quality of services for beneficiaries***

**Testimony Before the Illinois Senate Deficit Reduction Committee on Health Care**

**March 10, 2009**

***Jay Lucas and John Stephen***

# Illinois Medicaid Savings Opportunities Summary

| Savings Summary ($ billions) | Gross Savings | General Fund Savings |
|---|---|---|
| **Medicaid Cost Savings Opportunities** | | |
| Acute Care | 310 | 130 |
| Rebalancing long term care | 260 | 110 |
| Pharmacy cost containment | 255 | 110 |
| Waiver | 695 | 435 |
| DD/MR shared living community alternatives | 150 | 75 |
| Eligibility Modernization | 120 | 120 |
| Vendor Management | 300 | 300 |
| | | |
| ***Total*** | ***2,090*** | ***1,280*** |

# Acute Care Cost Containment Strategies ($130 MM)

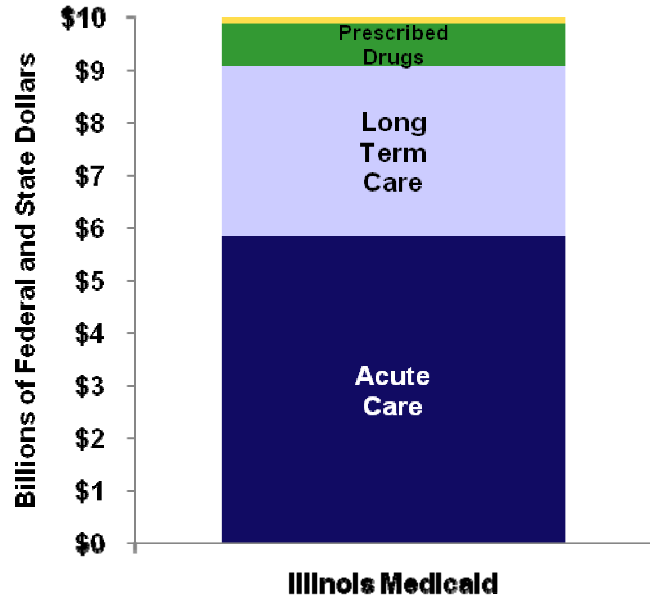
***Statement of Problem:*** **Illinois Medicaid relies too heavily on costly inpatient hospital procedures and emergency room usage as primary care**

## Illinois Data

- Highest quartile of Medicaid acute care costs in the nation – 66% vs. average 58%
- Costly inpatient hospital procedures are 48% of Acute vs. US average of 24%. 49th worst state.
- Illinois recently launched Illinois Health Connect, a PCCM network with 1.6 MM out of 1.9 MM eligible Medicaid clients enrolled
- In 2008, Illinois reported $34 million in savings during fiscal year 2007 on its disease management program. That is only 0.03% or $20 per enrollee. Should seek 10-20% savings
- High emergency department costs of $400 MM per year (22% of inpatient spending)

## Steps to Control Costs

- Enhance Health Connect – a Primary Care Case Management program
- Emphasize outpatient over inpatient procedures
- Divert patients from emergency department
- Reduce inpatient pharmacy costs
- Reduce physician/lab costs through authorization
- Focus on disease management
- Expand selective contracting of medical procedures and durable medical equipment



# Acute Care Cost Containment Strategies (cont.)

## Case Study/Results in Other States

- Many states have PCCM programs.
  - Create medical homes and encourage consumer to engage in preventative healthcare in doctor's office or clinic
  - Enrollee chooses primary care provider who will coordinate and manage their care.
  - Primary care physicians incented to reduce costs through PMPM
- California passed legislation in 1982 allowing Medi-Cal to negotiate with selected hospitals to compete for Medicaid inpatient services. California obtained a Waiver. Saved an estimated $300 MM per year. Illinois had a similar program in early 90s that saved $100 MM per year. Program was discontinued following change in administration. Rhode Island most recent state to obtain selective contracting of inpatient and outpatient services Waiver from CMS
- Emergency room diversion strategies and studies – CMS funded emergency room diversion demonstration studies in 26 states (including Illinois)
- Outpatient procedures reduce costs. Deep Vein Thrombosis example. Inpatient $2,800 versus outpatient $300. Also, Tonsillectomy $3,000 inpatient versus $500 outpatient ambulatory surgical care facility.

| | |
|---|---|
| **Potential Savings to General Fund:** | **$130 MM** |
| **10% reduction in $3.6 BN (est. 2009) of inpatient expenditures** | **$360 MM** |
| **Net of 10% increase in outpatient expenditures $770 MM** | **-80 MM** |
| **Plus 2% decrease in lab and x-ray of $650 MM** | **$13 MM** |
| **Revised FMAP %** | **44%** |

# Acute Care Cost Containment Strategies (cont.)

## Benefit to the Public

- Improved access to high quality medical care for Medicaid recipients.
- Appropriate setting for medical procedure. Reduce unnecessary emergency department visits and hospitalizations
- Health management rather than simply acute care
- Strong focus on prevention and wellness with the medical home model
- Increase the provider network
- Reduce on-set of higher cost medical procedures
- Selective contracting results in less paperwork, fewer audits, and a more competitive environment. Also, contract ensures competitive price – usually reduction in expensive facility charges - access and quality.
- Ensure quality and retain medical necessity
- Expand community health center (CHC) sites on or near hospital campuses and partner with behavioral health providers sustainability of very important optional benefit under Medicaid program

# Rebalance the Long Term Care System (LTC) ($110 MM)

***Statement of Problem:* Illinois' Spends More Than the National Average on Nursing Home Care and Places a Higher Portion of Seniors in Nursing Homes**

## Illinois Data

- Illinois spends approximately $2.6 billion a year on long term care services, of which approximately 60% is spent on nursing homes ($1.5 billion), vs. US average of 52%
- Medicaid nursing home reimbursement is approximately $60,000 per year compared to home and community based care which costs on average $15,000 per year
- 65 years or older population in Illinois was 12.1% in 2000 and will climb to 18% by 2030

## Steps to Control Costs

- Continue vision of Older Adult Service Act and rebalance long term care system to focus on less costly community placements
- Enhance nursing home diversion and transition efforts
- Build capacity for shared and independent living models, including elder foster care
- Global budgeting, where money follows person in order to finance LTC system
- Goal 50/50 (50% of all LTC expenditures on community based care programs) in 5 years – follow lead of Missouri

# Rebalance the Long Term Care System (cont.)

## Case Study/Results in Other States

- Missouri spends $760 MM on nursing home care for Medicaid seniors and $770 MM on home and community based care
- US Average for home and community based care for seniors is 52% (Illinois is 40%)
- Vermont through its rebalancing efforts under a General Waiver reduced nursing home enrollment by 10% in one year
- Minnesota spends 62% of Medicaid LTC costs are on home and community care and only 30% on nursing homes

## Benefit to the Public

- AARP study shows 99% of seniors prefer to live in the community
- Enhance quality of life
- Less reliance on costly institutional care
- Savings can be re-invested into community programs
- Provide for more sustainable Medicaid funding over the long run
- Effectively prepare for the future migration into higher population of seniors

| | |
|---|---|
| **Potential Net Savings for Illinois of** | **$110 MM** |
| **Annual LTC expenditures** | **$2.6 BN** |
| **Effective rebalancing strategy can result in LTC savings of at least** | **10%** |
| **State share** | **44%** |

# Prescription Drug Cost Control Policies ($110 MM)

***Statement of Problem:*** **Illinois Medicaid Prescription drug spending is higher than average among states and program lacks aggressive cost management strategies.**

## Illinois Data

- Current Medicaid prescription drug spending $1.8 billion
- Illinois spends 27% more on prescription drugs as a percent of acute care than US average
- Pharmaceuticals per enrollee is $125 higher than US average
- No prior approval process
- No meaningful control of mental health prescription drugs (no mental health preferred drug list)
- No competitive purchasing strategies or pooling initiatives
- Dispensing fees ($3.40 per script for brand and $4.60 per script for generic) one of the highest in the US

## Steps to Control Costs

- Institute more aggressive pharmacy benefit management, including preferred drug list (especially for mental health), PTCA, prior authorization, rebates, and supplemental rebates
- Consolidate pharmacy benefit management across all state agencies (include county). Create a state-wide public sector formulary
- Manage drug utilization through medication therapy management for high utilizers, automated prior authorization, and management of fraud, waste and abuse
- Optimize distribution channel through: preferred retail network, mail order and a specialty pharmaceutical management program
- Adjust co-pays as an incentive to use pharmaceuticals in medically correct manner

# Prescription Drug Cost Control Policies (cont.)

## Case Study/Results in Other States

- Majority of states have managed care and/or a pharmacy benefit manager that effectively controls costs without compromising access and quality.
- Most states have a much lower prescription drug costs as a percentage of acute care – Illinois (12%) Indiana (7.4%), Minnesota (5.9%), and Michigan (2.9%)
- Three quarters of all states have prior authorization programs
- 60% of states have a maximum allowable cost program for generic drugs
- 20% of states set limits on quantities dispensed per prescription drug
- Although Illinois has no mental health PDL, drug companies have used "illegal and highly dangerous" deceptive marketing practices according to Illinois Attorney General
- New Hampshire saved an estimated $10 million per year using a mental health PDL

## Benefit to the Public

- Ensure access to prescription drugs for those in need
- Ensure quality and retain medical necessity
- Ensure sustainability of very important optional benefit under Medicaid program
- Control rising costs of prescription drugs

| | |
|---|---|
| **Potential Savings to General Fund:** | **$110 MM** |
| **Reduce acute care pharmacy expenditures of $1.1 BN by 15%** | **$165 MM** |
| **Reduce additional pharmacy expenditures of $880 MM by 10%** | **$90 MM** |
| **FMAP** | **44%** |

# Development Disability Shared Living ($75 MM)

***Statement of Problem:*** **Illinois has a high development disability population living in high cost institutions – nursing facilities, ICF/MR and group homes**

**Definition:** A shared living environment is a community placement where a person with developmental disabilities is placed into a home and his or her care and needs are provided for by an individual caretaker who is usually the homeowner. Services that are medically needed are brought into the home and the individual or provider have meaningful choice

**Illinois Data:**

- The total budget for individuals with developmental disabilities (DD) is $1.5 B
- Over 20,000 people are served and over 50% are currently in high cost institutions (13% state institutions, 7% nursing facilities, 32% ICF/MR), and 20% in group homes
- Illinois spends over $150 MM more than it receives from the federal government
- Only 30% of individuals with disabilities are living in homes or supported living arrangements with less than 6 people
- Many states have moved away from costly institutional care
- The cost of placement in a shared living environment can be less than ½ the cost of an institution
- Quality of life is sometimes compromised – ex: 2007 Howe Dev. Ctr is decertified for not meeting quality standards

**Steps to Control Costs**

- Illinois can transition to more shared living arrangements for those with developmental disabilities
- Reduce reliance on costly institutional care
- Limit further entry into group homes and institutions – diversion strategy with appropriate shared living providers and slots available
- Build capacity for shared living providers and enhance training and ensure quality
- Give individuals meaningful choice to remain in a community setting

# Development Disability Shared Living (cont)

## Case Study/Results in Other States:

- In New Hampshire, 94% of individuals with disabilities live in homes with less than 6 people.  Only 1% live in ICF/MR institutions and only 4% in nursing facilities.
- In New Hampshire and Maine, the cost of DD home and community placements is an average $45,000 per year, whereas institutional care is approx $100,000 per year
- Additionally, in New Hampshire, a state with the same matching rate as Illinois, the state spends 44% on the DD population and the federal government spends 56%
- In Missouri, 21% of individuals with disabilities are in ICF/MR and other institutions, and the remainder in the community
- In Minnesota, 90% of individuals with developmental disabilities live in homes with less than 6. Only 13% of all funding for DD goes to ICF/MR

## Benefit to the Public

- Community based care for DD is a preferred placement over high cost institutional care
- Independence

10% savings off the $1.5 B budget based on efforts of other states:  NH, RI, Fl, Me.  - states are seeing up to 50% savings in shared living environments

# Section 1115 Medicaid Waiver ($435 MM)

***Statement of Problem:*** **Illinois has not taken advantage of the federal negotiation process with CMS and the White House to transform its Medicaid program through the use of a Section 1115 Demonstration Waiver**

## Illinois Data

- Illinois spends $11 billion per year on health care for individuals with developmental disabilities and mental health conditions, and children and seniors that are both determined to be medically and financially needy.
- Illinois currently has seven community based health care waivers
- Illinois does not currently have a Section 1115 Global Waiver for its entire Medicaid Program.
- Illinois relies on the traditional inflexible and time consuming state plan amendment approach to making changes to its health care deliver system.
- The average time period for a state plan amendment is over one year
- Any change to the rigid federal CMS regulatory process must be done through state plans or waivers

## Steps to Control Costs

- Design a strategic plan to encompass all existing Waivers and state plans under one Global Section 1115 Demonstration Waiver
- Savings come from
  - Health care deliver re-design
  - Effective Care management throughout all Medicaid populations
  - Additional federal match – Costs Not Otherwise Matched (CNOM) opportunities
  - Flexibility

# Section 1115 Medicaid Waiver (cont)

## Case Study/Results in Other States

- 2005 – Vermont negotiated and obtained a Global Section 1115 Waiver from Federal Health and Human Services (Center for Medicare and Medicaid Services (CMS)) for rebalancing the LTC system
- Initial results show 10% reduction in nursing home, 50% increase in less costly community programs
- January of 2009 – Rhode Island negotiated and obtained a Global Section 1115 Waiver from CMS for its entire Medicaid program
  - Will save the State Medicaid program $388 million dollars over 5 years
  - Gives the State unprecedented flexibility in making any program and health care delivery system change
  - Focuses on three priority areas: Rebalancing LTC, effective care management and better purchasing strategies
- Rhode Island also expects to see $120 MM in additional federal dollars for the 5-year Demonstration

## Benefit to the Public

- Re-designing health care delivery to focus on the person's needs
- Greater care management, better health outcomes and quality
- More efficient Medicaid program. Greater state flexibility to make changes. Less bureaucracy.
- Customized benefits, self-directed care and person-centered planning

| | |
|---|---|
| **Potential Savings for Illinois of** | **$435 MM** |
| **Impact on non-matched (state-only) LTC costs (.0562% of 260 MM)** | **$150 MM** |
| **Impact of non-matched (state-only) DD/MR (.0562% of $1.52 DD budget)** | **$85 MM** |
| **2009 Medicaid spending** | **$11.6 B** |
| **Waiver impact of 4% ($460 MM in savings X state share .0438)** | **$200 MM** |

# Modernize Benefits Eligibility Determination Process ($120 MM)

***Statement of Problem:*** **Currently, Illinois' Benefits Eligibility Determination process appears prone to error**

## Illinois Data

- A study conducted by the Child Care Bureau in 2004-5 found errors in 24% of the 150 cases in the Illinois sample
- Results from the most recent PERM study are still pending

## Steps to Control Costs

- Engage in a Public-Private Partnership to hand off determination of benefits eligibility to a private partner
- Savings come from
  - Operational savings
  - Capital costs being taken on by the private partner
  - Avoided Federal fines
  - Increased prevention and detection of fraud and abuse due to comprehensive retooling of paper-based legacy systems as well as process changes

# Modernize Benefits Eligibility Determination Process (cont.)

## Case Study/Results in Other States

- In December 2006, Indiana engaged an IBM-led coalition in a 10-year, $1.16 billion contract to provide administrative and technological support for the state's eligibility-determination process
- Before the transition, over 35% of Indiana's approved Medicaid long-term care applications had errors, over 65% of the Family and Social Services Administration's clients rated their satisfaction with the agency as 'below average,' and the FSSA had reported multiple instances of corruption on the part of eligibility determination employees
- Indiana expects to see $500 MM in savings through the initiative, and believes that the Public-Private Partnership paved the way for a more technologically advanced and efficient eligibility system that has better served and will continue to better serve Indiana residents

## Benefit to the Public

- More efficient government
- Dramatic improvements in speed and efficiency of delivery of services
- Social workers who can spend more time helping their clients rather than filling out and filing paperwork through a variety of non-integrated systems
- Guaranteed improvements in work engagement and eligibility accuracy
- New high-tech jobs in the State

| **Potential Savings to General Fund:** | **$120 MM** |
|---|---|
| **Benefits eligibility determination cost** | **$400 MM** |
| **If Illinois achieved savings similar to Indiana** | **30%** |

# Savings From Vendor Management of Illinois Purchases ($300 MM)

***Statement of Problem:*** **Illinois spends $3 BN annually with outside vendors. Yet, we notice that a substantial proportion of their RFPs for services are simply roll-overs of the current vendor.**

## Illinois Data

- Current third-party purchases $3 billion
- This is spread through the various agencies and includes: $1 billion for IT spending as well as a myriad of other items including fuel, chemicals, office supplies, fleets, maintenance, etc.
- In 2006, the state completed a concerted effort to recover from and manage vendors – netting $500 MM over 2 years

## Steps to Control Costs

- Review current contracts to find and recover historic vendor mis-performance
- Review current contracts and make reductions in areas where there is duplication, unnecessary costs, including indirect costs, and other areas that can be reduced without impacting quality
- Create visibility and organization to manage from an enterprise perspective
- Develop risk management
- Create organizational partnership between agencies
- Develop reporting and tools to measure and manage performance
- Develop mechanics of vendor management

# Savings From Vendor Management of Illinois Purchases (cont)

## Case Study/Results in Other States

- Indiana reduced office expenditures by 8% by re-contracting and enforcing.  Also created a Vendor Management Section within IDOA
- Colorado university system  rigorously reviewing every contract for cost and performance, seeking 30% reduction
- Indiana DOA reduced office supplies costs 20-30% and printing costs 19% through vendor management.
- Connecticut has launched a Vendor Management Office
- Tennessee created a state-wide vendor management team with a well-designed approach and is targeting 20-25 reduction
- New Hampshire Agencies reduced all indirect costs in contracts across board to less than 10%
- During tight economic times there is a substantial benefit when the state closely scrutinizes all vendor agreements, and to re-negotiates contracts in order to find general fund savings

## Benefit to the Public

- State manages customer service as well as financial impact of working with vendors
- State ensures that the full mission-focus of the contracted service is delivered, not merely a product

| | |
|---|---|
| **Potential Savings to General Fund:** | **$300 MM** |
| **Purchased services** | **$3 BN** |
| **Typical savings from vendor management efforts range from** | **10-30%** |
| **Assume an average benefit rate** | **10%** |

# Additional Federal Medicaid Dollars under Stimulus ($880 MM)

***Statement of Problem:*** **How to make use of Federal proceeds from the stimulus bill**

**Definition:** Under stimulus, the State's 50% Federal Medical Assistance Percentage (FMAP) will be increased by 6.2%.

## Illinois Data

- According to Government Accountability Office, that increase will result in $880 MM in new Medicaid funding for FY2009, $1,340 MM in new spending for FY2010 and $680 in new spending in FY2011

## Steps to Control Costs

This is simply a matter of how the State wants to use the new Federal match revenue:

1. Increase total Medicaid spending – in the amount of the additional Federal match
2. Reduce State match by the amount of the new Federal monies

## Benefit to the Public

- Source of funding without cost to the State taxpayer
- If State chooses #2, budget neutral – total savings to general fund = $880 MM

| | |
|---|---|
| **Potential Savings to General Fund:** | **$880 MM** |
| ❑ **Additional Federal match** | **6.2%** |

# Other Federal Stimulus ($1,000 MM)

***Statement of Problem:* How to make use of Federal proceeds from the stimulus bill to help solve current budget problems**

**Definition:** The stimulus package that recently passed the US Congress and was signed by President Obama on 2/17/09 may provide additional opportunities for the State of Illinois. Some areas that the State will see an influx of Federal dollars that have direct impacts on the State general fund portion of the budget over the next 18 months are as follows:

| | |
|---|---|
| ❑Highway infrastructure | $935 MM |
| ❑Education grants | $1 B |
| ❑Child care | $73 MM |
| ❑Head Start | $29 MM |
| ❑Unemployment benefits | $1.5 B |
| ❑Unemployment Ins. | $405 MM |
| ❑Community services grant | $47 MM |
| ❑Seniors, disabled programs | $527 MM |
| ❑State stabilization fund | $2 B |
| ❑Food stamps | $903 MM |
| ❑Child support | $37 MM |

TESTIMONY OF R. EDEN MARTIN
WITH RESPECT TO ILLINOIS FINANCE
RETIREE HEALTH CARE
MARCH 10, 2009

My name is R. Eden Martin. I am President of the Civic Committee of The Commercial Club of Chicago. The Civic Committee consists of approximately 90 senior business leaders in the Chicago area, and works to make the region a better place to live and work.

In December 2006, the Civic Committee issued its report on Illinois State finance – *Facing Facts*. This report showed that Illinois was headed toward financial implosion – largely because of its failure to recognize and/or fund its growing liabilities for pensions and retiree health care. When these were recognized, the State's annual operating budget was shown to be seriously imbalanced; and the mass of unfunded debts and obligations amounted to in the range of $100 billion.

In the case of pensions, the problem was that pension liabilities had been improperly funded. In the case of retiree health care, the problem was that the liabilities were not even recognized – and not funded at all – let alone inadequately funded. The State's practice had been – and was at that time – to pay health care claims for employees and retirees as they were presented. The State did not accrue and recognize on its operating statements the real, economic cost of the growth in its liability to cover health care costs of retirees. And the State's balance sheet did not show the accumulation of these unfunded obligations as a liability.

As of Fiscal Year 2007, the Civic Committee's outside experts – without access to the State's human-resources data – estimated the total unfunded liability for retiree health care. This is the liability the State has – based on the practice it has applied over the past several years – of paying all or part of the cost of health insurance for people who worked for Illinois State government or for other entities for which Illinois has assumed some responsibility for pensions and/or retiree benefits.

To illustrate: suppose someone went to work for the State at the age of 35 and continued to work two decades, and then retired at the age of 55. The retired worker is entitled under today's plans to a generous retiree health care program from the State. After 20 years of service, Illinois pays 100% of the retiree's health insurance premium, and the retiree pays zero part of the premium. The worker who started at 35 and worked 20 years was thus 55 when this retiree health insurance commenced – and would be entitled to continue under the State's plan for the next 10 years, with the State assuming 100% of the premium cost. Once the retiree became eligible for Medicare at age 65, Medicare would assume part of the retiree's health care costs, with the State continuing to make up the difference.

This is a very generous benefit for retired State workers, and it is very costly for the State. The benefit is "earned" by the worker during the 20 years in which he worked for the State; but during those years, the State did not recognize this annual growth in the obligation as an operating cost; and it did not recognize the accumulated pile of these obligations – to this worker and others – in its balance sheets. It goes without saying that the State likewise did not fund – or make any other provision – for this growing obligation to make future payments.

Applicable government accounting standards then changed, effective with FY2008. And for the first time Illinois began to estimate and recognize (a) the real, economic cost of the growth of retiree health care liability in its annual operating statements, and (b) the accumulated amount of this liability – piled up over past years – in its balance sheet.

Three issues are presented:

1. How large is the retiree health care liability?
2. Why is it as large as it is?
3. What should now be done about it?

## I. How Large Is Illinois' Retiree Health Care Liability?

The first question is whether the State's practice of paying for health insurance for its retirees is a "liability" at all. The answer seems to be – no. The State's Constitution has a provision interpreted to prevent reduction in "benefits" under its pension plans; but there is no similar provision with respect to retiree health care.

The State has had a practice for years of paying for health insurance for retirees. But a practice, even a consistent one, does not – without more – create a contractual liability, one enforceable in a court. It does not appear that Illinois has contractually committed to provide health care insurance to retirees – either at a particular level or at all. Indeed, the State seems to have modified its retiree health insurance programs and benefits in past years – suggesting that such adjustments were not precluded by any contract.

Moreover, some of the retirees who have enjoyed the benefit of health insurance under the State's programs were not, during their working years, employees of the State at all. They were, rather, employees of other entities – for example, the University of Illinois and other State universities.

So why have the State's accountants included this "liability" for retiree health care coverage in the State's financial statements? The answer seems to be that accountants do not make a judgment as to whether such payments are a contractual requirement; but as long as the State has a practice of making such payments, the accountants treat them as if they were a liability. If the State were to change its policy, the reporting would or might also change.

Assuming for purposes of discussion that retiree health care is a "liability," or something in the nature of a "liability" (at least unless and until the State's practice changes), how large is it?

In December 2006, upon the advice of its outside experts who did not have access to the State's personnel files but did have experience with comparable programs in other states, we estimated that the total accumulated unfunded liability on the part of the State was in the range of $43 to $53 billion.

During the following year, the State's actuaries – with access to the State's files and data – calculated the amount of the liability to be only $24 billion. However, as applicable governmental accounting did not then require the liability to be included as such in the State's financial statements, it was not included. Moreover, no provision was made by the State to start funding this liability.

It appears that one reason for the difference between our 2006 estimate and the State actuarial calculations is that the State's actuaries did *not* include in their calculations any liabilities for (a) the employees of the State's community colleges, or (b) the employees of the K-12 school districts throughout the State. The theory appears to be that because these employees were not employees of the State of Illinois (but were rather employees of their respective colleges and schools), therefore the State has no "liability" for their retiree health care.

The unanswered question is why the State reports (as part of its "liability") amounts for retirees from the University of Illinois and other State universities, but omits comparable liabilities to retirees from the community colleges and schools? In both cases, retiree health care is made available by plans established under State law and administered by the State. In both cases, the State has a practice of funding all or part of these payments.

In any event, in its recent updated report, issued in March 2009, on Illinois State finance, the Civic Committee used the lower number provided by the State's actuaries, although we also noted that if the retirees from the Community College Insurance Program and the Teachers' Retirement Insurance Program were included, the State's liability for retiree health care would rise from $24 billion to about $40 billion.

Also using the State-provided lower number for developing the amount to be taken into account in the State's annual operations, we estimate that for the current fiscal year – FY2009 – if the operating statement were adjusted to include not only (a) the amount of payments actually being made on a "pay as you go" basis to cover bills as they are submitted, but also (b) the increasing obligation this year to pay those bills in some future year, then the annual cost of retiree health care rises from about $600 million (cash basis) to a total of $1.7 billion

The additional amount – roughly $1.1 billion – is a part of the State's real budget deficit, though it does not appear in the State's operating statements developed on a cash basis. (See attached exhibits.)

## II. Why Is Illinois' Retiree Health Care Liability So Large?

There are several reasons why the State's total retiree health care liability is very large. One is that the State has done nothing to fund the growth of this liability – but has only paid the bills as they came due ("pay as you go").

Another reason is that the State's plans are very generous – and thus very costly. A retiree from State government in Illinois can retire after 20 years service with the right to participate fully in the retiree health program. Because retirees may start to benefit at age 55, they may enjoy these benefits for many years before becoming eligible for the federal Medicare program. If an employee/retiree could qualify for this benefit only after more years of service, and/or only after attaining a certain age – e.g. 65 – the cost of the benefit to the State would be much less.

Still another reason is that retirees in Illinois need not use the "managed care" option offered under the State's health care programs. Retirees may choose to use any doctor they wish – which is more costly.

A further reason is that retirees with 20 years of service or more pay no part of their health insurance premium. The State of Illinois pays 100% of the premium. (However, the retiree may be liable for certain deductible amounts.)

There may have been a time when employees of private-sector firms had access to such generous retiree health care programs. But the pressures of competition have forced most firms to trim back on such benefits – incentivizing employees and retirees to use managed care programs, and requiring them to share in the insurance premiums as well as to pay deductible amounts. These measures have combined to incentivize employees and retirees to be careful in the use of available health care, and to bear a greater share of the costs.

The State's retiree health program should likewise trimmed and made more economical. Although the State is not subject to the same competitive pressures that have forced such measures on private-sector firms, it should impose similar pressures through internal management and discipline. The State has not been able to afford these plans in recent years – as is evident when one examines the growth in the State's budget generally, and its health care costs in particular. Moreover, it is unsustainable – either politically or as a matter of basic fairness – for retirees from State government to enjoy such benefit levels when they are unavailable to most citizens and taxpayers.

Fiscal realities and considerations of fairness thus combine to require that the State of Illinois fundamentally restructure its retiree health arrangements.

### III. What Should Be Done to Reform the State's Retiree Health Programs and Cut the Cost of these Programs?

The State should recognize that the basic program guaranteeing retiree health care for all retirement-age Americans is Medicare. Citizens become available for Medicare at age 65.

The State should limit its exposure to retiree health costs by requiring that State workers must (a) work more years for the State, and (b) attain an age nearer normal retirement age, in order to become eligible for State-provided retiree health care. A reasonable requirement would be that workers/retirees must have worked at least 30 years for the State, and attained at least 65 years of age, in order to qualify for full benefits. Workers/retirees who work fewer years or retire at earlier ages, would have less benefits.

The benefits themselves should be reduced for those who fully qualify. Retiree health should be offered only through "managed care" options, which are generally less costly.

Also, the cost of the health insurance premiums should be borne in larger measure by the retirees. There is no justification based on private-sector comparisons for the State's continuing to bear 100% of the premium costs for retirees who qualify for full benefits. Nor can the State of Illinois afford any longer to bear all of these costs.

An alternative which we strongly recommend is suggested by the plan recently adopted by the Chicago CTA, with the approval of the Illinois legislature. The CTA basically negotiated an arrangement with its unions by which the CTA took itself out of the business of providing – or being liable for – retiree health care by creating an independent retiree health care trust. The State "seeded" the trust fund with about $500 million. Active employees are responsible for contributing at least 3% of compensation to the fund; retirees and their dependents are expected to contribute up to 45% of the cost of coverage. If the fiduciaries responsible for the plan determine that the trust fund is not properly funded, they may require contribution increases or benefit decreases. But it is the fund – not the CTA itself – that is responsible for covering the future health care costs of retirees.

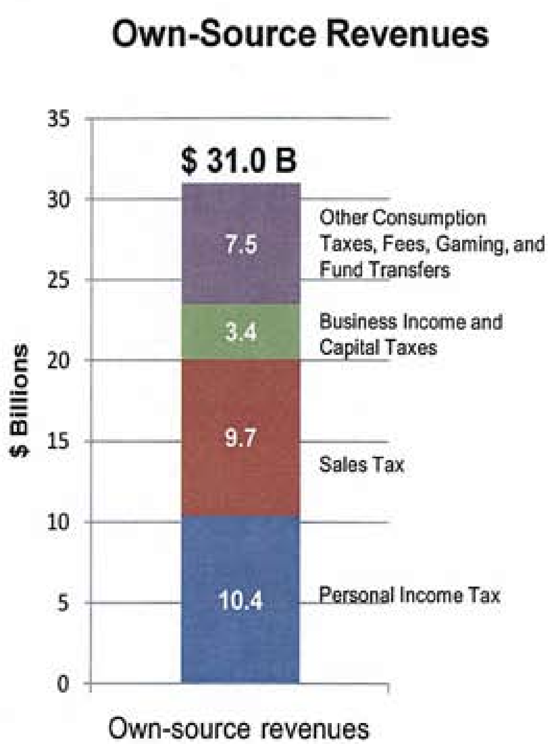
The State of Illinois should create a similar trust arrangement to help fund the costs of its retirees. The State should provide a fixed annual contribution to the trust, taking as a starting point its current expenditures of around $600 million on retiree health care. State retirees and their dependents should be expected to cover a significant part of their health care costs (similar to the CTA's plan) and active employees could also be required to contribute. Based on these contributions, the trust should offer a retiree health care program that is more in line with those offered in the private sector.

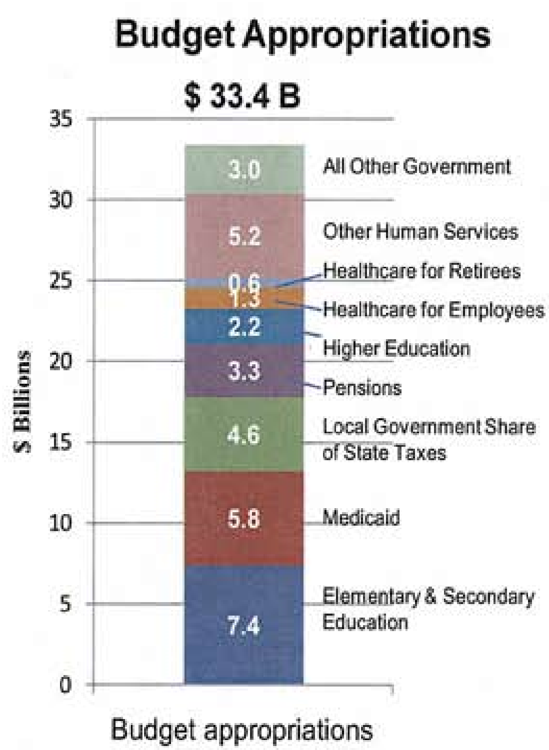
State employees should only be able to access full retiree health care benefits at the age of 65 and after 30 years of service. Retirees who are not yet eligible for Medicare should be expected to cover a significant part of their health care costs. The amounts available to retirees from such a trust should be used only for "managed care" plans, and only subject to cost-sharing requirements to create proper incentives to insure proper care while not wasting valuable resources.

In its recent updated report on State finance, the Civic Committee has estimated that the State of Illinois could significantly reduce its retiree health care costs – annually – by reforming its plans as suggested above. We believe the potential annual savings could be in the range of $1.1 billion per year – essentially by eliminating the growing unfunded "liability."

EXHIBIT A

## Illinois Own-Source Revenues and Spending
## 2009 Budget

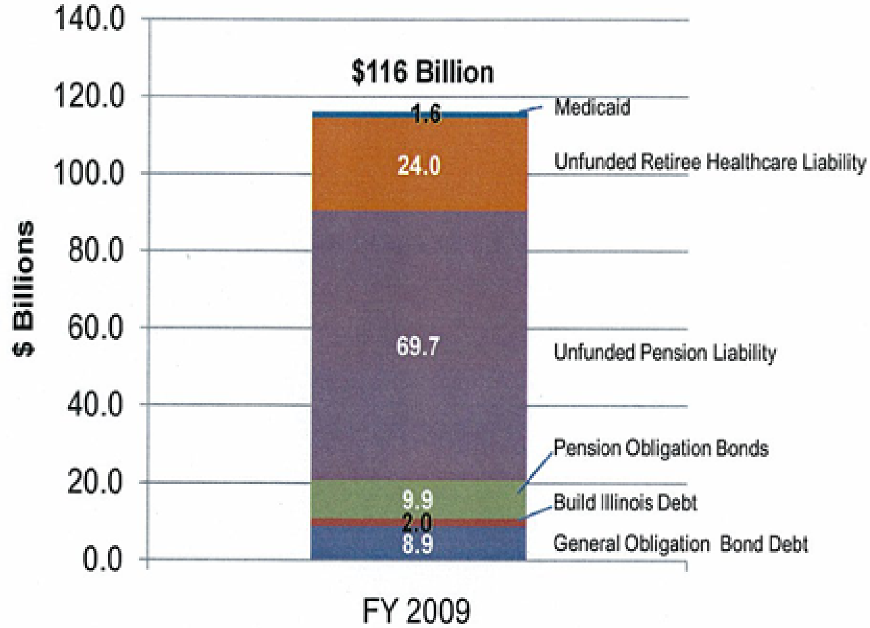



Source: Taxpayers' Federation of Illinois.

EXHIBIT B

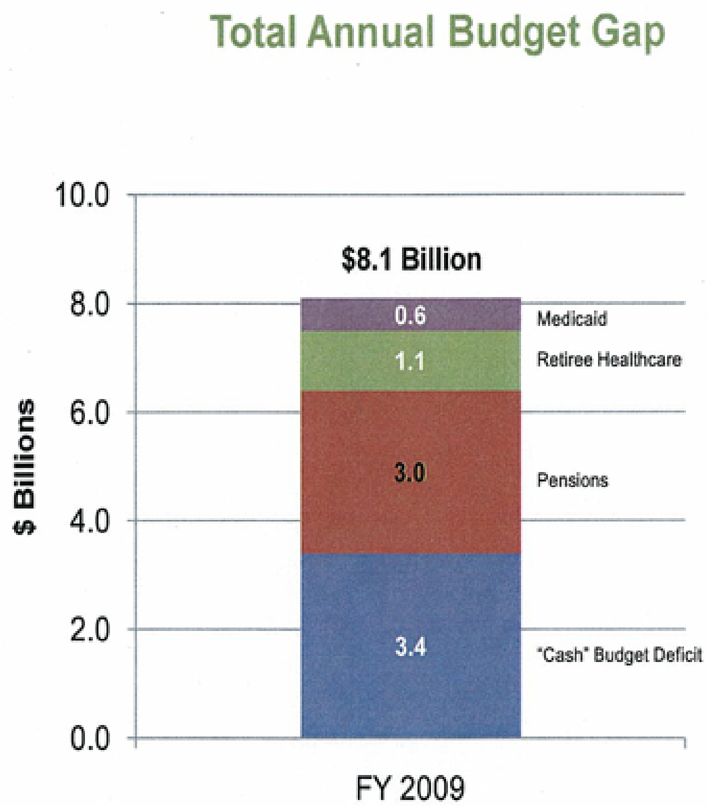
## Total State Debt and Unfunded Obligations




Note: GO bond debt and Build Illinois debt are COGFA forecasts of June 30, 2009 amounts outstanding. Pension Obligation Bond debt is forecast of June 30, 2009 debt based on POB principal repayment schedule from COGFA. Unfunded pension liability estimate is based on estimated State pension fund asset values as of December 31, 2008 and a recent COGFA estimate of the total pension liability at the end of FY2008. Unfunded retiree healthcare liability estimate is the point estimate from the Governor's office of the 2008 unfunded retiree health care liability. Medicaid debt assumes that half of projected unpaid Medicaid bills at the end of FY2009 are the responsibility of the State (based on 50% federal match).

Source: Various reports of the Commission on Government Forecasting and Accountability; Pension fund estimates; Governor's office estimates; Taxpayers' Federation of Illinois analysis.

EXHIBIT C




Note: Pension gap is equal to Normal Cost Plus Interest payment in FY2009 of $5.9 billion minus Total Employer Contribution of $2.9 billion. Retiree healthcare gap is equal to FY2008 ARC of $1.7 billion minus FY2008 State healthcare payments for retirees of $.6 billion. Medicaid gap is equal to forecasted increase in State share of unpaid Medicaid bills from FY2008 to FY2009 ($.3 billion) plus amortization of State's share of FY2008 Section 25 liabilities (assuming $1.3 billion in State Section 25 liabilities are amortized over 4 years).

Source: Various reports of the Commission on Government Forecasting and Accountability; Governor's office estimates; Taxpayers' Federation of Illinois analysis.

# ACCESS LIVING TESTIMONY

# for the DEFICIT REDUCTION COMMITTEE

March 10, 2009

Access Living is a non-residential center for independent living which advocates on behalf of and provides services to anyone with any kind of disability in the city of Chicago. Today we are representing the thousands of people in Chicago who receive or who need long term care services in their home through the Department of Human Services Home Service Program. In FY 2008 over 33, 000 people were served statewide.

We are concerned that the lack of fiscal responsibility is putting our people in danger of losing the extremely important services they need to remain in their homes. Personal assistants provide home care such as: bathing assistance, cooking, shopping, personal grooming, toileting, laundry and transferring from the wheelchair to the bed. These home services cost the state less than half as much as the equivalent care in a nursing home. For many years now we have urged the state to rebalance long term care and allow people to choose where they will receive services because we know most seniors and people with disabilities want to live in their own homes and as other states have shown, it also saves money.

We see proposals coming from the Department of Human Services that would severely restrict eligibility to services in the Home Services Program. They would exclude people under the age of 18. This would affect 1,500 individuals and families. They would exclude people who have a cognitive impairment as their primary disability cutting off 3,500 people from services. They would move people with psychiatric disabilities to a proposed new waiver. This we could support if the services were equivalent or better than those currently received. They want to exclude people over the age of 60 from receiving services under the Traumatic Brain Injury waiver forcing them to go into the Department of Aging's Community Care Program. This program has long been inadequate for keeping many seniors out of nursing homes with a maximum of 20 hours a week delivered only Monday through Friday, when long experience tells us that people need more hours and service 7 days a week to prevent premature moves to nursing homes when adequate home care would be cheaper and meet their preference to age in place. The seniors in the Traumatic Brain Injury Waiver who are now successfully living in the community would be left with inadequate services and be forced into nursing homes.

The Division of Rehabilitation Services has proposed other cuts as well, including raising the bar to qualify for home care services and making all service plans reflect the same amount of time to complete certain tasks. As individuals have different needs and each person's disability has unique aspects, it can take one person a shorter period than another for things like completing bowel programs or with assistance with eating.

We have seen that in the Home Services Program there have not been enough Case Counselors as the state has frozen hiring and squeezed budgets year after year. Case loads are frequently over 300 people and the quality of the service has already suffered. We have seen counselors refuse new service hours to consumers whose condition has worsened because the clear message of the central office is to save any bit of money you can.

We need a thriving Home Services Program. We need to rebalance long term care to meet the public's wishes and to build an affordable system of long term care. None of this is possible if the state goes down the road of slashing home services to address the enormous deficit. A responsible person would see that we have been derelict in allowing a large structural deficit to develop. It is time that we raise the revenues needed to provide the urgently needed services that people with disabilities count on to live productive independent lives in the community.

# FIGHT CRIME: INVEST IN KIDS *ILLINOIS*
# TESTIMONY BEFORE THE ILLINOIS SENATE COMMITTEE ON DEFICIT REDUCTION

*SUBMITTED BY BEN PECK*

*DEPUTY DIRECTOR*

MARCH 10, 2009

FIGHT CRIME: INVEST IN KIDS *ILLINOIS* is a bipartisan, nonprofit anti-crime organization led by 300 police chiefs, sheriffs, state's attorneys, leaders of police officer organizations, and victims of violence. Our mission is to take a hard-nosed look at the research about what really works to keep kids from becoming criminals and to share that information with the public and policymakers. Among the strategies proven to be effective are quality early care and educational programs for preschoolers, after-school programs and prevention of child abuse, as well as programs that nip delinquency in the bud by getting troubled kids back on track. We are still far from meeting the need in all these areas. Continued failure to do so is a crime prevention disaster. We recognize that the budget situation is deteriorating rapidly and will require some very difficult choices. It is hard to imagine, though, any investments beyond those described below that would so substantially reduce budgetary demands on state and county governments in the years to come and begin to save innocent lives and taxpayer dollars almost immediately. Therefore we believe the following human service programs should not only be protected from cuts, but increased:

**I. The Department of Human Services' Healthy Families and Parents Too Soon line items**. Without the support of extended families and robust communities, many new and expecting parents feel isolated and unprepared even though they are their children's most important teachers. Low-income parents, particularly, face hurdles just to provide the necessities of life for their children. Research shows that voluntary intensive home visiting that helps parents with parenting skills and accessing services can cut child abuse and neglect significantly. There are a number of model programs that provide voluntary intensive home-visiting and parent education. Lack of funding in Illinois leaves current home-visiting programs only able to reach 1 of 7 kids in poverty ages 0-3. Reaching more at-risk families with these proven programs will cut child abuse and neglect significantly. Cutting these services will almost surely result in a rise in abuse and neglect.

**II. Identify and Help Troubled Kids Early on to Get Back on Track.** Law enforcement is doing a good job addressing juvenile crime and making sure offending juveniles are taken off the streets – almost 45,000 juveniles get arrested every year. The most dangerous of these young people are put behind bars.

The problem – a problem with disastrous consequences for public safety -- is that police officers and sheriffs find themselves continually arresting the same kid again and again. Our state's attorneys are forced to prosecute the same kid again and again. About 3,000 juveniles are committed to a state facility every year and, after they are released, 73% of them are arrested again within two years. Forty-eight per cent of them wind up right behind those same bars within three years.

Maintaining a broken juvenile corrections system is clearly not cost-effective, and it does not effectively serve troubled kids or their communities. These extraordinarily high rates of re-offending indicate that troubled kids with mental health problems are not being properly identified and treated; our secure corrections facilities are not effectively counter-acting and correcting criminal behavior; and that kids who serve time are not being adequately monitored with proven interventions when they return to their communities.

The good news is that there are many innovative, proven, evidence-based approaches that, if implemented well, will reduce rearrests of juveniles, increase public safety, and save money.

Within the Department of Human Services **the Redeploy Illinois** program funds community based programs that are showing promise at reducing future crime by youth. In FY 09, Redeploy Illinois is only operating in 14 counties in Illinois. The following programs also show promise from a crime prevention perspective: the **Mental Health Juvenile Justice (MHJJ) Initiative** within the Division of Mental Health, Illinois Department of Human Services, and the **Illinois Children's Mental Health Partnership.**

**III. Shut down "Prime Time for Juvenile Crime" by assuring families access to youth development programs for the after-school and summer hours.** Research and evaluation across the country show that quality youth development programs can cut crime immediately and transform the Prime Time for Juvenile Crime (3:00 to 6:00 PM) into hours of constructive activities that teach youngsters the values and skills they need to become good neighbors and responsible adults**.**

Unfortunately, we continue to deny tens of thousands of youth and families in Illinois access to high quality after school programs like Teen REACH in the Illinois Department of Human Services. Current estimates are that after-school programs are only available for one out of every three school-aged children who need them. This leaves as many as 379,000 unsupervised youth in Illinois after the school bell rings every day.

The General Assembly should protect and expand funding for after school activities through **the Teen REACH program,** which makes available quality after-school opportunities for our school-age children.

**Health and Medicine Policy Research Group**
**Testimony Prepared for the Deficit Reduction Committee**
**March 10, 2009**

Health and Medicine is an independent not for profit policy center with 25 years of experience evaluating local and state health policy, with a special interest in the health of the poor and the underserved. Since 2001, we have been intimately involved in Illinois' long-term care (LTC) reform effort for older adults, working closely with providers, advocates, legislators, administrators and others in the shared effort to transform Illinois' long-term care system for older adults from one which is predominantly institutional to one that is primarily home and community-based, enabling most elders to age with independence, dignity and quality of life in the spaces and places they prefer: their homes and communities.

While we regret that it is budget deficits that are the cause of this testimony, we nonetheless are grateful for the opportunity to comment on the Healthcare and Human Services Budget Deficit. We strongly support maintaining current programs in home and community-based care for two primary reasons: it is cost saving and it responds to the deepest wishes of older residents of our state. These services include; Older Adult Services Programs, the Community Care Program, Elder Abuse and Neglect, Ombudsman, and Home Health Services. Maintaining these services will demonstrate an ongoing commitment to long-term care reform that the legislature has demonstrated since the passage of the Older Adult Services Act (PA-093-1031, hereafter OASA) in 2004. Services for older adults in the community reflect the needs and wishes of older adults and make good sense fiscally for the state. In the absence of community service networks, it is likely that older adults will be forced into institutions at a considerably higher cost to the state. Furthermore, services in the community generate jobs; hence, cuts to services will necessarily result in extensive job loss.

We recommend and support a fair increase in taxes or fees to protect these vital community services for older adults and their families in Illinois. It is critical—both morally and fiscally—to assure that we are not overspending for unnecessary institutional levels of care for individuals who would be happier and more appropriately and cost-effectively served in the community.

We urge you to maintain Older Adult Services Programs, the Community Care Program, Elder Abuse and Neglect, Ombudsman, and Home Health Services. We also ask you to look beyond these specific programs and consider how as a state we can maintain the overall share of long-term care resources we devote to community alternatives. The future well-being of older people, who require long-term care services, are importantly linked to the planning efforts that so many of us have undertaken under OASA.  We have a responsibility to assure that such efforts achieve real changes that are fiscally responsible. Above all, such changes would see more older adults in Illinois with long-term care needs not in nursing homes but in the community where they could be served more happily and cost-effectively.

With the population 85 years of age and older expected to double in Illinois over the next two decades, now is the time to start planning for a financing structure that invests the bulk of our public long-term care dollars where older people want to be: in the community. The benefits of maintaining current services far outweigh the consequences of cutting such programs for Illinois' current fiscal deficits and financial future.

Thank you.

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# ILLINOIS COALITION TO ABOLISH THE DEATH PENALTY

332 S. Michigan Ave. Ste. 500 • Chicago, Illinois 60604 • TEL. (312) 673-3816 • FAX (312) 427-6130

www.icadp.org



March 10, 2009

Dear Members of the Deficit Reduction Committee:

My name is Jeremy Schroeder and I am the Executive Director of the Illinois Coalition to Abolish the Death Penalty (ICADP). We are a statewide, grassroots membership organization committed to abolishing the death penalty and educating the public about the flaws and injustices in the Illinois capital punishment system. Illinois could save millions of dollars every year by abolishing the death penalty. I will focus on the costs of the death penalty, but I have also included a summary of national trends to abolish the death penalty in Appendix B.

The death penalty needs to be abolished in Illinois because it is cost-prohibitive. We need to use our scarce resources to make sure we are smart on crime by investing in personal and resources that make our communities safer and also care for victims of crime. The state's budget for Fiscal 2008 includes $16, 332,553 for the Capital Litigation Trust Fund, created by the General Assembly in 2000. Of those funds, $6,691,200 is allocated directly to Cook County. In the past five fiscal years, the Fund has been allocated just under $73 million. However, the Fund's expenditures are only part of the true cost of maintaining capital punishment in Illinois – a cost that is difficult to estimate. If the death penalty were abolished, these funds could be used to help fund other services to Illinois.

Death penalty cases are clearly more expensive at every stage of the judicial process than similar non-death cases. Everything that is needed for an ordinary trial is needed for a death penalty case, only more so:

- more pre-trial time will be needed to prepare: cases typically take a year to come to trial;
- more pre-trial motions will be filed and answered;
- more experts will be hired;
- twice as many attorneys will be appointed for the defense, and a comparable team for the prosecution;
- jurors will have to be individually quizzed on their views about the death penalty, and they are more likely to be sequestered;
- two trials instead of one will be conducted: one for guilt and one for punishment;
- in the state of Washington, the extra costs associated with the death penalty cases amounted to $463,000 per trial; in California, the extra trial costs in capital cases was about $1.2 million per trial; and
- the trial will be longer: a cost study at Duke University estimated that death penalty trials take 3 to 5 times longer than typical murder trials and then will come a series of appeals during which the inmates are held in the high security of death row.

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Many other states have looked at the costs of their death row and have found it to be much more expensive than the alternatives. Below are some of the finding. I have included parts of the original articles in Appendix A.

Maryland, Trial costs
- Taxpayers have paid at least $37.2 million for each of the state's five executions.
- The cost of a death penalty case is $1.9 million more than the cost of a non-death penalty case.
- At every phase of a case, according to the study, capital murder cases cost more than non-capital murder cases.
- The study found that taxpayers have paid an additional $71 million for 106 cases where the death penalty was sought but not given.

California, Prison costs
- Additional prison costs of death row vs. life without parole: $90,000 per inmate.
- Current system cost: $137 million, Cost of a system without death penalty: $11.5 million.

Washington, Trial costs
- The cost of a death penalty case is $470,000 more than the cost of a non-death penalty case.
- On direct appeal, the cost of appellate defense averages $100,000 more in death penalty cases, than in non-death penalty murder cases.

New Jersey
- The death penalty in New Jersey has cost taxpayers a quarter of a billion more than the costs of sentences of life without parole since 1983.

Tennessee
- Death penalty trials cost an average of 48% more than the average cost of trials in which prosecutors seek life imprisonment.

Kansas
- Death penalty cases are 70% more expensive than comparable non-death penalty cases when comparing the costs from trial through execution.

Indiana
- Total cost of Indiana's death penalty is 38% greater than the total cost of life without parole sentences.

North Carolina
- The death penalty costs North Carolina $2.16 million more per execution than the a non-death penalty murder case with a sentence of life imprisonment.

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Florida

- Florida would save $51 million each year by punishing all first-degree murderers with life in prison without parole.

In conclusion, the death penalty is an injustice at any price. There is no safeguard that an innocent person would not be put on death row. It does not deter crime. And for the sake of argument, for those who argue for a death penalty that is “just good enough”, the cost associated with a “safe” death penalty are too high to pay in any economic time and especially not now when all communities are hurting. Thank you very much for your time. Please do not hesitate to contact me with any questions.

Kind regards,

Jeremy Schroeder
ICADP
(312) 213-4142

**Appendix A- Articles used for cost analysis**

California
"The additional cost of confining an inmate to death row, as compared to the maximum security prisons where those sentenced to life without possibility of parole ordinarily serve their sentences, is $90,000 per year per inmate. With California's current death row population of 670, that accounts for $63.3 million annually."

Using conservative rough projections, the Commission estimates the annual costs of the present (death penalty) system to be $137 million per year.
The cost of the present system with reforms recommended by the Commission to ensure a fair process would be $232.7 million per year.
The cost of a system in which the number of death-eligible crimes was significantly narrowed would be $130 million per year.
The cost of a system which imposes a maximum penalty of lifetime incarceration instead of the death penalty would be $11.5 million per year.
Commission on the Fair Administration of Justice, June 30, 2008).

Maryland
MARYLAND New Study Reveals Maryland Pays $37 Million for One Execution
A new study released by the Urban Institute on March 6, 2008 found that Maryland taxpayers have paid at least $37.2 million for each of the state's five executions since 1978 when the state reenacted the death penalty. The study, prepared by the Urban Institute, estimates that the average cost to Maryland taxpayers for reaching a single death sentence is $3 million - $1.9 million more than the cost of a non-death penalty case. The study examined 162 capital cases that were prosecuted between 1978 and 1999 and found that seeking the death penalty in those cases cost $186 million more than what those cases would have cost had the death penalty not been sought. At every phase of a case, according to the study, capital murder cases cost more than non-capital murder cases.

The 106 cases in which a death sentence was sought but not handed down in Maryalnd cost the state an additional $71 million. Those costs were incurred simply to seek the death penalty where the ultimate outcome was a life or long-term prison sentence.

("Death penalty costs Md. more than life term," by Jennifer McMenamin, The Baltimore Sun, March 6, 2008).

Washington
At the trial level, death penalty cases are estimated to generate roughly $470,000 in additional costs to the prosecution and defense over the cost of trying the same case as an aggravated murder without the death penalty and costs of $47,000 to $70,000 for court personnel.
On direct appeal, the cost of appellate defense averages $100,000 more in death penalty cases, than in non-death penalty murder cases.
Personal restraint petitions filed in death penalty cases on average cost an additional$137,000 in public defense costs.
(FINAL REPORT OF THE DEATH PENALTY SUBCOMMITTEE OF THE COMMITTEE ON PUBLIC DEFENSE, Washington State Bar Association, December 2006).

New Jersey
Death Penalty has Cost New Jersey Taxpayers $253 Million
A New Jersey Policy Perspectives report concluded that the state's death penalty has cost taxpayers $253 million since 1983, a figure that is over and above the costs that would have been incurred had the state utilized a sentence of life without parole instead of death. The study examined the costs of death penalty cases to prosecutor offices, public defender offices, courts, and correctional facilities. The report's authors said that the cost estimate is "very conservative" because other significant costs uniquely associated with the death penalty were not available. "From a strictly financial perspective, it is hard to reach a conclusion other than this: New Jersey taxpayers over the last 23 years have paid more than a quarter billion dollars on a capital punishment system that has executed no one," the report concluded. Since 1982, there have been 197 capital trials in New Jersey and 60 death sentences, of which 50 were reversed. There have been no executions, and 10 men are housed on the state's death row. Michael Murphy, former Morris County prosecutor, remarked: "If you were to ask me how $11 million a year could best protect the people of New Jersey, I would tell you by giving the law enforcement community more resources. I'm not interested in hypotheticals or abstractions, I want the tools for law enforcement to do their job, and $11 million can buy a lot of tools." (See Newsday, Nov. 21, 2005; also Press Release, New Jerseyans for Alternatives to the Death Penalty, Nov. 21, 2005).

Tennessee
Study Finds Death penalty Costly, Ineffective
A new report released by the Tennessee Comptroller of the Treasury recommended changes to the state's costly death penalty and called into question its effectiveness in preventing crime. The Office of Research noted that it lacked sufficient data to accurately account for the total cost of capital trials, stating that because cost and time records were not maintained, the Office of Research was unable to determine the total, comprehensive cost of the death penalty in Tennessee." Although noting that, "no reliable data exists concerning the cost of prosecution or defense of first-degree murder cases in Tennessee," the report concluded that capital murder trials are longer and more expensive at every step compared to other murder trials. In fact, the available data indicated that in capital trials, taxpayers pay half again as much as murder cases in which prosecutors seek prison terms rather than the death penalty. Findings in the report include the following:

Death penalty trials cost an average of 48% more than the average cost of trials in which prosecutors seek life imprisonment.  Tennessee District Attorneys General are not consistent in their pursuit of the death penalty.  Surveys and interviews of district attorneys indicate that some prosecutors "use the death penalty as a 'bargaining chip' to secure plea bargains for lesser sentences."  Previous research provides no clear indication whether the death penalty acts as a method of crime prevention. The Tennessee Court of Criminal Appeals reversed 29 percent of capital cases on direct appeal.  Although any traumatic trial may cause stress and pain for jurors, the victims' family, and the defendant's family, the pressure may be at its peak during death penalty trials. (The Tennessee Comptroller of the Treasury Office of Research's Report, "Tennessee's Death Penalty: Costs and Consequences." July 2004)

Kansas

Study Concludes Death Penalty is Costly Policy

In its review of death penalty expenses, the State of Kansas concluded that capital cases are 70% more expensive than comparable non-death penalty cases. The study counted death penalty case costs through to execution and found that the median death penalty case costs $1.26 million. Non-death penalty cases were counted through to the end of incarceration and were found to have a median cost of $740,000. For death penalty cases, the pre-trial and trial level expenses were the most expensive part, 49% of the total cost. The costs of appeals were 29% of the total expense, and the incarceration and execution costs accounted for the remaining 22%. In comparison to non-death penalty cases, the following findings were revealed:

The investigation costs for death-sentence cases were about 3 times greater than for non-death cases.

The trial costs for death cases were about 16 times greater than for non-death cases ($508,000 for death case; $32,000 for non-death case).

The appeal costs for death cases were 21 times greater.

The costs of carrying out (i.e. incarceration and/or execution) a death sentence were about half the costs of carrying out a non-death sentence in a comparable case.

Trials involving a death sentence averaged 34 days, including jury selection; non-death trials averaged about 9 days.

(Performance Audit Report: Costs Incurred for Death Penalty Cases: A K-GOAL Audit of the Department of Corrections) Read DPIC's Summary of the Kansas Cost Report.

Indiana

Total cost of Indiana's death penalty is 38% greater than the total cost of life without parole sentences.  A study by Indiana's Criminal Law Study Commission found this to be true, assuming that 20% of death sentences are overturned and resentenced to life. (Indiana Criminal Law Study Commission, "Commission Report on Capital Sentencing," January 10, 2002)

North Carolina
North Carolina Spends More per Execution than on a Non-death Penalty Murder Case
The most comprehensive death penalty study in the country found that the death penalty costs North Carolina $2.16 million more per execution than the a non-death penalty murder case with a sentence of life imprisonment (. On a national basis, these figures translate to an extra cost of over $1 billion spent since 1976 on the death penalty. ("The Costs of Processing Murder Cases in North Carolina" Duke University, May 1993)

Florida
Florida Spends Millions Extra per Year on Death Penalty
Florida would save $51 million each year by punishing all first-degree murderers with life in prison without parole, according to estimates by the Palm Beach Post. Based on the 44 executions Florida has carried out since 1976, that amounts to an approximate cost of $24 million for each execution. This finding takes into account the relatively few inmates who are actually executed, as well as the time and effort expended on capital defendants who are tried but convicted of a lesser murder charge, and those whose death sentences are overturned on appeal. ("The High Price of Killing Killers," Palm Beach Post, January 4, 2000)

Florida Spent Average of $3.2 Million per Execution from 1973 to 1988
During that time period, Florida spent an estimated $57 million on the death penalty to achieve 18 executions. ("Bottom Line: Life in Prison One-Sixth as Expensive," Miami Herald, July 10, 1988)

Colorado
A bill is being introduced in Colorado to end the state’s death penalty and to use the resultant savings to investigate the state's more than 1,300 unsolved crimes. More than 500 residents who have lost friends and family to unsolved murders are pushing for the bill, which is expected to be introduced by House Majority Leader Paul Weissmann. The proponents estimate that 3 in 10 killers in the state walk free, and catching more killers would be a more effective deterrent than capital punishment and a better use of state funds. Weissman says abolishing capital punishment could save the state $2 million a year and local authorities another $2.5 million. “Any other program that cost that much and was used so little would be the first to go,” said Weissman, whose 2007 version of the bill died narrowly on the House floor. Howard Morton, of Families of Homicide Victims and Missing Persons, said, "Our position is very simple. Why talk about penalties when we haven't even caught [them]? Let's do first things first. These murderers are living in our neighborhoods."
The last execution in Colorado was in 1997, and was the only execution in more than four decades.
(J. Fender, “Bill targets Colorado’s death penalty,” The Denver Post, January 29, 2009).

## Appendix B – National Death Penalty Trends

### Death Penalty Usage - Developments

By just about every measure, the death penalty in the U.S. appears to be on the decline. Executions, which had been on hold due to a lethal injection challenge before the U.S. Supreme Court, resumed in 2008. However, despite the Court's decision, which lifted what was essentially a national moratorium, in most states, executions have been slow to resume. There were 37 executions in 2008, a 14 year low.[1] The vast majority of those executions took place in the South, with **Texas** accounting for almost half.

Meanwhile, stays of executions were frequent as Courts continued to address legal issues involving mental illness and other mitigating factors, adequacy of counsel, lethal injection challenges, and other issues unique to capital punishment.

New death sentences, which have been declining since 2000, continued a downward trend in 2008.[2] This multi-year decline in death sentencing is seen in every region of the country and even in the states with recent histories of high usage. In **North Carolina**, just one individual was sentenced to death in 2008. To provide a comparison point, in 1996 there were thirty-four death sentences in that state.[3] **Texas** has also seen a significant drop in death sentences. Eleven persons were sentenced to death by Texas juries last year, the lowest number since 1976 and since a marked decline in new death sentences began there in 2005.[4]

In the policy arena, two states – **New York** and **New Jersey** - recently abandoned the death penalty, choosing instead life without possibility of parole. Several states created commissions in 2008 to study the death penalty. **Maryland's** commission recommended that the state repeal its death penalty law. The Maryland Legislature is expected to take up a repeal bill in the coming weeks. In **Tennessee,** a commission recommended a number of reforms to try to improve the death penalty system, which has been criticized for failing to provide adequate legal representation for condemned inmates who could not afford their own lawyers.[5]

A number of commissions and courts highlighted the death penalty's high cost as a problem area. In **California**, a commission found that it cost the state $138 million each year to maintain its death penalty system. In **New Mexico**, the state Supreme Court ruled that death sentences couldn't be pursued unless the Legislature

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1 "2008 Decline in U.S. Executions Has States Reflecting on Capital Punishment," Kansas City Star, January 4, 2009

2 Ibid.

3 "In N.C., Death Penalty Gets Rarer," News Observer, December 30, 2008

4 "Is Texas Changing It's Mind About the Death Penalty?," Time Magazine, December 23 2008

5 Associated Press, "Committee offers plan to improve death penalty system," December 9, 2008

provided adequate funding for defense services for indigent defendants in capital cases. **Utah**'s Supreme Court also weighed in on the necessity of adequate counsel for defendants facing death. In a unanimous decision, the Utah Justices warned that the state could see death sentences reversed because low salaries have reduced the numbers of attorneys willing and able to take on capital appeals, which are very complex.[6]

The decline in death penalty usage appears to be caused by a number of factors, including awareness on the part of the public that mistakes have been made that have resulted in the sentencing of innocent individuals to death.[7] Since 1973, 130 individuals in twenty-six states have been exonerated of the crimes for which they were sentenced to die.[8] A review of these cases reveals a number of factors contributing to exonerations, for example, jailhouse snitches and mistaken eyewitnesses.

Concerns about accuracy in death sentencing may be contributing to what appears to be growing juror reluctance to impose death. Over a six month period from December 2007 to May 2008, **North Carolina** saw three death row inmates exonerated based on new evidence. Problems in the cases included withheld evidence, false testimony, and ineffective assistance of counsel. The media coverage of these exonerations may have influenced jurors, who in 2008 rejected death in twelve of thirteen capital trials.[9] **California,** which has exonerated three death row inmates, and **Florida,** which has had twenty-two exonerations, are among the states that have experienced the greatest declines in death sentencing over the last decade

Whatever the reasons behind it, the trend of jurors increasingly rejecting death is notable because the law says only those willing to sentence someone to die are qualified to serve on a capital jury. This process, known as "death-qualifying" a jury, has become more costly and challenging as attitudes toward capital punishment have shifted, in turn making it harder for judges to find a jury willing to sit on a death penalty case. With national and state public opinion polls registering drops in support for capital punishment - possibly a result of influential groups such as the U.S. Catholic Conference of Bishops increasing efforts to oppose the death penalty -

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6 Reversals, which are common in capital cases, do not always reflect the guilt or innocence of the offender. In most cases, they are caused by a serious legal error. The majority of cases reversed on appeal result in a new sentence of something less than death. Reversals directly impact the stakeholders in the justice process, including the families of murder victims, who must endure resulting delays and resentencing.

7 63% of voters surveyed in a May 2006 Gallop poll said they believe that an innocent person has been executed in the past five years

8 List maintained by the Death Penalty Information Center, Washington, DC, www.deathpenaltyinfo.org

9 "In N.C., Death Penalty Gets Rarer," News Observer, December 30, 2008

the task of finding death qualified jurors may become even more difficult in the future.[10]

Another possible reason for the decline in the use of the death penalty is that prosecutors appear to be seeking it less often. Tom Horner, president of the **North Carolina** Conference of District Attorneys, attributed decisions not to seek death to frustration over delays caused by lethal injection challenges, which remain unsettled in some states, and also to the time and expense involved in capital cases.[11]

Prosecutors in **Ohio** are also seeking death less often. An Associated Press survey of Ohio prosecutors found two reasons for this change: the passage of a 2005 law that allows prosecutors to pursue a life without parole sentence without first seeking the death penalty, and the death penalty's cost. The AP estimated the extra county costs involved at the trial level at about $100,000 per capital trial, no matter how large or small the county or budget.[12]

## Impact on States - Financial

The financial costs associated with capital punishment have always been high and this is unlikely to change, even as usage declines.[13] With the recession, few county prosecutors and other officials responsible for government expenditures can or should ignore its fiscal impact on their budgets, especially as the economy contracts and tough spending choices must be made.

Media reports indicate that some states and counties are struggling to meet court orders that require monies that aren't there. The state of **New Mexico** was forced to drop its pursuit of the death penalty against two defendants because the state legislature did not provide the money necessary for adequate representation of the defendants. In **Louisiana,** the Orleans Parish District Attorney's office may file for bankruptcy because of a 14 million damages award, recently upheld on appeal, stemming from the office's misconduct in a death penalty case that ultimately ended in an exoneration of a man who had spent fourteen years on death row.[14]

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10 The United States Conference of Catholic Bishops Campaign to End Capital Punishment in the United States, with polling at www.ccedp.org

11 "In N.C., Death Penalty Gets Rarer," News Observer, December 30, 2008

12 "Ohio prosecutors using new life without parole option,"Akron Beacon Journal, June 22, 2008

13 A March 2007 study by the Urban Institute found that Maryland, a relatively low-usage state, paid at least $37.2 million for each of the state's five executions since 1978 when the state reenacted the death penalty. The report also found that obtaining a death sentence in Maryland costs approximately $3 million for each sentence, or $1.9 million more than the cost of a non-death penalty case.

14 "Orleans Parish DA's Office Faces Bankruptcy," MSNBC.com, January 8, 2009

Fiscal concerns are leading some state leaders to question whether expenditures on the death penalty are the best use of scarce resources. Norm Stamper, a 35-year veteran police officer from San Diego, **California** would rather see funds now spent on the death penalty instead spent on "after-school programs, mental health care, drug and alcohol treatment, education, more crime labs and new technologies, or on hiring more police officers…" [15]

### Impact on States – Murder Victims Families

For many victims' families, the complex appeals, which are required by the U.S. Supreme Court, and the resulting delays, reversals, and stays of execution, are reason to reject capital punishment in favor of sentences of life in prison. During **New Jersey's** abolition bill hearings, sixty family members who have lost a close relative to murder, including some who had been through the death penalty process, signed onto a letter to the New Jersey Death Penalty Study Commission supporting repeal of the death penalty law. The letter stated, "To be meaningful, justice should be swift and sure. The death penalty is neither."[16]

In recent hearings in **Maryland**, Kathy Garcia, a veteran victims' advocate whose nephew was murdered twenty years ago, testified about the impact of the death penalty's cumbersome process on survivors. In addition to the long delays, which she argued are damaging because they prolong the survivors connection to the criminal justice system and thus to the offender, she explained that the death penalty can cause divisions in families that include members with varying views on capital punishment. Noting that her experience included assisting families that have been through the capital process, Garcia said, "I've watched too many families go through this to make me believe the system will ever work."[17]

### Impact on States – Concern about Fairness

According to the latest Gallup national poll, conducted in October 2008, 54% of Americans believe that the death penalty is applied fairly in this county and 38% think it is applied unfairly. Questions of who gets death have led some states to conduct studies to determine how capital charging decisions are made. Most of these studies have revealed geographic disparities in the application of the death penalty, and some suggest that the system is also racially skewed.

A 2007 report from the **Maryland** Commission on Capital Punishment, chaired by former U.S. Attorney General Benjamin R. Civiletti, found that death sentences are often tied to the race of the defendant and victim or the location where the murder occurred. For example,

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[15] "Death penalty wastes money, while failing to reduce crime," The Mercury News, Nov. 19, 2007

[16] New Jersey Death Penalty Study Commission transcripts at www.njleg.state.nj.us/legislativepub/pubhearings2006.asp#DPSC

[17] "Murder victims' families say death penalty exacts toll on their lives," Catholic News Service, March 12, 2008

among Maryland cases where the death penalty is an option, blacks who kill whites are two and a half times more likely to be sentenced to death than whites who kill whites, and three and a half times more likely than blacks who kill blacks.[18]

A 2008 study of the death penalty in **Arkansas** also showed racial patterns in sentencing. The study examined 124 murder cases filed in one district from 1990 to 2005. After adjusting for a variety of factors, researchers found that black people who killed white victims were most likely to be charged with capital murder and sentenced to death. Of the 66 death-eligible cases studied, blacks were defendants in only 38 cases, but nine of the 10 defendants for whom prosecutors sought a death sentence were black. Similarly, whites were victims in only 35 of the cases, but they were the victims in seven of the 10 cases in which the death penalty was sought.[19]

Death penalty proponents argue that these kinds of racially disparate outcomes are a result of "geographic disparity," or differences in charging decisions from county to county. Opponents argue that geographic disparity is a problem in and of itself. They further argue that there is evidence that racial bias is a problem even when accounting for geography. Regardless, questions about how the death penalty is applied have received and will likely continue to receive quite a bit of attention in death penalty states.

## Summary

The death penalty is in decline across the U.S. Death sentences and executions are down. Several states are reexamining their death penalty laws. Others continue to grapple with problems stemming from lingering legal uncertainty over lethal injection and other issues, such as mental illness. New York and New Jersey recently abandoned capital punishment in favor of life without parole. Maryland is considering a similar measure. This retreat appears to be driven by a number of factors, including awareness of mistakes that have sent innocent persons to death rows, questions of whether the death penalty is fairly applied, fiscal concerns about whether it is the best use of law enforcement dollars, and concerns over delays and complications unique to capital punishment.

[18] Final Report, Maryland Commission on Capital Punishment, http://www.goccp.org/capital-punishment/

[19] "Study indicates pattern in sentences," Arkansas Democrat-Gazette, September 8, 2008

AIDS Foundation
OF CHICAGO

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**Testimony to the Illinois Senate Deficit Reduction Committee**
**Submitted by John Peller, Director of Government Relations, March 10, 2009**

Thank you for the opportunity to submit written testimony for the Deficit Reduction Committee. The AIDS Foundation of Chicago is

1. ***What areas of the state budget are you interested in protecting and why are those areas important?***

The HIV/AIDS epidemic continues to affect tens of thousands of Illinoisans and creates urgent public health challenges across our state. Despite the nation's recession, now is not the time to let down our guard against HIV/AIDS.

**The HIV/AIDS epidemic is larger and more complex than ever.** More than 42,000 state residents are living with HIV, including an estimated 8,000 – 10,000 individuals who do not know they are HIV-positive. An estimated 3,000 new HIV infections occur in Illinois each year. African Americans account for half of all new HIV diagnoses in Illinois; Latinos account for an additional 13% of new cases of HIV. 80% of female HIV cases occur among women of color. Sustained HIV prevention and care services are especially important for low-income communities where the effects of the recession are most acute.

**Illinois is making important progress against HIV/AIDS.** Thanks to state and federal resources, Illinois has a comprehensive AIDS Drug Assistance Program (ADAP), which provides HIV-related medications to more than 4,000 state residents who lack adequate healthcare or the means to afford lifesaving HIV medications. Strong public health leadership has allowed Illinois to achieve universal access to voluntary HIV testing for pregnant women and one of the lowest rates of mother-to-child transmission in the nation. Furthermore, proven HIV prevention has reduced injection-drug-related HIV infections by 40% from 2003-2007. Illinois invests more than $26 million in the response to HIV/AIDS. The federal government matches the state's investment more than 3 to 1.

**Many critical challenges remain in Illinois' fight against HIV/AIDS.** Expanded HIV prevention efforts are needed to curb HIV transmission among gay men and other men who have sex with men (MSM), particularly MSM of color. 1 in 4 HIV infections occurs among women, a rate that has more than doubled in the past 10 years. Cases among teens and young adults have increased in the past 5 years; meanwhile cases among people over age 50 have also increased. Illinois must better target current HIV prevention funds to reach greater numbers of at-risk individuals, and invest in HIV prevention interventions that go beyond HIV testing. Furthermore, Illinois must do more to help individuals who know they are HIV-positive gain access to medical care to ensure they can benefit from life-saving treatments.

**Illinois' investment of state funds for HIV prevention and care increases competitiveness for federal funding.** Illinois receives over $100 million each year in federal HIV prevention and treatment funds (excluding Medicaid and substance abuse treatment). The state's investment of $26 million in general revenue funds fills gaps in federal funding and allows the state to provide wrap-around HIV prevention and treatment services; provides increased flexibility to local health departments and community-based agencies providing services; and strengthens the state's ability to conduct surveillance and disease reporting activities needed to leverage increased federal funding.

**2. What revenue enhancements would you recommend be implemented to support those areas?**

The AIDS Foundation of Chicago believes that all revenue enhancements need to be thoroughly considered. However, AFC urges legislators to ensure that revenue enhancements are (1) fair to individuals at different income brackets, ensuring lower-income families shoulder less burden than higher-income families; (2) stable amid economic fluctuations; and (3) broadly diversified to minimize the impact on consumers and businesses.

**Concerns related to cost-cutting in state healthcare programs:** The AIDS Foundation of Chicago believes that managed care is not the solution to the state's budget problems. Managed care programs in Illinois have a history of saving money by denying care, not improving health by focusing on primary care and prevention. Instead, Illinois should continue to focus on improving and expanding existing cost containment initiatives. These include the primary care case management program (Illinois Health Connect), which links patients with primary care providers to ensure that one health care provider is responsible for managing an enrollee's care, and the state's disease management program (Your Healthcare Plus), which provides services to the most expensive and sick Illinois Medicaid patients to encourage primary and preventive care utilization, coordinates care among specialists, and educates patients to care for themselves.

For more information contact John Peller at (312) 719-6208 or jpeller@aidschicago.org.

# Testimony for Hearing of Committee on Deficit Reduction

**March 10, 2009**

Written Testimony of Alternatives for the Older Adult
Moline, Illinois

Thank you for consideration of comments on the difficult decisions that the legislature faces when they address the current State budget crises. Controlling costs and setting priorities is a necessity in tight budget years. Many of the State's expenditures are crucial to provide basic services to Illinois' citizens. Based on 25 years experience in providing aging services at Alternatives for the Older Adult, our organization is deeply concerned about the continuation of high priority services to frail older adults. We encourage the protection of key Il Department on Aging programs that safe-guard the health and welfare of vulnerable older adults. Alternatives recommends that the following programs be priorities and continued at recommended service levels:

- Protective Services for Elder Abuse and Neglect - Elder Abuse is a growing but often hidden problem of vulnerable older adults. Elder victims are beaten, burned, neglected, financially exploited, confined and even killed. It is essential to maintain the program that provides investigation, interventions and coordinates with law enforcement to alleviate elder abuse and neglect in the community.

- Comprehensive Care Coordination and Community Care Programs assists older adults who have disabilities which limit their activities of daily living, to remain at home. Because of these services, older adults with limited abilities can avoid the costly option of institutionalization. Comprehensive Care Coordination provides evaluations to access all services and benefit programs to assist them and then develops and monitors appropriate and cost effective care plans. Community Care Homemaker, Emergency Response and Day Treatment assist with daily care needs. For these frail older adults, a cut in any of these services would most likely mean individuals would have to enter the nursing home under Medicaid.

- Ombudsman Program provides advocates to resolve the complaints of nursing home residents and to assure residents' rights in licensed care facilities

- Home Delivered Meals meet the basic meal preparation needs of many homebound elders.

The above mentioned programs compose an essential community based network to support vulnerable older individuals in Illinois.

The setting of priorities and control of costs may not be adequate to balance the budget. In this recession, there are limited means to raise revenues to meet the costs of essential services. It seems apparent that one of the few viable State revenue options is a fair income tax increase that will allow the State to meet its budget.

Thank you for the opportunity to submit testimony.

Karen Freda CEO Alternatives for the Older Adult

**Written Testimony of Patrick M. Magoon**
**President and CEO**
**Children's Memorial Hospital**

**Subject Matter Hearing:**
**Healthcare and Human Services Budget Deficit and Revenue Shortfall**
**Tuesday, March 10, 2009**
**9:00 a.m.**
**212 Capitol**

My name is Patrick Magoon and I have the privilege of serving as President and CEO of Children's Memorial Hospital in Chicago, Illinois. Thank you for the opportunity to present written testimony to the Senate Deficit Reduction Committee.

As the largest provider of pediatric care to the Illinois ALL KIDS program, Children's Memorial Hospital believes rate and service reductions in the under-funded state Medicaid and SCHIP program should be avoided. Children's Memorial Hospital supported the hospital assessment and worked with Department of HealthCare and Family Services, the General Assembly, the Illinois Hospital Association and individual hospitals to pass and support this program over the assessments many iterations. Children's Memorial also worked at the federal level to reauthorize the State Children's Health Insurance Program (S-CHIP) and increase funding for the program.

In addition to avoiding cuts in areas effecting health care for children, Children's Memorial believes the status of payment to pediatric specialists is resulting in a severe lack of access to necessary medical care for low income children with severe medical problems. A new study conducted by the Center for Studying Health System Change called " Do Reimbursement Delays Discourage Medicaid Participation by Physicians?" examined the effect of variation in average reimbursement across states on physicians' willingness to accept Medicaid patients, finding that payment delays can offset effects of higher payment rates on physician participation. The study was funded by the Robert Wood Foundation found that although low fees discourage physicians from treating Medicaid patients, payment delays also plays an important role in physician decisions to avoid Medicaid patients. Children's Memorial is working with the General Assembly again this year by proposing HB 2343 and SB 1515 which would increase the Medicaid rates paid to these physicians over the next three years. Attached is a fact sheet on HB 2343 and SB 1515 and we respectfully request bi-partisan support on this critical initiative.

Children's Memorial realizes that both protecting existing funding and making necessary physician rate increases require State resources in addition to the taxes and federal programs we have already so strongly supported. We have discussed various changes to sales tax (soda pop) and other sources in the past and have concluded that specific tax proposals are not easily identifiable within the hospitals area of expertise and resources. We do understand the need for revenue increases and enhancements and would consider a number of revenue options.

Thank you for your consideration.

# Protect Illinois Children's Access to Health Care

## Increase Medicaid Reimbursement Rates for Pediatric Specialists
## Please Support SB 1515 and HB 2343

**February, 2009**

The health of very sick children insured by Medicaid is at great risk because these children have difficulty finding a pediatric specialist that will care for them at the rate that Illinois Medicaid reimburses: just under 35 cents for every $1 they spend. While these children may hold an ALL KIDs card, they often cannot get an appointment with a specialist or if they can, they must drive several hours to get to a doctor who will see them.

In addition, there is a critical shortage of pediatric specialists both at the state and national level. Illinois' ability to attract and retain these essential specialists in is jeopardized by seriously inadequate Medicaid reimbursement. Failure to attract these specialists and keep them here hurts ALL Illinois children, not just those covered by Medicaid.

The We Care for Illinois Kids Coalition has been working with our partners in the General Assembly to help the children who desperately need specialty care and the physicians who have continued to care for their patients despite suffering serious, unsustainable financial losses each year.

As of February 1st, a slight rate increase took effect for pediatric specialists. While we appreciate this increase, physicians will still be reimbursed just under 35 cents (up from 33 cents) for every dollar they spend to care for children insured by Medicaid. Continuing to inadequately fund treatment by specialists prevents essential access to medical care and threatens the life and health of our children. We need a more sustainable solution.

Last year, under the sponsorship of State Representative Susana Mendoza, Majority Leader Barbara Flynn Currie, and joined by 20 of their House colleagues from both sides of the aisle, we supported HB 5331. This bill would have phased in modest payment increases to these physicians, resulting in rates that would cover 66% of a doctor's costs.

As the 2009 session of the Illinois General Assembly begins, and under the administration of a new Governor, the We Care for Illinois Children Coalition is committed to continuing to seek absolutely essential funding for pediatric specialty care.

We ask you to serve as our champion and stand with us on behalf of the children who need these specialty services, and the fine physicians who care for them.

**For more information about this critical issue, go to www.wecareforillinoiskids.org or contact Susan Hayes Gordon at 773-314-3789.**

**Organizations Supporting**
**HB 2343 and SB 1515**

La Rabida Children's Hospital, Chicago

University of Chicago Comer Children's Hospital

Children's Memorial Hospital, Chicago

American Academy of Pediatrics, Illinois Chapter

Health and Disability Advocates

Illinois Maternal and Child Health Coalition

Illinois Hospital Association

Illinois State Medical Society

Children's Hospital of Illinois, Peoria

Northwestern Memorial Hospital

Voices for Illinois Children

Mount Sinai Hospital, Chicago

Advocate Health System

Chicago Medical Legal

Partnership for Children

Ounce of Prevention Fund

Rush Medical Center

Children's Memorial Faculty Practice Plan

Illinois Medical Group Medical Association

Resurrection Health Care, Chicago

Sargent Shriver National Center on Poverty Law

# FACING FACTS 2009

## AN UPDATED REPORT ON THE STATE OF ILLINOIS' FISCAL CRISIS

Civic Committee of The Commercial Club of Chicago
February 2009

*The Commercial Club of Chicago*

Founded 1877

**Task Force on State Finance**

**Civic Committee of The Commercial Club of Chicago**

Chairman, W. James Farrell

Donald G. Lubin

Julian C. Mack

John W. Madigan

R. Eden Martin

Andrew J. McKenna

Bruce V. Rauner

Richard L. Thomas

David B. Weinberg

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**Prepared with the Assistance of:**

J. Thomas Johnson, Taxpayers' Federation of Illinois

Laurence J. Msall, Civic Federation

Allen H. Steinberg, Hewitt Associates

McKinsey & Company, Inc.

## EXECUTIVE SUMMARY

In December 2006 the Civic Committee of The Commercial Club of Chicago released its Task Force report on Illinois State Finance, entitled *Facing Facts*. In that report we showed that Illinois was heading rapidly toward financial implosion:

1. Illinois each year was spending or committing to spend billions more than it was taking in; fully funding its true costs and increasing commitments (including its commitment to K-12 education) would require about $5.9 billion more per year in annual funding; and

2. Illinois' accumulated liabilities and unfunded commitments exceeded its assets by over $100 billion.

We urged officials in both the Governor's office and the Illinois Legislature to recognize these financial realities and to make the tough decisions that would be necessary to bring our revenues and costs into balance;

a) Cut costs – including the costs of the pension and retiree health care benefit programs that were responsible for a large part of the unfunded commitments. Unnecessarily expensive pension programs and health care benefits should be trimmed and brought into line with the benefit levels available in the private sector – those available to most of the State's taxpayers who pay the bills. Substantial other savings could be achieved through outsourcing, restructuring of State services, and better and tougher management.

b) Not raise taxes – unless and until reforms were implemented in the areas of pensions, retiree health care, and education, and until the State reduced its other costs dramatically. We also opposed any increase in taxes unless the proceeds would be used to meet the State's existing commitments, rather than launching expensive new programs.

In the two years that have passed since we issued our report, two facts are striking. One is that no one in State government disagreed with our central findings or conclusions.[1] Another is that little has been done to reduce the annual operating shortfall or the growing burden of unfunded obligations. Our report was complimented – even cheered – but little if anything was done. Instead, during the intervening two years, the State's financial position has deteriorated dramatically.

Part of this deterioration occurred in the ordinary course of business, as State Executive branch and Legislative officials wrangled over budget and spending priorities. The State's operating budget for the current fiscal year (FY2009), starting July 1, 2008, was seriously out of balance, and the State's unfunded obligations had continued to grow, even before the dramatic stock market collapse and the unprecedented credit crunch in the fall of 2008. To make matters worse, in August 2008 Governor Blagojevich awarded the State's principal labor unions a 15+ percent increase in wages over the next four years, with no reforms in pensions or retiree benefits.

[1] Governor Blagojevich's office claimed that we overstated the State's retiree health care obligations, but their calculations apparently omitted many employees or retirees entitled to retiree benefits.

With the onset of the recession, the deterioration in both the State's operating budget and balance sheet has greatly accelerated:

1. Full funding of Illinois' true costs and growing commitments (not including K-12 education) would now require an increase in the annual operating budget of more than $8 billion per year; and

2. Illinois' liabilities and unfunded commitments now total an estimated $116 to $132 billion.

These economic hard times would have been difficult enough for serious, responsible State executives. The chaotic and hostile relations between Governor Blagojevich and other State leaders made dealing with these problems virtually impossible. The legal and political problems swirling around the Governor, and the associated distractions, made them even more intractable. At a time urgently requiring tough-minded leadership in the Executive branch, literally no one was minding the store.

But the real problems go far deeper than Governor Blagojevich's alleged pay-to-play practices and apparent attempt to barter away a Senate seat. The reality is that politicians in both major parties, over many years, have failed to manage the State's affairs and finances consistent with the interests of the people who live and work in this State. They have ducked anything that resembled a hard choice. They have managed the State's affairs to promote their own interests and political fortunes – by providing unsustainably costly benefits to the State's employees and enriching influential contractors, by passing popular but expensive programs, and by shifting the cost burden of these programs to the future through borrowing or by simply ignoring the growing unfunded commitments.

Governor Blagojevich is now history. But his impeachment will not end corruption in Illinois, nor will it begin to solve our State's fiscal problems.

Other states are taking urgent steps to stop their own fiscal bleeding. We have done nothing here in Illinois. The new Governor and our Legislative leaders in Springfield must quickly come together to draw up the emergency measures necessary to restore some semblance of fiscal sanity in the short run, and to plan the steps for long run cost-cutting, reform and other measures that are needed to address our serious financial problems.

One of the many lessons from our country's current financial and economic crisis is that a failure to act brought unsound actions to a tipping point. When a financial tipping point is reached, it becomes impossible to contain the spread of economic damage or quickly remedy the situation. Illinois is dangerously close to a financial tipping point with unfunded debts of over $116 billion—amounting to roughly $10,000 per resident, if not more. Government inefficiencies and deficit budgeting will increase this by up to $10 billion per year. Unless urgently-needed steps are taken, Illinois will soon reach a point of no return. The State will not have sufficient resources to carry out basic public functions or keep its financial obligations to retired public employees. This is a problem that will be faced by the current generation of elected officials and residents of Illinois.

The time to act is now!

## INTRODUCTION

In our *Facing Facts* report issued in December 2006, we did three things: (1) reported the facts bearing on Illinois' fiscal condition – its unbalanced operating budget and the growth in its unfunded obligations; (2) described the areas of the budget responsible for the growth in these obligations (pensions, retiree health care, Medicaid, education) and proposed reforms and efficiencies that would enable the State to reduce these and other costs; and (3) analyzed revenue proposals advanced by others and opposed any tax increases without needed reforms and cuts in existing programs.[2]

In this fresh look at Illinois' finances we provide an updated look at the facts; and we renew our recommendations – which are now even more urgently needed in light of the greater seriousness of the State's problems and the current economic upheaval.

### *I. The Gap between Illinois' Annual Costs and Own-Source Revenues Has Grown Dramatically Since Our Report Two Years Ago.*

Two years ago (FY2007) Illinois' own-source revenues and expenses – the portion of the overall budget over which the State has discretion and autonomy – amounted to approximately $28.8 billion. On a "cash basis" the State's budget looked "balanced." There was approximately as much money coming in as going out.

The problem was that some of the revenues were borrowed, and some of the costs being incurred (including commitments being made) were being ignored. When one took into account the State's true costs during FY2007 – including the amounts by which the State's pension, retiree health care and Medicaid commitments were increasing – the gap between revenues and costs was approximately $4.3 billion. If one added the unkept "commitment" (by statute) to fund K-12 education at a minimum "foundation" level, the gap between revenues and costs enlarged to approximately $5.9 billion per year – about 20% of the State's annual revenues.

Today (FY2009) there is not even a pretense that the State's budget is "balanced." Even on a "cash basis," at the beginning of the fiscal year (July 1, 2008) there was a projected budget deficit of approximately $2.4 billion. Despite the State Constitutional requirement for a balanced budget, this unbalanced budget was passed by the General Assembly and signed into law by the Governor.

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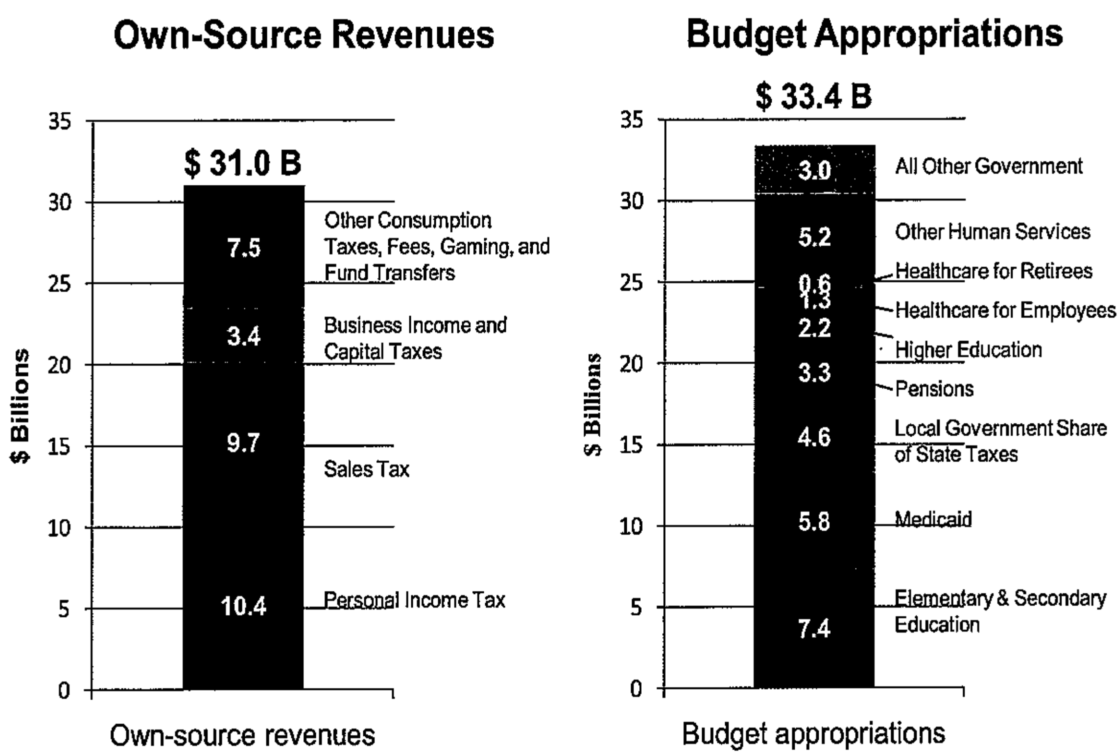
[2] The Commercial Club of Chicago is a group of approximately 325 business and civic leaders in the greater Chicago area. The Civic Committee of the Club includes approximately 90 CEOs of Chicago-area companies, professional firms and not-for-profit entities. Through projects and reports such as the historic Burnham Plan for Chicago in 1909, the Club and its Civic Committee have historically sought to help make Chicago and Northern Illinois a better place to live and conduct business.

## Illinois Own-Source Revenues and Spending 2009 Budget




Source: Taxpayers' Federation of Illinois.

Moreover, this "cash-basis" gap of $2.4 billion does not take into account two things: (1) the budget was based on revenue projections that were unrealistic when made (in mid-2008) – and have now become even more dramatically overstated in the wake of the credit crunch that has gripped the State since the fall of 2008; and (2) the expenses reflected in the budget – like the version in FY2007 two years ago – do not include a full measure of the State's increasing commitments in the form of pension costs, retiree health care costs, and unpaid Medicaid bills.

When these two factors are taken into account – the revenue shortfall and the unfunded pension and retiree health care commitments and unpaid Medicaid bills – the real *annual* budget gap is increased from $2.4 billion to over *$8 billion.* If one adds the failed commitment to fund K-12 education at the recommended "foundation" level, the gap grows to *$9.6 billion.*

### A. Revenue Growth Assumptions

The Governor's office and Legislature assumed that revenues would grow by $500 million in FY2009 compared to the prior fiscal year. That assumption was optimistic even when the new fiscal year began – July 1, 2008. In light of the unprecedented credit crunch that struck the entire country last fall, it is clear now that tax revenues (income tax and sales tax) will be sharply reduced – perhaps in the range of $1 billion, if not more – below original projections. Gaming revenues will also be down. (Estimate from Comptroller Hynes' "Transitional Fiscal Report/FY 2010 Budgetary Outlook," February 2009.)

Thus, just on a cash basis, it is likely that the State's budget gap this fiscal year may be in the range of $3.4 billion – and that is before taking into account the growth in unfunded commitments and unpaid bills.

Such a decline in Illinois revenue collections would be consistent with the experience of the past few months and in previous recessions. Tax collections for FY2009 are already well below original projections. Reduced sales taxes, personal income taxes and corporate taxes were all experienced in Illinois during our last recession – from 2001 to 2002. Unemployment levels in Illinois are already over 7% – above those reached during the last recession. Real disposable personal income among Illinois citizens has fallen in three out of the past six quarters; and this decline will surely continue in the quarters to come. And sales tax revenues are declining, as reflected in the decline in retail sales.

### B. Pension Costs

Our report two years ago explained that Illinois has systematically underfunded its pensions for years. The pension payment schedule adopted by the State in 1995 was not based on an actuarial estimate or determination of how much the State should contribute each year to cover its pension costs. Instead, it was based on what the State decided it could comfortably afford to contribute. So the funding schedule back-end loaded its pension costs. In effect it pushed off costs being incurred today (in the form of commitments) to future generations of taxpayers.

This back-end loading is reflected in the unfunded liability for pensions that is projected to grow for at least 20 years – even if the State were to adhere to the 1995 payment schedule.

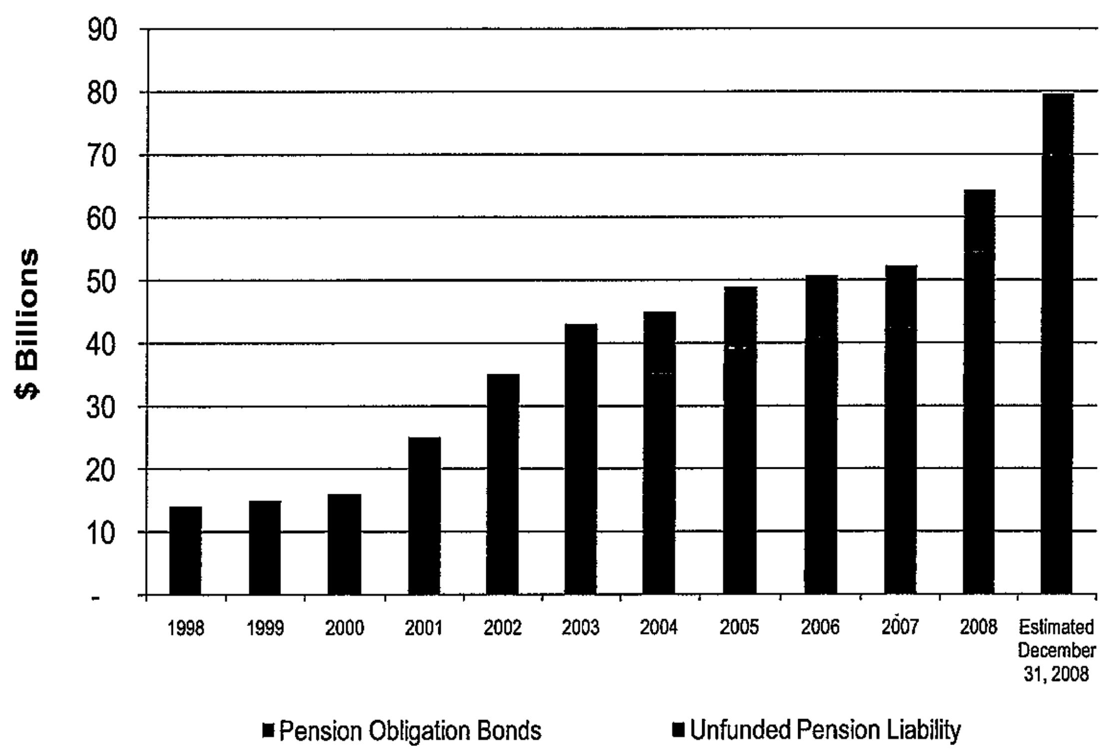
In fact, the State has not adhered to that schedule, but has instead in recent years re-jiggered the schedule and reduced annual pension contributions – moving even further away from an actuarially-sound funding plan.[3]

The net result of the State's historical underfunding, as well as recent negative asset returns, has been an explosion in the State's unfunded pension obligations – from around

[3] In FY2003 the State borrowed $10 billion in pension obligation bonds and put only $7.3 billion of the proceeds directly toward the unfunded liability. After using $500 million in bond proceeds to pay transaction fees and first-year interest on the bonds, the State then used the remaining $2.2 billion to pay part of its pension contribution in FY2003 and the entire FY2004 pension contribution – thus using debt to pay current costs. In FY2005 the pension contribution was underfunded by $300 million. In FY2006 the General Assembly passed some benefit reductions and then underfunded the pension contribution by $1.2 billion. In FY2007 the pension contribution was underfunded by $1.1 billion.

$15 billion in the late 1990's to an estimated *$70 billion*, along with an *additional $9.9 billion* in outstanding pension bonds, as of December 31, 2008 – bringing the total to $80 billion. The State uses an 8.5% discount rate to bring the entire stream of future pension payments back to a "present value." Use of a lower and arguably more economically-appropriate discount rate would dramatically increase the estimated "present value" of the unfunded obligation. Much of this recent increased underfunding is, of course, due to the collapse of the stock market in the fall of 2008 and the impact on asset values in the pension funds.

## State Unfunded Pension Liability and Pension Obligation Bonds




Source: "2007 Bonded Indebtedness Report of the State of Illinois," January 2008,Commission on Government Forecasting and Accountability; "Report on the Financial Condition of the State Retirement Systems," February 2008, Commission on Government Forecasting and Accountability; "Report on the Financial Condition of the State Retirement Systems," July 2007, Commission on Government Forecasting and Accountability; 2008 unfunded liability from November 2008 Monthly COGFA Briefing; December 31, 2008 unfunded liability is based on estimated State pension fund asset values as of December 31, 2008 and a recent COGFA estimate of the total pension liability at the end of FY 2008; Historical unfunded liability data from Senate GOP staff.

How much of a shortfall is there between (1) the amount the actuaries say the State should be contributing to the pension funds each year, and (2) the amount it is *scheduled* to contribute in the current fiscal year – FY2009?

The actuaries say that in order to keep the unfunded pension liability from growing, the funding should cover "Normal Cost plus Interest." That is, the actuarially-determined amount to cover the growth in liability during this year, plus interest on the unfunded balance. That amount in FY2009 is approximately $5.9 billion.[4] However, in FY2009 the State is scheduled to contribute only $2.8 billion[5] to the pension funds (other local employers will contribute an additional $.1 billion) – leaving a funding gap of about $3 billion.

Taking this shortfall into account would bring the budget gap estimated above to a total of about $6.4 billion. But this total does not include the growth in retiree health care costs.

### C. Retiree Health Care

In FY2009 the State will pay about $1.3 billion in cash for health care for employees and about $.6 billion for retirees. These payments are made as the bills come in from medical providers, on a "pay-as-you-go" basis. Unlike pensions, the State has not set up a trust fund to pay for retiree health care in future years, even though these benefits are earned in much the same way as pension benefits, during the course of the employee's career with the State.

In its FY2008 financial statements, the State is now required to report the liability associated with retiree health care benefits that have already been earned, in much the same way as it reports its pension liability. It is also required to report the extent to which the liability is covered by assets, and the remaining unfunded liability. The total unfunded retiree health care liability has been estimated by the State to be $24 billion.

This estimate covers only the liability associated with the State Employees Group Insurance Program (for State employees including State university employees). However, the State also helps fund and administer two additional health insurance plans – the Teachers' Retirement Insurance Program (for "downstate" teachers) and the Community College Insurance Program (for community college employees). The unfunded liability for the TRIP program is about $14 billion and for the CIP Program about $2 billion.[6] Whether Illinois must report these as liabilities of the *State* is perhaps less important than the fact that the State has historically helped fund them and continues to do so. We have seen no evidence that the State intends to stop funding TRIP and CIP. If all three plans are taken into account, the State's retiree health care unfunded liability would rise to about $40 billion.

As in the case of pensions, the State's actuaries calculate the "Annual Required Contribution" that should be made to cover the growth in these unfunded liabilities each year. In FY2008 the amount of *underfunding* associated with the State Employees Group Insurance Program was about $1.1 billion; if TRIP and CIP were included, the unfunded amount rises to approximately $2 billion.

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[4] The "Normal Cost Plus Interest" amount is determined by adding the estimated FY2009 Normal Cost ($1.4 billion) to the "Interest" on the Unfunded Liability at the end of FY2008 (.085 X $54 billion).

[5] The pension contribution required under the State's payment *schedule* for the next fiscal year (FY2010) is expected to increase to $4.0 billion as a result of declines in pension fund asset values.

[6] Source: Financial Audits of the Teacher Health Insurance Security Fund and the Community College Health Insurance Security Fund for the year ending June 30, 2007.

If only the State Employees Group Insurance annual shortfall of $1.1 billion is added to the shortfall estimated above, the total gap for this fiscal year comes to $7.5 billion.

**D. Medicaid**

The State is generally required to pay for liabilities incurred within a given year out of that year's budget. However, there are exceptions – called "Section 25 liabilities" – which allow certain spending (such as Medicaid, State employee and retiree health care and some spending from the Departments of Human Services and Public Health) to be paid out of the next year's budget. Medicaid liabilities make up the majority of these "Section 25 liabilities."

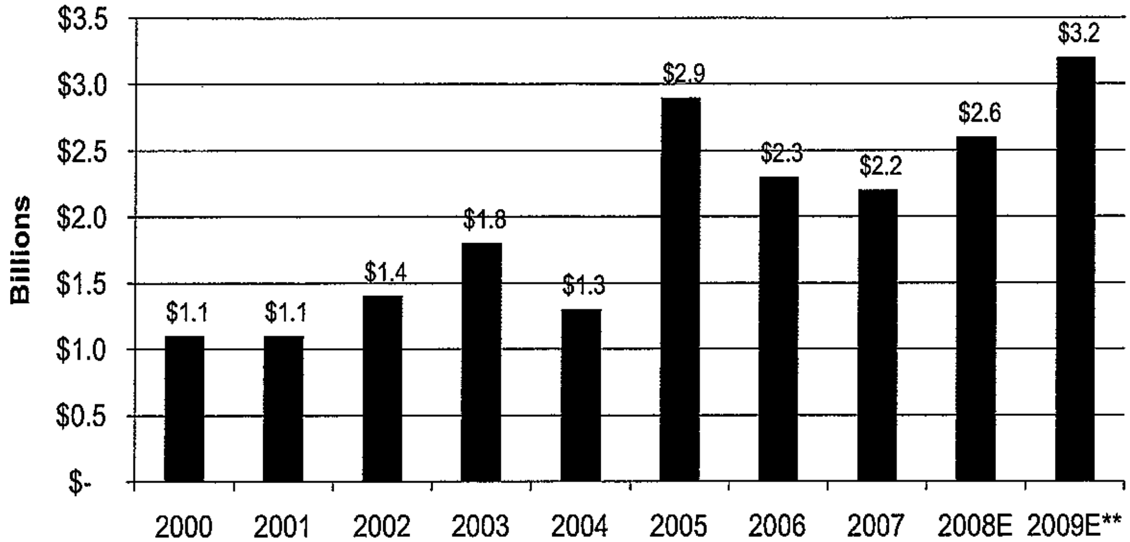
This exception has evolved into a budgeting tool – one which permits borrowing from one fiscal year to the next. It permits a budget to appear "balanced" on a cash basis. An insufficient amount can be appropriated for Medicaid in the current year knowing that any unpaid bills can be paid out of next year's appropriations. It is the State's version of kiting checks[7].

The result of this device has been the accumulation of billions of dollars in unpaid Medicaid bills at the end of each fiscal year. These unpaid bills are expected to total more than $3 billion by the end of FY2009 (June 2009).

However, the State will only have to cover about half of these liabilities from its own source funds; the rest will be covered by federal matching funds. The annual underfunding of Medicaid bills in FY2009 will be equal to (1) the State's portion of the additional liabilities incurred in FY2009, plus (2) amortization of the liabilities that were outstanding at the end of FY2008. The total of these is estimated to be about $600 million.

[7] Because 50% of Medicaid payments are covered by Federal matching funds, Illinois bears only half the total cost. Illinois covers at least some of its half by borrowing – often from the Medicaid providers themselves. So – much of what we actually pay is borrowed or covered by Federal matching. What we cannot pay, we put off to a future year.

## Section 25 Medicaid and Health Care Liabilities*




*Section 25 liabilities include Medicaid and other health care payables accrued as of June 30th. In 2007, State health insurance liabilities were $93 million of the total.

**Section 25 Medicaid liabilities are expected to grow by $600 million during FY2009 because the 2009 State budget was "balanced" by reducing Medicaid appropriations without changing benefit levels or eligibility requirements. In addition, it is estimated that approximately $400 million of the State's FY2008 budget deficit was covered by increasing Section 25 liabilities.

Note: In FY2003 and 2004, the State utilized short-term borrowing to reduce outstanding Medicaid bills at year-end. According to the Governor's office, without such borrowing (and the Federal match on those dollars), Section 25 liabilities would have been $3.9 billion in 2003 and $3.0 billion in 2004.

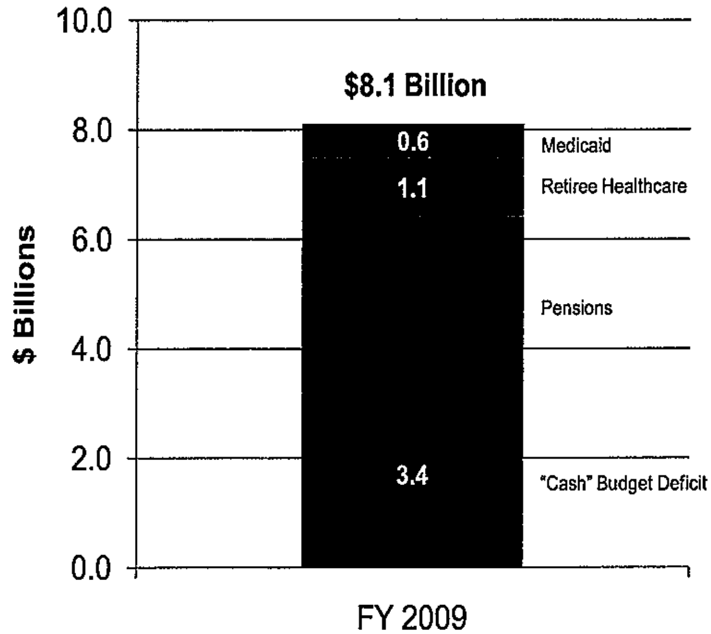
Source: Illinois Comptroller's Office website "Section 25 data" (2001-2007 liabilities); Fiscal Year '09 Budget Presentation made to the Taxpayers' Federation of Illinois by John Filan on May 5, 2008; Taxpayers' Federation of Illinois analysis.

###

The total annual budget gap – including the annual growth in commitments – is thus in the range of $8.1 billion, if not more.

If we funded K-12 education at the recommended "foundation" level (adjusting for recent inflation), that would add an additional $1.5 billion to the total expenditures. The total annual gap – if we include the gap in K-12 education funding (at the "foundation" level) – would thus be in the range of $9.6 billion.

## Total Annual Budget Gap




Note: Pension gap is equal to Normal Cost Plus Interest payment in FY2009 of $5.9 billion minus Total Employer Contribution of $2.9 billion. Retiree healthcare gap is equal to FY2008 ARC of $1.7 billion minus FY2008 State healthcare payments for retirees of $.6 billion. Medicaid gap is equal to forecasted increase in State share of unpaid Medicaid bills from FY2008 to FY2009 ($.3 billion) plus amortization of State's share of FY2008 Section 25 liabilities (assuming $1.3 billion in State Section 25 liabilities are amortized over 4 years).

Source: Various reports of the Commission on Government Forecasting and Accountability; Governor's office estimates; Taxpayers' Federation of Illinois analysis.

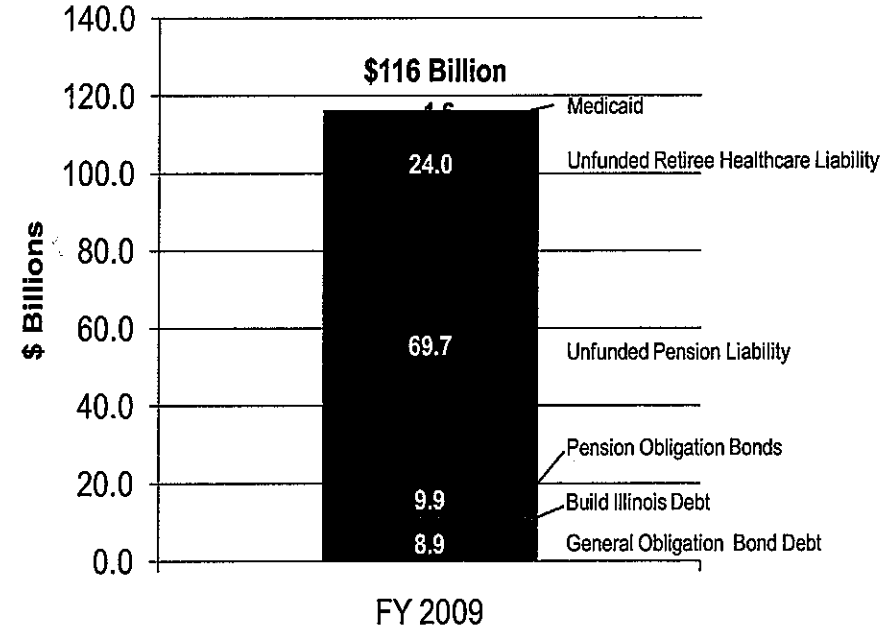
### *II. The Total Amount of Illinois' Debt and Unfunded Obligations Has Skyrocketed.*

We now move away from the annual gap in the State's operating budget and look at that part of the State's balance sheet showing total obligations: general obligation debt (including pension bonds), Build Illinois debt, unfunded pension and retiree health care obligations, and the State's portion of unpaid Medicaid bills.

The total of these Illinois obligations is now in the range of $116 billion. If we include the retiree health care liability associated with the TRIP and CIP programs, the total would rise to about $132 billion.

At the $116 billion level, this represents roughly $10,000 per person for the State's 12 million residents.

## Total State Debt and Unfunded Obligations




Note: GO bond debt and Build Illinois debt are COGFA forecasts of June 30, 2009 amounts outstanding. Pension Obligation Bond debt is forecast of June 30, 2009 debt based on POB principal repayment schedule from COGFA. Unfunded pension liability estimate is based on estimated State pension fund asset values as of December 31, 2008 and a recent COGFA estimate of the total pension liability at the end of FY2008. Unfunded retiree healthcare liability estimate is the point estimate from the Governor's office of the 2008 unfunded retiree health care liability. Medicaid debt assumes that half of projected unpaid Medicaid bills at the end of FY2009 are the responsibility of the State (based on 50% federal match).

Source: Various reports of the Commission on Government Forecasting and Accountability; Pension fund estimates; Governor's office estimates; Taxpayers' Federation of Illinois analysis.

To put these unfunded obligations in perspective, according to the Pew Center on the States, Illinois' unfunded pension liability in 2006 (the most recent year reported by Pew) was one of the highest in the country, second only to California. Illinois' total debt per capita (including unfunded liabilities) was the ninth largest in the country, higher than comparable numbers in New York and California.[8] Illinois' debt was also one of the largest in the country in relation to its tax base.[9]

Illinois general obligation and revenue bond debt outstanding increased from less than $8 billion in 2000 to around $23 billion in 2006 (this growth was largely due to the State's issuance of $10 billion in pension obligation bonds in 2003).

As the State's debt has increased, so has the percentage of General Fund revenues required to *service* this debt – leaving less revenue for other State programs. Illinois' general obligation and revenue bond debt service in 2000 was less than four percent of the State's general revenue funds; by 2006 it had risen to over seven percent. If actuarially-required contributions for pensions and retiree health care[10] were added to general obligation and revenue bond debt, the State's total debt service in 2006 would have amounted to around thirty percent of the State's general revenue funds.[11]

The State's fiscal problems have affected its credit ratings and its cost of borrowing. Fitch assigned Illinois a "negative outlook" as of November 2008 and S&P put Illinois on "credit watch" as of December 2008.

It is sometimes said that a state cannot go bankrupt. Unless things change quickly in Illinois, we may be about to test that proposition.

## *III. The State Must Improve the Quality and Transparency of its Financial and Operational Reporting.*

Before we discuss the painful steps that Illinois must take to avert the financial crisis, we address an issue that has compounded the difficulty of dealing with the State's financial mess – the lack of transparency in our State's fiscal affairs.

Illinois has a State constitutional "balanced budget" requirement; but we do not have a balanced budget in any meaningful sense. In fact, we have two budgets – the General Funds budget, and the larger "All Appropriated Funds" budget. The General Funds budget focuses primarily on government operations and grants; the Appropriated Funds budget includes significant additional operational spending as well as funds for transportation and local governments, and much of the State's capital spending. The Appropriated Funds budget also includes – but does not cancel out – inter-governmental transfers. Capital items are appropriated and included in the budget in the hope that they will be funded – but with no firm intent on the

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[8] Debt includes GOB, revenue, term, serial, pollution, special assessment bonds and certificates of participation. Unfunded liabilities include Pension and OPEB liabilities. Illinois OPEB liability is estimated at $24B which only includes state employees. Source: Census, Pew Center.

[9] Debt includes GOB, revenue, term, serial, pollution, special assessment bonds and certificates of participation. Unfunded liabilities include Pension and OPEB liabilities. Illinois OPEB liability is estimated at $24B which only includes state employees. Source: Census, Pew Center.

[10] 2006 Pension Normal Cost Plus Interest payment of $4.5B and 2008 OPEB Actuarially Required Contribution of $1.7B. Source: Commission on Government Forecasting and Accountability; Governor's Office.

[11] The Task Force is indebted to McKinsey & Company for their assistance in developing data putting Illinois' situation in national perspective.

part of the legislature to do so in a given year. Unspent dollars are often left to accumulate in special-purpose funds, and can only be "swept" out and used for other purposes with legislative approval.

Once the Governor introduces his proposed budget in February, there is no comparable report of the budget that is finally enacted by the State legislature and passed into law. As a result, except for periodic revenue or spending briefings by the Commission on Government Forecasting and Accountability (COGFA) and the Comptroller's office, the only comprehensive public record of actual State revenues and spending is the Consolidated Annual Financial Report (CAFR), which is published long after the fiscal year ends, making the CAFR more of a historical record.

There is no State agency that provides regular, timely and comprehensive reviews and analysis of State fiscal issues. COGFA provides information relevant to the Illinois economy and the State's revenues, and it is a respected and reliable source; but COGFA has a limited mandate.

Illinois needs what many other states have created: a strong, professionally-staffed State-level equivalent of the federal Congressional Budget Office, which would produce easily understood financial statements for the entire budget in a timely manner.

## *IV. Illinois Must Reform the Pension and Retiree Benefit Programs that Have So Largely Contributed to This Financial Mess, and Make Massive Cuts in its Other Costs of Operations.*

In our report two years ago we showed that in the private sector, employee pensions and retiree health benefits have become less generous and less costly as a result of competitive pressures on employers. Many companies have shifted away from defined benefit plans, and others have retained those plans but trimmed benefits. Still others have adopted two-tier plans – one for existing employees whose rights have vested, and new ones for new employees. Our 2006 report discussed similar reforms and adjustments that could be made by the State and estimated the savings to the State that might result. We will not repeat that discussion here.

During the intervening two years, Illinois has not adopted any of the reforms or benefit adjustments that we suggested. State benefit plans remain more generous than those available to most taxpayers. State health care costs continue to rise.

### A. Costs Must Be Cut.

In our *Facing Facts* report, we stated our conviction that the State must significantly reduce its operating costs. Now, in light of what has happened to the economy and to the State's revenue collections, greater cost reductions than those envisioned in *Facing Facts* will need to be made. These may have to include budget items that have traditionally been a high priority for Illinois legislators.

The costs of Illinois State government – like those of Cook County and the City of Chicago – appear to be bloated by benefit levels, pensions and retiree health care benefits, and outsourced contracts and supply arrangements that are excessive by private market standards. These higher costs are due, in tangled ways that are hard to see or prove, to the monopoly nature of many State services and to the political and sometimes corrupt nature of State government.

The difficulty of making cuts is compounded by the fact that wage levels – which are set by multi-year contracts and which were recently increased for State unionized workers by Governor Blagojevich – cannot be reduced except through contract renegotiation. In addition, a provision in the State Constitution arguably precludes reductions in the benefits provided by the State's pension plans.

One of the first tasks of Governor Quinn and his colleagues must be to go through all the State's operations and grants – program by program – and discontinue or trim those where such cuts do not directly affect the public safety or welfare. Other states, such as Ohio and Missouri, are taking such painful steps. Illinois must follow suit.[12]

We should start with the bloated programs that helped create this mess:

**1. Pension Reforms**

State retirees currently receive more generous benefits than Illinois taxpayers. We recommend the following revisions to bring the State's pension benefits into line with those of most of the taxpayers who pay the State's bills.

- Create a 2nd tier of pension benefits for *new employees only*. That 2nd tier could be a defined contribution plan or a hybrid defined contribution/defined benefit plan, or a defined benefit plan with less-generous benefit levels (i.e., requiring a higher age at which retirees can access full benefit levels) than the current plan. Any defined benefit plan offered to new employees should be aligned with private sector standards. For example, it should:
    - Raise the retirement age to 67 (same as Social Security), but allow for early retirement at 62 (same as Social Security).
    - Limit automatic cost-of-living increases to the lesser of CPI or 2%.
- Increase the required percentage of compensation that *all* employees must contribute to fund their own pensions by at least 1 percentage point.

These reforms would save significant sums in the future, but would do little to reduce costs immediately – i.e., in the current fiscal year (FY 2009) or the next few years.

[12] The difficulty in Illinois will be greater than in many neighboring states because of our failure in the past to provide cash reserves or budget contingencies. Our FY2009 budget *deficit* (on a cash basis alone) is in the range of 6-10% -- far greater, for example, than that of Ohio or Missouri. Ohio already reduced spending by about 10% over the past two years; and Missouri has proposed comprehensive spending cuts to plug its projected gap. Indiana and Texas are expected to experience surpluses in FY2009. Indiana has balanced its budget and produced a surplus every year since FY2005. The Task Force is grateful to McKinsey & Company for developing historical and comparative data relating to Illinois' economy.

## 2. Retiree Health Care Reforms

Health care benefits currently offered to State retirees are also substantially more generous than those of ordinary taxpayers. For example, state retirees pay nothing toward their own health insurance premiums if they have 20 years of service or more. Most retired *taxpayers* must pay their own insurance premiums until they reach 65 and are eligible for Medicare. (Even after they qualify for Medicare, private sector retirees have their Medicare premiums deducted from their Social Security distribution, and many buy Medicare supplemental insurance policies as well.)

Retiree health care benefits are not guaranteed under the State's Constitution. We recommend that the State follow the example set by the Chicago Transit Authority (and approved by its unions), and end its role as guarantor of retiree health care benefits in the future. Rather than guaranteeing a certain level of retiree health care *benefits*, the State should make a fixed *contribution* toward the retiree health care plan each year.

- Create a Retiree Health Care Trust Fund to develop and fund a reasonable health care program for the State's retirees.
- Contribute a fixed amount annually to the Trust Fund.
- Require retirees to contribute significantly toward the cost of their own health insurance premiums.
- Offer a reasonable health care plan to retirees given the total contributions available to fund the plan (including the State's annual contribution).

These measures could save the State $1.1 billion in additional required contributions toward the unfunded retiree health care liability.

## 3. Medicaid Reforms

At present, the State is dealing with its rising Medicaid costs by paying its bills more slowly, in effect borrowing from its service providers. The State should commit to paying its Medicaid service providers on a timely basis, while aggressively taking advantage of opportunities to reduce its Medicaid costs.

- Seek a Federal waiver to structure a more cost-effective Medicaid program that incentivizes the most efficient delivery of health care.
- Shift all children and non-disabled, non-elderly adults into risk-based managed care programs.
- Pay Medicaid providers within 60 days.

The opportunities for Illinois to reduce its Medicaid costs are enormous – such as using outpatient rather than inpatient services, requiring "gatekeeper" referrals to specialists, switching from institutional to "community-based" care where possible, reducing utilization of emergency departments, and other efficiency and quality measures.

We believe annual savings in the range of $1.5 billion might be achieved in this area – of which Illinois would benefit to the extent of $750 million in savings (due to the current 50/50 Federal match).

4. **Improvements to Processes and Controls in State Purchasing and Contracting**

- Enhance and improve reliance on information technology.
- Improve vendor and contract management.
- Accelerate consolidation of various Human Resource departments.
- Improve processing and monitoring of benefits eligibility.

These measures might save Illinois in the range of $400 million per year, once fully implemented.

5. **Reductions/Caps in Revenue Sharing and Grants to Local Governments**

If revenue sharing and grants to local governments were capped going forward, this could save in the range of $200-300 million per year.

# # #

Illinois no longer has a choice. It *must* reform its pension and retiree health care systems. It is unsustainable to maintain and pay for benefits to State employees that are more generous and more costly than those available to most Illinois taxpayers. The other major categories of costs and disbursements embodied in Illinois' operating budget must also be analyzed in detail – and slashed.

Without the benefit of access to the State's detailed records – but with the advice of knowledgeable experts familiar with what other states have achieved – we think the following *annual* cost savings should be achievable, though some would take more time to implement than others. This list is only illustrative – there are likely other areas in which savings can and should be achieved.

1. *Pensions* *Zero*

(The State Constitution arguably precludes benefit cuts in pensions for current employees. Significant savings could be achieved in future years as "new" employees replace "old" ones.)

2. *Retiree Health Care* *$1.1 billion*

   (The State Constitution does not preclude changes in health care programs. Shifting to a Retiree Trust Fund would eliminate the growing liability – each year – to pay those costs in the future.)

3. *Medicaid* *$750 million*

4. *Purchasing and Contracting* *$400 million*

5. *Reducing/Capping Revenue Sharing and Grants to Local Governments* *$200-300 million*

*$2.5+ billion*

**B. Unless and Until Benefit Programs Are Reformed and Costs Are Cut, Illinois Should Not Raise Taxes.**

Unfortunately, when faced with budget imbalances, State and local government officials too often ignore the need to cut costs and jump immediately to a revenue solution. Or they "solve" the problem by borrowing or by ignoring the build-up of obligations not reflected in current cash outlays. Those growing obligations are then left to some future generation of officials – and taxpayers.

The reasons for allowing such build-ups are not that complicated. It is hard to cut costs. Program cuts hurt the beneficiaries. They complain, and interest groups representing them put pressure on elected officials. A large part of government expenditures is for employee costs – wages and benefits. If these are cut or held down, the employees and their unions put pressure on officials. Employee unions are among the most active and powerful interest groups in Illinois and Chicago. The political pressure they inflict on elected officials or candidates is enormous. As a result, State employee costs – wages and benefits – have not reflected competitive pressures to the same extent as in the private sector.

It is time to change the way elected officials in Illinois think about our State's budget. We are in a fiscal crisis. This is not rhetoric; it is fact. Because the market does not provide the direct pressures on State officials to hold down costs the way it does on the private sector, citizens and civic groups must provide that pressure. We need to say – loudly and clearly – you cannot simply *tax* your way out of this budget deficit. A tax-only solution – adding $8 billion or more to the State's current annual operating budget – would take Illinois from the middle to very near the top of the list of states, ranked in terms of their tax burden per citizen, which would severely impact the investment and job creation environment of the State. Pension reforms should be the first step, not the last. Retiree health care reforms should also be at the top of the list. So should Medicaid, and other large cost categories.

State officials in Illinois are not anxious to raise taxes because they fear the political repercussions. They remember Governor Ogilvie, whose re-election campaign in 1972 failed because he had instituted the State's income tax. We need to magnify that fear. We need to say:

Unless you take a hatchet to the State's budget, and unless you make major reforms in the State's pension and benefit programs, and its Medicaid systems, and other areas of the budget, we will oppose tax increases; and we will hold you responsible.

But there is a hard truth here too, and we should face it. We cannot simply *cost-cut* our way out of this budget deficit. As we pointed out in our *Facing Facts* report, Illinois has dug a fiscal hole so huge that it will not be practically possible to dig out of it by relying *solely* on budget reforms and expense reductions. (*Facing Facts,* p. 31.) Most of the revenues collected by the State are not spent at the State level, but instead "flow through" to others (see *supra* "Budget Appropriations," p. 5). Even if we could somehow eliminate *all* salaries and benefits for all 57,000 or so State employees, we would not eliminate the State's budget deficit.

The reforms and cuts described above will generate a positive impact on the budget over time. In the long run, we think billions can be saved annually. It would take enormous effort and political will, but we believe annual savings in the range of $3 billion or more could be achieved over time. But savings in such magnitudes cannot be implemented in time to be fully effective in the current fiscal year, or FY2010 or even FY2011.

The reforms and cost cuts can, however, be *put in place*—and now. In order to keep the pressure for budget accountability at full throttle, we would oppose any tax increase until that happens. But once they are in place, we will have to face tax increases.[13]

The question is not whether. It is *when*. Shall we start to bear that pain now, or shall we continue – as we have over the past decade – to keep putting it off to the future, knowing it will just get bigger and harder to bear? The matter of timing is complicated by two factors. First, the Federal Government is proceeding with an enormous economic stimulus package, which will reportedly include money over a three-year period for state and local governments. (Based on preliminary estimates, it appears that Illinois can expect to receive: (a) increased funding for education, (b) approximately $2.9 billion in Medicaid funding – some of which may cover rising numbers of Medicaid recipients and the rest of which may be used for budget relief, and (c) funding for other programs such as Community Services Block Grants and jobs programs. We are awaiting greater detail on the extent and timing of these Federal monies.) Second, a major recession is the worst possible time to have a tax increase. Instead of stimulating the economy, a greater tax burden will have a depressing effect.

However, even if it was entirely free of programmatic restrictions, the Federal aid package will not even come close to closing Illinois' budget deficit, which now exceeds $8 billion annually. As to the recession point, there will never be an easy time to start taking our fiscal medicine. No one knows when this recession may end. Each year of putting off the problem will add billions more to the budget hole and will make the service cuts and tax increases *even larger* in future years.

Moreover, we are nearing a "tipping-point" time when businesses and investors, and citizens in general, may start to steer clear of Illinois—or even to leave it—in order to avoid

[13] We described the tax alternatives in *Facing Facts*. Using 2006 data, increasing the personal income tax rate by one percentage point (with a corollary increase in the corporate income tax) was expected to yield about $3 billion. A broadening of the State sales tax to include personal, entertainment and consumer services was estimated to yield about $2 billion.

having to bear the compounded burden of both (a) the deferred costs of the past, and (b) the "normal" operating costs of future years.

We say: Better to start now. Reform pensions and health care and Medicaid now. Make the cuts now, even though they will hurt. If we do not start now, it will hurt more people a lot more later. Only then consider the tax increase.

Furthermore—and this point must be emphasized—the proceeds of any such tax increase *must* be used to cover the already piled-up debts and unfunded obligations, rather than undertaking new ones.

The risk is that our new leaders in Springfield will continue to try to muddle through *without* making the hard choices. That would mean continued underfunding of pensions and retiree health care, and more borrowing – in other words, more burden-shifting to the future. This cannot go on forever, either economically or legally. Under our State Constitution, we are supposed to have a balanced budget (Article VIII, Section 2). The Governor, with legislative approval, can borrow in "emergencies," but the debt would have to be repaid within one year (Section 9 (d)):

> State debt may be incurred by law in an amount not exceeding 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. Such law shall provide that the debt be *repaid* within one year of the date it is incurred.

The current economic recession and budget crisis should qualify as such an "emergency or failure of revenue." But any borrowing pursuant to this section would have to be repaid within one year. The framers of our constitution did not want our officials engaging in longer-term borrowing to meet operating deficits. They expected any such deficits to be eliminated by cutting, or tax increases – but not borrowing.[14]

[14] Another provision of the State Constitution, Section 9(b) permits borrowing with a 3/5th approval of each house "for specific purposes." Borrowing under this section is not subject to the one-year pay-back requirement. Such "specific purposes" might include a capital construction program. It would be a stretch to contend that general budget relief would be such a "specific purpose" – particularly if the cause of borrowing in reality is the "emergency" and "failure of revenue" covered in Section 9(d).

## CONCLUSION

Illinois has been heading toward financial implosion for years. Since our *Facing Facts* report two years ago, little has been done to deal with either side of the budget gap – the costs or the revenues. Pension and retiree health care benefit levels have been left in place, and new wage commitments have been made. Employees and retirees of State and local government entities can no longer be confident that the money they have counted on for their retirements will be there when they need it.

As the State has moved through political chaos over the past two years, the difficulties of dealing with these serious problems have become greater; and the recession starting in the fall of 2008 has made them literally herculean.

Let us hope that the new Governor will have the resolve and talent to do what must be done, and that the new Governor will have the support of leaders in the Illinois Legislature, as well as the cooperation and support of heads and members of departments and agencies of Illinois State government. If the new Governor and his colleagues in the Legislature take these hard steps, it will not make them popular. But they will be doing their job. And citizens who care about the long-term fiscal health of the State will be grateful.

We stand ready to help. Our organization and other business and civic organizations have at our disposal talented financial and budget experts. We'll call on them for help if Governor Quinn or our legislative leaders want it. In addition, there are many national experts in state budgets and operations—professionals who have worked with leaders in other states to achieve significant savings and efficiencies in government operations. We should draw on their expertise and experience.

The citizens of Illinois must understand that service and funding cutbacks have now become unavoidable. Local governments may receive less money from the State than they have in the past. So they may have to tighten their belts as well. We must support responsible State and local leaders who undertake this necessary but highly-unpopular work.

Finally, let us remember, as we think about which candidates to support in future political campaigns, that none of this was necessary.

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The Health Care Council of Illinois was formed in late 2007 to serve as the public policy entity for both the Illinois Health Care Association and the Illinois Council on Long Term Care.

This new entity provides the framework for a unified message on all issues involving legislation, regulatory and political activities. The Health Care Council of Illinois-PAC was also formed in conjunction with HCCI to orchestrate the political contributions and activities for the new organization.

## HCCI Board Members

**IHCA Members**

Steve Wannemacher (Co-Chair)
Bob Hedges (Executive Committee)
Holgier Oksnevad
Lester Robertson
John Vrba
Mike Bibo
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**Illinois Council Members**

Shael Bellows (Co-Chair)
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# Testimony before
# Senate Deficit Reduction Committee

**Co-Chairs: Senator Donne Trotter &**
**Senator Matt Murphy**

**By**

**Pat Comstock, Executive Director**
**March 10, 2009**

Good Morning Chairman Trotter, Chairman Murphy and members of the Committee. My name is Pat Comstock and I am the Executive Director of the Health Care Council of Illinois, the merged public policy arm of the Illinois Health Care Association and the Illinois Council on Long Term Care. In addition to the comments we have already provided, the time I have with you today will be spent explaining our funding priorities going forward.

Sufficient funding to provide needed services for nursing home residents and payment predictability are the top two issues for the long term care profession in Illinois.

These issues are not just about the profession's bottom line; they have dramatic consequences on the state's frailest and poorest elderly residents, whose care is being paid for by the State of Illinois. The profession values its relationship with state government, both regulators and funders, and prides itself on its willingness to work with advocates and other providers to ensure the highest quality of services is provided to seniors regardless of whether they receive their care in a nursing home or a private residence.

The face of nursing home residents has changed dramatically over the last few years. **Over 40% of our residents leave and return to the community within 90 days of admission.** In fact, the Department of Public Health recently reported that nursing homes experience, on the average, a **200% turn-over** in residents each year. This number was only a 100% a few years ago.

A typical longer term resident is:

- Over 80 years old
- Cognitively impaired.
- Unable to perform such basic activities as eating, toileting, walking, personal hygiene, bathing, transferring, bed mobility, and dressing.
- Involved in at least 2 restorative programs, such as a scheduled toileting program.
- Requires intensive nutrition services.
- Needs pain management services.

It is easy to get caught up in the numbers. But what we do in long term care is not about the numbers...it is about the residents we serve.

## The Numbers

But it takes dollars and cents to provide services and providing for the housing, nutrition and medical care for our state's frailest and poorest elderly is no exception.

I hope you will bear with me as I give you a short tutorial on how the nursing home rate it built, funding sources, our current funding dilemma, and how we stack up to other states.

Rate Components: The nursing home rate is made up of 3 components: Capital, Support, and Nursing.

In theory each nursing home is reimbursed for its actual overhead - food, heating, and cooling - as they are reported annually to the state on verified costs reports. In reality, facilities today are being paid on the basis of their costs in 2004. This occurs because the state has historically managed cash flow by manipulating which cost report year is used as the basis for calculating reimbursements.

Nursing Component: The General Assembly passed legislation in 2006 to shift the states reimbursement system to one based on the federally designed Minimum Data Set (MDS), which promotes high quality services. This new funding mechanism is in its 3rd year of implementation. It is imperative that this commitment be honored and the phase-in proceeds as agreed.

**Nursing Home Revenue Sources:** Nursing homes are paid from two sources: the Long Term Care Provider Fund and GRF. The Long Term Care Provider Fund is the first payer and GRF is appropriated to fill the gap between the fund and the actual cost of providing care. The nursing home licensure tax and a portion of the state's tobacco taxes are among the revenue streams that flow into the Long Term Care Provider Fund.

**FY 09 Funding Crisis:** The nursing home appropriation is a balancing act between the two funds. If the state appropriates from the Long Term Care Provider Fund an amount in excess of what revenues will flow into the fund and under appropriates from GRF, appropriation authority to reimburse nursing homes for care provided will fall short. This is the situation we are in this year. When nursing homes are paid for care provided in SEPTEMBER ---- let me repeat that – yes we have been carrying the state since August. When nursing homes are paid for care provided in September, GRF appropriation authority will be fully expended. This coupled with what appears to be a shortfall in revenues flowing into the Long Term Care Fund could result in the state carrying approximately 7 to 10 months of nursing home debt in to FY 10. At a cost of about $120 million a month, we are talking about a billion dollars of old debt moving into FY 10, unless more GRF appropriation authority is granted this spring.

**Why are we in this situation?** A full five months of nursing home payments were carried into FY 09 from FY 08 and paid out in the month of July. In addition, the FY 09 budget cut approximately $300 million of what was characterized as excess spending authority from the nursing home budget lines.

**Opportunity:** The Federal Stimulus Package, signed into law in February, provides the state with the opportunity to get caught up on old Medicaid bills by using the increased federal match to pay back debt. At the same time, Illinois can not qualify for the enhanced 60% match, unless certain Medicaid providers achieve a 30 day payment cycle by June 1 of this year. Yes......nursing homes would have to go from the current 150 days of payment delays to a 30 day payment cycle in less than 3 months. While this can't happen without some sacrifice and we believe short term borrowing, it does give the state the opportunity to get on track and put a halt on carrying massive amounts of nursing home debt into the new fiscal year.

**Maintaining the Cycle:** Maintaining a reasonable payment cycle is only one of the challenges the state faces as we move into FY 10. In reality the lack of predictability of when payments will be received has been even more problematic. For example, facilities received 5 months of back payments in July and then waited until September to be paid for services rendered in July. No additional payments were received until short term borrowing occurred at the end of December.

Facility operators are business people. Given the state's payment history, they have built into their business plans payment cycle delays, managing them through bridge loans with no reimbursement for interest paid. In our current economic crisis, creditors who routinely provide bridge loans for even the largest operators have raised grave concern about the erratic payment schedules.

**A Place Called Home:** For some, nursing homes may seem like a cash cow industry that if we just trim back their rates, move residents out, and shut down beds, the state can afford to bring other kinds of programs on line. Yet in reality, as of January 1, 2009, Illinois pays, on the average, \$117.51 each day for 24-hour skilled care for elderly Medicaid residents. At the same time, it costs about \$150.39 per day to provide the complex medical care most residents require. This creates a \$32.88 per day shortfall. Since two thirds of all nursing homes residents have their care paid for by Medicaid, private pay residents can no longer bridge this gap. For many nursing homes, Medicare is what allows them to keep their doors open and underwrites an ever growing portion of the states Medicaid reimbursement rate shortfall.

The nursing home profession in neighboring states faces a much less onerous outlook, although shortfalls do exist. Iowa has only a \$9 per day shortfall, Missouri \$14.88 per day shortfall, and Indiana a \$6 per day shortfall. Nationally, Illinois ranks 49$^{th}$ in the nation for Medicaid reimbursement for nursing home residents. While some rating services rank Illinois slightly higher, Illinois ranks consistently in the bottom 10% of the states. Tables produced by Eljay, LLC, a consulting firm engaged by the American Health Care Association to track Medicaid expenditures can be found in your packets.

Other real problems exist with taking this cavalier attitude towards reducing the state's commitment to providing residential medical care to the elderly.

- Long term beds and rehab beds are not licensed separately. It would be fool hardy to reduce rehab beds with the trend of releasing people of all ages from the hospital before they can safely care for themselves on the rise.
- Stripping beds without thoughtful planning can have the consequences of separating families and forcing loved ones to live out their last years isolated from family and friends.
- While closing beds reduces expenditures it also reduces revenue, because provider taxes are paid on the basis of the number of licensed beds.

In reality, government must refocus its attention on the elderly person in the nursing home bed and remain ever mindful that 52,000 frail elderly Illinoisans call a skilled nursing facility their home. It is incumbent on all of us to work together to make sure that when the need arises, a bed will be available, an elderly person will get the medical care they need, and will always have a place to call home.

# TABLE I
## STATE-BY-STATE COMPARISON OF RATES AND COSTS

| State | Rate 06 | Cost 06 | Difference 06 |
|---|---|---|---|
| Arizona | $ 139.98 | $ 158.40 | $ (18.42) |
| Arkansas | $ 130.40 | $ 129.16 | $ 1.24 |
| California | $ 144.53 | $ 152.61 | $ (8.08) |
| Colorado | $ 159.27 | $ 167.42 | $ (8.15) |
| Connecticut | $ 204.50 | $ 215.90 | $ (11.40) |
| Delaware | $ 212.35 | $ 237.35 | $ (25.00) |
| Florida | $ 165.69 | $ 179.43 | $ (13.74) |
| Georgia | $ 117.51 | $ 128.78 | $ (11.27) |
| Hawaii | $ 196.25 | $ 203.88 | $ (7.63) |
| Idaho | $ 153.89 | $ 159.44 | $ (5.55) |
| Illinois | $ 96.94 | $ 125.10 | $ (28.16) |
| Iowa | $ 111.29 | $ 122.47 | $ (11.18) |
| Kansas | $ 116.78 | $ 130.32 | $ (13.54) |
| Maine | $ 164.78 | $ 177.57 | $ (12.79) |
| Maryland | $ 186.41 | $ 192.28 | $ (5.87) |
| Massachusetts | $ 180.40 | $ 199.04 | $ (18.64) |
| Michigan | $ 171.61 | $ 173.92 | $ (2.31) |
| Minnesota | $ 143.33 | $ 165.69 | $ (22.36) |
| Missouri | $ 109.45 | $ 128.23 | $ (18.78) |
| Montana | $ 150.31 | $ 151.02 | $ (0.71) |
| Nebraska | $ 136.41 | $ 143.99 | $ (7.58) |
| Nevada | $ 164.80 | $ 171.27 | $ (6.47) |
| New Jersey | $ 189.40 | $ 212.43 | $ (23.03) |
| New Mexico | $ 135.60 | $ 157.46 | $ (21.86) |
| New York[1] | $ 195.72 | $ 219.59 | $ (23.87) |
| North Carolina | $ 133.99 | $ 144.62 | $ (10.63) |
| North Dakota | $ 148.72 | $ 151.23 | $ (2.51) |
| Ohio | $ 162.88 | $ 170.09 | $ (7.21) |
| Oklahoma | $ 117.15 | $ 123.27 | $ (6.12) |
| Oregon | $ 179.59 | $ 184.15 | $ (4.56) |
| Pennsylvania | $ 180.08 | $ 197.56 | $ (17.48) |
| Rhode Island | $ 169.53 | $ 184.67 | $ (15.14) |
| South Dakota | $ 113.10 | $ 127.31 | $ (14.21) |
| Tennessee | $ 131.05 | $ 132.38 | $ (1.33) |
| Texas | $ 105.46 | $ 112.57 | $ (7.11) |
| Utah | $ 142.85 | $ 156.22 | $ (13.37) |
| Vermont | $ 160.70 | $ 189.82 | $ (29.12) |
| Virginia | $ 132.52 | $ 137.74 | $ (5.22) |
| Washington[2] | $ 138.74 | $ 160.30 | $ (21.56) |
| Wisconsin | $ 130.73 | $ 152.94 | $ (22.21) |
| Wyoming | $ 139.54 | $ 163.96 | $ (24.42) |

[1] Prior to 2006 in New York State, pharmaceuticals were reimbursed through the Medicaid daily rate. Beginning in 2006, under the Medicare Modernization Act, the state is no longer responsible for the majority of drug costs for dual-eligible's and as such, the Medicaid rates and costs were adjusted to reflect this change.

[2] The shortfall for the state of Washington only represents a comparison of the operating cost to operating rate. Accurate allowable property cost data were not available so the comparison excludes property costs and the property component of the rate.

*Eljay, LLC (Eljay), was engaged by the American Health Care Association (AHCA) to work with its state affiliates and other sources to compile information on the shortfall between Medicaid reimbursement and allowable Medicaid costs in as many states as feasibly possible.*

## TABLE I
## STATE-BY-STATE COMPARISON OF RATES AND COSTS
## (Continued)

| State | Rate 08 | Projected Cost 08 | Projected Difference 08 |
|---|---|---|---|
| Arizona | $ 149.42 | $ 161.94 | $ (12.52) |
| Arkansas | $ 137.96 | $ 133.14 | $ 4.82 |
| California | $ 153.19 | $ 161.26 | $ (8.07) |
| Colorado | $ 167.33 | $ 176.56 | $ (9.23) |
| Connecticut | $ 214.99 | $ 228.41 | $ (13.42) |
| Delaware | $ 225.53 | $ 249.22 | $ (23.69) |
| Florida | $ 174.26 | $ 186.45 | $ (12.19) |
| Georgia | $ 133.27 | $ 139.84 | $ (6.57) |
| Hawaii | $ 214.47 | $ 212.13 | $ 2.34 |
| Idaho | $ 172.67 | $ 173.65 | $ (0.98) |
| Illinois | $ 112.07 | $ 133.85 | $ (21.78) |
| Indiana | $ 145.53 | $ 151.68 | $ (6.15) |
| Iowa | $ 120.13 | $ 129.19 | $ (9.06) |
| Kansas | $ 127.09 | $ 136.86 | $ (9.77) |
| Maine | $ 170.07 | $ 187.67 | $ (17.60) |
| Maryland | $ 202.92 | $ 207.37 | $ (4.45) |
| Massachusetts | $ 189.23 | $ 207.92 | $ (18.69) |
| Michigan | $ 184.49 | $ 185.73 | $ (1.24) |
| Minnesota | $ 153.61 | $ 176.87 | $ (23.26) |
| Missouri | $ 120.38 | $ 135.26 | $ (14.88) |
| Montana | $ 153.73 | $ 157.27 | $ (3.54) |
| Nebraska | $ 139.75 | $ 148.74 | $ (8.99) |
| Nevada | $ 170.02 | $ 184.01 | $ (13.99) |
| New Hampshire | $ 186.97 | $ 211.13 | $ (24.16) |
| New Jersey | $ 200.21 | $ 222.91 | $ (22.70) |
| New Mexico | $ 154.78 | $ 165.98 | $ (11.20) |
| New York[1] | $ 215.62 | $ 234.39 | $ (18.77) |
| North Carolina | $ 150.33 | $ 154.09 | $ (3.76) |
| North Dakota | $ 165.45 | $ 164.17 | $ 1.28 |
| Ohio | $ 164.89 | $ 179.75 | $ (14.86) |
| Oklahoma | $ 124.24 | $ 127.34 | $ (3.10) |
| Oregon | $ 194.39 | $ 196.16 | $ (1.77) |
| Pennsylvania | $ 194.94 | $ 208.86 | $ (13.92) |
| Rhode Island | $ 181.74 | $ 193.93 | $ (12.19) |
| South Dakota | $ 122.09 | $ 134.63 | $ (12.54) |
| Tennessee | $ 139.59 | $ 141.79 | $ (2.20) |
| Texas | $ 108.63 | $ 119.45 | $ (10.82) |
| Utah | $ 154.62 | $ 164.07 | $ (9.45) |
| Vermont | $ 179.14 | $ 200.61 | $ (21.47) |
| Virginia | $ 141.91 | $ 148.73 | $ (6.82) |
| Washington[2] | $ 147.30 | $ 165.06 | $ (17.76) |
| Wisconsin | $ 134.70 | $ 161.13 | $ (26.43) |
| Wyoming | $ 151.81 | $ 170.70 | $ (18.89) |

[1] Prior to 2006 in New York State, pharmaceuticals were reimbursed through the Medicaid daily rate. Beginning in 2006, under the Medicare Modernization Act, the state is no longer responsible for the majority of drug costs for dual-eligible's and as such, the Medicaid rates and costs were adjusted to reflect this change.

[2] The shortfall for the state of Washington only represents a comparison of the operating cost to operating rate. Accurate allowable property cost data were not available so the comparison excludes property costs and the property component of the rate.

**Health and Medicine Policy Research Group**
**Testimony Prepared for the Deficit Reduction Committee**
**March 10, 2009**

Health and Medicine is an independent not for profit policy center with 25 years of experience evaluating local and state health policy, with a special interest in the health of the poor and the underserved. Since 2001, we have been intimately involved in Illinois' long-term care (LTC) reform effort for older adults, working closely with providers, advocates, legislators, administrators and others in the shared effort to transform Illinois' long-term care system for older adults from one which is predominantly institutional to one that is primarily home and community-based, enabling most elders to age with independence, dignity and quality of life in the spaces and places they prefer: their homes and communities.

While we regret that it is budget deficits that are the cause of this testimony, we nonetheless are grateful for the opportunity to comment on the Healthcare and Human Services Budget Deficit. We strongly support maintaining current programs in home and community-based care for two primary reasons: it is cost saving and it responds to the deepest wishes of older residents of our state. These services include; Older Adult Services Programs, the Community Care Program, Elder Abuse and Neglect, Ombudsman, and Home Health Services. Maintaining these services will demonstrate an ongoing commitment to long-term care reform that the legislature has demonstrated since the passage of the Older Adult Services Act (PA-093-1031, hereafter OASA) in 2004. Services for older adults in the community reflect the needs and wishes of older adults and make good sense fiscally for the state. In the absence of community service networks, it is likely that older adults will be forced into institutions at a considerably higher cost to the state. Furthermore, services in the community generate jobs; hence, cuts to services will necessarily result in extensive job loss.

We recommend and support a fair increase in taxes or fees to protect these vital community services for older adults and their families in Illinois. It is critical—both morally and fiscally—to assure that we are not overspending for unnecessary institutional levels of care for individuals who would be happier and more appropriately and cost-effectively served in the community.

We urge you to maintain Older Adult Services Programs, the Community Care Program, Elder Abuse and Neglect, Ombudsman, and Home Health Services. We also ask you to look beyond these specific programs and consider how as a state we can maintain the overall share of long-term care resources we devote to community alternatives. The future well-being of older people, who require long-term care services, are importantly linked to the planning efforts that so many of us have undertaken under OASA. We have a responsibility to assure that such efforts achieve real changes that are fiscally responsible. Above all, such changes would see more older adults in Illinois with long-term care needs not in nursing homes but in the community where they could be served more happily and cost-effectively.

With the population 85 years of age and older expected to double in Illinois over the next two decades, now is the time to start planning for a financing structure that invests the bulk of our public long-term care dollars where older people want to be: in the community. The benefits of maintaining current services far outweigh the consequences of cutting such programs for Illinois' current fiscal deficits and financial future.

Thank you.

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# Illinois Healthy Youth and Families Initiative

### *Raising Taxes on Alcohol:*
### *Good for the Budget, Good for Public Health, Good for Business*

**Alcohol addiction and abuse cost the State of Illinois millions of dollars each year in medical expenses, crime and violence, and lost business profitability and worker productivity.**

Decreased Business Profitability and Worker Productivity *(George Washington University Medical School, 2002).*

- **Alcohol costs American businesses an estimated $134 billion a year in productivity losses**.
- **85 percent of heavy drinkers are employed;** alcohol reduces productivity, impairs job performance, increases health care costs, & can threaten public safety.

Alcohol Use by Youth is a Major Public Health Problem *(CDC, 2008)*

- **People aged 12-21 years consume 11 percent of all alcohol in the U.S.**; more than 90 percent is consumed in the form of binge drinks making alcohol the most commonly used and abused drug among youth in the U.S.
- Youth who drink are more likely to experience school problems (poor performance, higher absences), social problems, legal problems (arrests for drunk driving, violence), physical problems, high-risk sexual activities, higher risk of suicide or homicide, death from alcohol problems, and long-term physiological effects.

Increased Medical Costs, Emergency Department Visits, Fatalities, Child Abuse & Related Injuries *(CDC, 2008)*

- **Alcohol is involved in 2 out 3 reported incidents of intimate partner violence and is the leading factor in child maltreatment and neglect**.
- In 2005, the CDC found 1.6 million people were hospitalized with alcohol-related health problems and more than 4 million emergency department visits attributable to alcohol use.
- Alcohol increases the incidences of risky sexual behavior, including unprotected sex, sex with multiple partners, and risk of sexual assault resulting in greater likelihood of sexually transmitted diseases.

**The Solution: Increase the alcohol tax to bring tax rates in line with inflation, improve public health and business profitability, and raise revenue for Illinois.**

- An increase of 5 cents / drink would generate ~ **$254 million in new revenue for Illinois**.
- Illinois' alcohol taxes have not been increased since 1999; before that the last increase was 1969.
- Alcohol tax rates have not kept pace with inflation.
- Research has shown that higher prices on alcohol significantly decrease consumption, and increase public health and business productivity.

IADDA

The Illinois Alcoholism and Drug Dependence Association

# Illinois' Healthcare System in Critical Condition:

## *Thousands in Need of Addiction Prevention, Treatment and Recovery Services*

- Illinois spends 12% of its budget, ***nearly $3 billion***, dealing with the consequences of substance abuse: increased crime, domestic violence, foster care placement, hospital emergency department expenditures, lost worker productivity, etc.
- Less than ***one-tenth of 1%*** of all state spending is dedicated to addiction healthcare services.
- Without adequate treatment funds, the justice system often has no option but to release non-violent addicted offenders to the community, hold them indefinitely in already-overcrowded jails, or send them to prison (~$32,400/person), at greater costs to Illinois than supervised treatment (~$4,425/person).
- **Over 7,500** Illinois citizens need addiction treatment services statewide and cannot be treated because of a lack of funding. *(Source University of Illinois-Chicago, April 2008)*
- Rising costs have forced many providers to put people who need treatment on **waiting lists**.
- Historically, as unemployment grows and the economy weakens, demands for critical healthcare services, including addiction prevention and treatment, increase dramatically.
- A March 2009 Civic Enterprises report indicated that non-profits are facing high levels of demand from individuals and families struggling with the economic downturn; yet, they are unable to accommodate these increased requests for assistance as federal, state and local resources are on the decline.
- For every percent increase in unemployment, the number of people on Medicaid increases by one million, according to a recent Kaiser Family Foundation analysis.
- With no corresponding increase in funding, the system has been over-burdened with **state and federal mandates**, increased professional requirements, new accreditation requirements, an **explosion of dual-diagnosed clients**, medication demands, additional licensure, and **enhanced technological systems**.
- Over the past ten years, with the advent of new treatment innovations, the **Illinois addiction healthcare system has become increasingly sophisticated, yet is still being supported at 1980's funding levels**.
- Research has proven that an adequately funded addiction healthcare system saves lives and ultimately saves the State money.

IADDA
Illinois Alcoholism and Drug Dependence Association
www.iadda.org

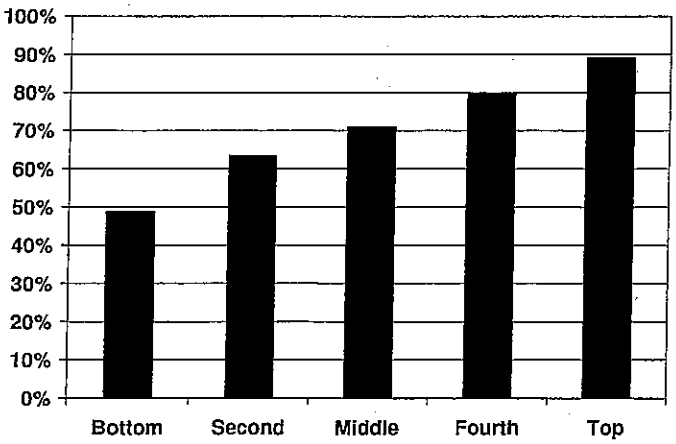
# FACT SHEET

# Do higher alcohol taxes really hurt lower-income people?

Much has been made of the alleged regressivity of alcohol taxes: that they hurt the poor most. In fact, several factors related to alcohol consumption and expenditures for alcohol across income classes demonstrate that the impact on lower-income people, overall, would be negligible.

Compared to upper-income consumers, lower-income families are far less likely to even purchase or consume alcoholic beverages.

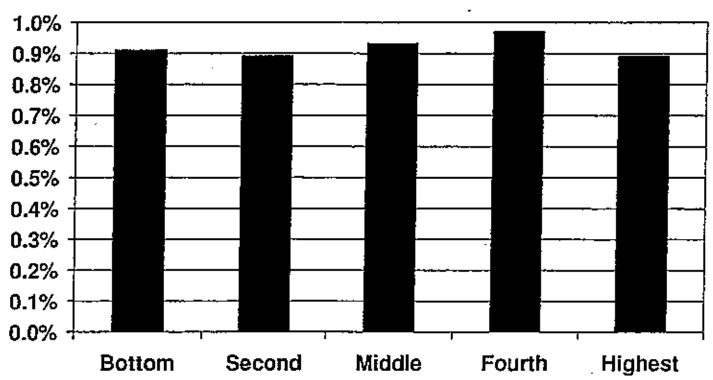
**Percentage of Families with Expenditures on Alcoholic Beverages, by Income Quintile**




Source: Federal Taxation of Tobacco, Alcoholic Beverages, and Motor Fuels, Congressional Budget Office, August 1990.

Americans' spending on alcohol is small and proportional to their income—less than one percent of their total expenditures—regardless of income.

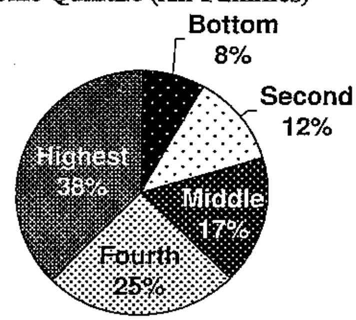
**Expenditures on Alcoholic Beverages as a Percentage of Total Expenditures, by Income Quintile (All Families)**




Source: U.S. Bureau of Labor Statistics, Consumer Expenditures Survey, 2005.

By far, most of the alcohol is bought by people in the upper-income brackets. People in the bottom quintile consume only about eight percent of alcoholic beverages.

**Share of Total Expenditures on Alcohol by Income Quintile (All Families)**




Source: U.S. Bureau of Labor Statistics, Consumer Expenditures Survey, 2005.

Alcohol purchases among those consumers in the lowest income quintile are highly concentrated in a relatively small percentage of families.

**Percent of Expenditures on Alcoholic Beverages Made by Families with the Highest Expenditures, by Income Quintile**

| | Top 10 % | Top 20% |
|---|---|---|
| Bottom | 59.4 | 82.8 |
| Second | 52.3 | 74.6 |
| Middle | 45.4 | 67.5 |
| Fourth | 38.6 | 59.3 |
| Top | 34.7 | 54.3 |

Source: Federal Taxation of Tobacco, Alcoholic Beverages, and Motor Fuels, Congressional Budget Office, August 1990.



(continued on back)

Among consumers in the bottom quintile, the 20 percent who consume the most account for 83 percent of the alcohol purchased. Because fewer than half of consumers in that income bracket have expenditures for alcohol, that means that 10 percent of the lowest-income consumers buy more than 80 percent of the alcohol. Those heavy drinkers, not lower-income people generally, pay the lion's share of taxes today and would bear the burden of any tax increase.

**Even among beer drinkers, most of the taxes are paid by people in the upper-income brackets.** Despite popular belief, beer drinkers tend to be wealthier than average: 50.4% of beer consumers earn $60,000 or more annually, while only 44.3% of the general population earns that much.

## Income Distribution of Beer Consumers

| | $75,000 and over | $60,000-$74,999 | $50,000-$59,999 | $40,000-$49,999 | $30,000-$39,999 | $20,000-$29,999 | Under $20,000 | Total |
|---|---|---|---|---|---|---|---|---|
| Percent of beer drinkers | 38.2 | 12.2 | 8.8 | 9.2 | 10.4 | 9.8 | 11.4 | 100.0 |
| Percent of U.S. Adult Population | 32.8 | 11.5 | 9.1 | 9.6 | 10.9 | 10.8 | 15.3 | 100.0 |

Source: *Adams Beer Handbook 2006*

**Higher-income consumers are much more likely to drink beer than people with low incomes.** Over half (54.1%) of adults earning $75,000 or more are beer drinkers, whereas only 34.6 percent of individuals earning less than $20,000 are beer drinkers.

## Percentage of Persons Who Drink Beer by Income Level

| Category | $75,000 and over | $60,000-$74,999 | $50,000-$59,999 | $40,000-$49,999 | $30,000-$39,999 | $20,000-$29,999 | Under $20,000 |
|---|---|---|---|---|---|---|---|
| Percent of beer drinkers | 54.1 | 49.2 | 45.2 | 44.4 | 44.1 | 42.0 | 34.6 |
| Total Population (millions) | 65.9 | 23.2 | 18.3 | 19.3 | 21.9 | 21.8 | 30.7 |

Source: *Adams Beer Handbook 2006*

**Bottom line on alcohol taxes and lower-income consumers:** Low-income people, overall, drink less than upper-income consumers. The percentage of low-income families that buy alcoholic beverages is significantly less than the share of upper-income consumers who do. Fewer than half of families in the bottom quintile spend any money on alcoholic beverages.

Even though low-income consumers have far less income, the percentage of their total expenditures devoted to alcoholic beverages is not much different from what upper-income consumers spend.

And, among alcohol consumers, heavy expenditures for alcohol are far more concentrated within a small percentage of low-income families than they are among wealthier consumers. Thus, only a very small minority of lower-income consumers feels the brunt of alcohol taxes today or would be affected by alcohol-tax increases.

# Projected Average Cost per Resident of Illinois State Institutions serving People with Developmental Disabilities during FY 2009

| Facility | Number of Residents as of February 1, 2009 | Average Annual cost per Resident |
|---|---|---|
| Mabley, Dixon | 86 | $140,566 |
| Kiley, Waukegan | 214 | $149,635 |
| Fox, Dwight | 132 | $159,391 |
| Jacksonville | 213 | $150,313 |
| Choate, Anna* | 259 | $155,670 |
| Murray, Centralia | 305 | 128,058 |
| Howe, Tinley Park | 297 | $176,996 |
| Ludeman, Park Forest | 370 | $126,047 |
| Shapiro, Kankakee | 540 | 139,014 |
| | | |
| TOTAL | 2416 | $145,246 |

*172 of whom have a diagnosis of developmental disabilities.

NOTE: Average DHS payments to private providers serving persons with moderate to severe disabilities living in a CILA group home are from $46,361 to $54,828 per resident. The average cost of serving these individuals is approximately $75,000. This would still be about half the cost of serving them in a state institution.

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**3/9/09**

# Illinois Alliance
# For Home and Community Care

## Testimony for the Deficit Reduction Committee
## March 10, 2009
## 9:00 AM, Room 212 Capitol Building

Thank you Mister Chairman and Members of the Committee

The Alliance for Home and Community Care is an informal group of aging service advocates and organizations that support a holistic and comprehensive approach to aging services in Illinois. The Alliance includes the major home and community based service associations for aging service providers and was organized by Illinois AARP. The individual organizations that constitute the Alliance will be presenting testimony to the Deficit Reduction Committee individually. The dollars directed towards each line item and service category in the Illinois Department on Aging budget represents a deep and concerted effort by local community service agencies to reach and serve older persons to the best of their ability. The striking element of this effort is that their programs fully involve the faith based community, local governments, volunteers, United Ways, community foundations, individual donations, corporate support and fees paid by older persons and their families to provide care for their older loved ones.

It is the responsibility of each program to explain their relationship to the serious work of this committee as to which State investments may be reduced or changed to assure that Illinois deals with the immediate deficit situation. It is clearly in your agenda to not permit the present problem to deny the demographic and service imperatives of the future growth and needs of each population. We will be coalescing around your decisions to support initiatives that will pay for the services that are so well conceived in the Department on Aging budget, and to offer our support of the current aging service network and the remarkable outcomes they deliver with modest state support.

We highlight the importance and value of the following senior services which Illinois provides leadership and support with state funding:

**Older Americans Act Services:** These are services coordinated and funded by the Area Agencies on Aging which are the entities that draw down over $60 million in federal support for such community services as home delivered meals, senior centers, luncheon programs, transportation, information and assistance with finding help for older adults and their caregivers, and a variety of other service staples in your districts These services are available to all of your senior constituents regardless of their current financial status. Because funding for these programs are limited to the appropriation levels increases in the costs of providing these services place severe strain on these programs causing them to limit the amount of service they can provide or the areas they can cover. Already these services are supported by federal funds and local matching dollars in addition to state dollars. Reductions to funding will result in further limitations on the number of services they can provide and the regional coverage areas.

**Community Care Program:** The Community Care Program provides home and community based options for care for older adults that would otherwise be eligible for nursing care services through a federally matched Medicaid waiver. While this program meets the needs of older adults in the environment seniors prefer, it also provides a significant cost savings to the state. These services are provided at only a fraction of the cost of facility based care and every single client on the program meets the disability threshold for nursing care. Reductions in funding for these services have already created an unprecedented back log in bills carried from one year to the next. If funding continues to fall short these seniors will have only one option for service and that is facility placement. On average, this option will over double the amount the state will pay for their care.

**Comprehensive Care Coordination.** Illinois is supporting a remarkably effective system of individual advocacy, planning for care and effective gatekeeping for state and federal Medicaid waivered services in the Case Coordination Unit system. Now that all older persons in Illinois are able to access a comprehensive assessment, guidance on available services and costs, and assistance in staying in their own homes and communities as long as it is wise, we are just beginning to see the full impact on the costs and care responsibility of the State. We ask that this commitment be sustained at utilization levels and the important measurements of success be followed without disruptions over the next year.

**Long Term Care Ombudsman:** The long term care ombudsman program protects the rights of older adults in long term care facilities. This program works at a local level often with volunteers to visits long term care facilities to ensure that the residents are safe and receiving the care they need. The ombudsmen work closely with monitors from the Department of Public Health to identify and fix problems seniors in facilities face. A part of the funding for this program comes from federal penalties which are expected to be reduced this year.

**Elder Abuse and Neglect:** The Elder Abuse and Neglect received reductions in funding last year. These services are critical for finding solutions for older adults that are being abused. Law enforcement is not enough. Often the abuser is also providing critical care and if there are no support options available the abused senior feels they must continue to live in a dangerous environment. A few years ago self neglect laws were passed by the legislature but no funding has yet been appropriated to implement the provisions of the law.

**Senior Health Assistance Programs.** – Community agencies are providing a remarkable service to over a half million Illinois citizens through the provision of accurate and coordinated information on pharmaceutical and other health benefits designed to reach Illinois Senior and Disabled citizens. Illinois programs lead the nation in responsiveness, wrap around effectiveness and citizen's appreciation. This system is faced with major changes in funding and significant challenges in the coming year. We have demonstrated that support for pharmaceutical assistance and access to those benefits contribute to the reduction in the numbers of long-term care facility clientele each year. In Illinois, the savings related to nursing home diversion are have a ration of close to 4 to 1 each month.

**Home Health:** Home Health Care is skilled nursing, home health aide, occupational, physical and speech therapy services provided in the home for treatment of an illness or injury. The services are prescribed by a physician to home bound patients. Without this care patients would have to receive higher cost of care services in a hospital, rehabilitation facility or nursing home.

These services allow older adults to remain safe and independent as they get older and begin to struggle with the effects of aging. But these services also represent exceptional cost savings to the state through federal and local matching funds, as well as cost efficient alternatives to state funded institutional placement. The Illinois Alliance encourages this committee and all elected leaders to support funding for these programs but also to recognize the cost to state funds and human dignity of cuts to these services.

Illinois Association of Community Care Program Homecare Providers
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**Written Testimony – March 10, 2009**
**Committee on Deficit Reduction**

The Illinois Association of Community Care Program Homecare Providers (IACCPHP) represents dozens of provider agencies who are contracted with the Illinois Department on Aging (IDoA) to provide homecare services through the state's Community Care Program (CCP).

Each year, the Community Care Program provides home and community based services to over 50,000 of Illinois' most frail elderly citizens who would otherwise be eligible for nursing home placement. Services provided through the CCP meet the needs of these older adults and allows them to remain in their own home and community – the environment they prefer. And as the 76 million baby boomers continue to age and become in need of in-home and community supports, the demand for homecare, and the expectation it will be available, continues to grow. CCP services provide a significant cost savings to the state, as these services cost a fraction of the expense of facility-based care. Reductions in funding for CCP services have already created an unprecedented back log in bills carried from one year to the next. If funding continues to fall short, these seniors will have only one option for service and that is facility placement. On average, facility-based care will more than double the amount the state will pay for their care.

Additionally, approximately 19,000 hardworking homecare aides provide services to the 50,000-plus CCP clients. Over the past several budget years, critical wage and benefit (including health care) increases have been secured for this workforce. Reductions in the CCP will lead to reductions in employment, wages earned and benefits received, leveling another blow to the economy and creating a step backward that threatens the viability of the current and future in-home care service delivery infrastructure.

Recognizing the role each of us play in securing and ensuring critical social services, the Association supports thoughtful and reasonable revenue enhancements for the state of Illinois.

IACCPHP is a member of AARP's Alliance for Home and Community Care, and as such we recognize the vital importance all senior services play in ensuring a healthy home and community-based infrastructure of services for seniors.

If you have questions please contact: Sue Bohenstengel IACCPHP Executive Director at (708) 488-8995, or Kimberley Cox IACCPHP Legislative Chair at (217) 585 6693 or at kcox@addus.com

# I4A ILLINOIS ASSOCIATION OF AREA AGENCIES ON AGING

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**Testimony to the Senate Committee on Deficit Reduction – March 10, 2009**
From Mike O'Donnell, Chairperson, I4A Legislative Committee

Good morning, Senator Trotter, Senator Murphy and Members of the Committee: The Illinois Association of Area Agencies on Aging would like to thank you for the opportunity to provide testimony on the vital role of home and community-based services for older adults in Illinois.

Our Association represents thirteen Area Agencies on Aging serving Illinois seniors and family caregivers in partnership with the Illinois Department on Aging, 255 community programs on aging, and 75 nutrition projects. Currently over 600,000 older adults and caregivers receive community-based services through the Illinois Aging Network.

Home and community-based services empower consumers to make informed decisions about their care options; help consumers adopt behavior changes that will reduce their risk of disease, disability and injury; and divert people away from unnecessary nursing home care.

Home and community-based services are cost-effective and control the rate of growth of private and public expenditures for health care. Home and community-based services represent a growing industry in the economies of our state and local communities, and contribute to the quality of family life and work life.

Our Association urges the Members of the Illinois General Assembly to continue your commitment to providing state funding in support of home and community-based services in Fiscal Year 2010, including:

**$5,017,300 for Community-Based Services.** This includes $3,062,300 allocated to the 13 Area Agencies on Aging through the Intrastate Funding Formula on the basis of demographic factors and $1,955,000 allocated in equal allotments to each of the Area Agencies on Aging for FY2009. Community-Based Services reach over 590,000 Illinois Seniors annually, including:

- Information and Assistance for 428,859 older adults
- Transportation for 28,546 older adults
- 2.9 million congregate meals for 77,261 older adults
- Health promotion including evidence-based healthy aging programs for 41,450 older adults
- Caregiver Support services for 99,768 family caregivers
- Respite services for 2,500 caregivers of older adults
- Support services for 4,979 grandparents raising grandchildren
- Legal assistance for 7,194 older adults and their caregivers

**$9,969,600 for Home Delivered Meals.** These funds are allocated to the 13 Area Agencies on Aging to support home delivered meals provided by senior nutrition programs. In FY2009 Area Agencies on Aging project 7.8 million home delivered meals for 43,200 older adults. Continued state funding is essential to respond to the growing demand for meals and cost increases due to the implementation of national standards for Dietary Reference Intakes (DRIs) and the rising costs of food, utilities, and delivery. The 2009 Home Delivered Meal Report published by the Illinois Department on Aging found that the average cost per home delivered meal has increased by $0.45 from $6.10 in 2007 to $6.65 in 2008 (+7.25%).

**$2,500,000 for the Senior Health Assistance Program (SHAP).** In 2008 the Area Agencies on Aging and local service providers helped over 300,000 older adults and persons with disabilities to complete applications for pharmaceutical assistance. In 2008 SHAP workers reported 245,699 consumer contacts, counseling sessions with 127,569 clients, 25,968 outreach visits, 2,109 community education events, 38,023 completed applications for Low Income Subsidies (LIS) to the Social Security Administration, 14,800 enrollments in Medicare Part D plans, and 114,577 completed applications for Circuit Breaker property tax relief, Illinois Cares Rx, and other assistance programs.

**$515,899,300 for the Community Care Program.** This includes $446,899,300 in the FY2009 budget and an additional $69,000,000 to cover the deficit the Community Care Program will bring into the FY2010 budget. The Community Care Program provides home and community-based services to over 50,000 vulnerable adults each month. I4A defers to the Department on Aging for data on CCP expenditures and cost projections.

**$43,428,600 for Comprehensive Care Coordination through Case Coordination Units.** This is the level of funding appropriated by the General Assembly for FY2008 and FY2009. CCUs provide comprehensive care Coordination to an estimated 74,000 vulnerable adults annually. CCUs have not received a rate increase since FY2000. CCUs have been assigned additional tasks to perform but the rate for the new tasks was based on the rate established in FY2000.

**$15, 641,400 for the Elder Abuse and Neglect Program.** This includes the FY2009 level of $12,041,400 and $3,600,000 for the implementation of a program for self neglect of vulnerable older adults under the Elder Abuse, Neglect and Exploitation Program. In FY2008 the program investigated 10,574 complaints – a 10% increase from FY2007. Since January 1, 2007, the program has received 2,632 reports of self neglect of vulnerable older adults.

**$1,591,000 for the Long Term Care Ombudsman Program.** This includes $391,000 funding level for FY2008, the $450,000 increase approved by the General Assembly for FY2009, and $750,000 needed to make up for the possible loss of funding from the Civil Monetary Penalty fund. In FY2008 the LTC Ombudsmen investigated 8,138 complaints on behalf of older residents of 1,183 licensed skilled and intermediate nursing facilities with 113,723 beds, 200 licensed Assisted Living Facilities with 8,921 units, and 108 certified Supportive Living Facilities with 8,300 units.

The Illinois Association of Area Agencies on Aging also requests continued state funds in FY2010 for the following:

**$50,686,900 for the Circuit Breaker Pharmaceutical Assistance Program.** In 2008, the Illinois Department on Aging reported 245,138 eligible individuals enrolled in the Illinois Cares Rx pharmaceutical assistance program, including 60,917 enrolled in Illinois Cares Rx Basic, and 184,221 enrolled in Illinois Cares Plus. I4A defers to the Department on Aging and HFS for data on Illinois Cares Rx expenditures and projected costs.

**$1,650,000 for the Senior HelpLine** administered by the Illinois Department on Aging. In FY2008 the Senior HelpLine handled a total of 147,915 calls.

**$2,241,700 for Planning & Service Grants** to the Area Agencies on Aging, which provide essential state funds to match federal funding under the Older Americans Act.

**$276,000 for Long Term Care System Development** grants to the Area Agencies on Aging to assist the Illinois Department on Aging in administering the Community Care Program and promoting quality improvement for home and community-based services.

**$264,300 for Senior Employment Specialists** administered by Area Agencies on Aging. Senior Employment Specialists help older adults seeking employment and training opportunities in collaboration with Illinois WorkNet Centers.

**$336,500 for Grandparents Raising Grandchildren Programs** administered by the Illinois Department on Aging.

**$782,000 for Retired Senior Volunteer Programs.** In 2008 there were 16,509 adults 55 years of age and older enrolled in 23 RSVP programs, providing services through more than 2,300 community organizations in Illinois.

**$342,100 for Foster Grandparent Programs.** In 2008 there were 1,045 Foster Grandparents with 9 projects serving one-on one as tutors and mentors to more than 5,300 young people.

**$400,000 for the Red Tape Cutter program serving Suburban Cook County.** In 2008 Red Tape Cutters leveraged over $14 million in federal, state and local benefits for older persons.

**$603,600 for the Red Tape Cutter program serving the City of Chicago.** In 2008 Red Tape Cutters leveraged over $25 million in federal, state, and local benefits for older persons.

Thank you for your continued support for Home and Community-Based Services for Illinois Seniors and their families.

I welcome your questions.

If you need further information please contact me.

<u>Contact Information</u>:

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# Illinois Coalition Against Domestic Violence

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Written Testimony presented to
Committee on Deficit Reduction
March 10, 2009

My name is Vickie Smith. I am the Executive Director of the Illinois Coalition Against Domestic Violence. Thank you for the opportunity to present this testimony on behalf of the membership of ICADV. I have been involved in working to end violence against women and children since 1982. The membership of ICADV is made up of 53 local agencies that provide direct advocacy, shelter and supportive services to victims of domestic violence and their children. 19 of these programs are also certified by Department of Human Services Bureau of Domestic and Sexual Violence Services and Prevention to provide partner abuse intervention services. The Bureau also funds victim services and certifies partner abuse intervention programs that are not members of ICADV.

These programs in your communities are just like the fire department. They are available 24 hours a day, every day of the year. They never close and are always just a hotline call away. They provide emergency shelter for domestic violence victims and their children, legal advocacy, group and individual counseling for the adults and the children, advocacy with other needed services such as schools, medical providers, TANF, substance abuse and mental health providers, and others as required. In many cases, they also provide other basics such as food, diapers, money for medicine for families who are not in shelter but struggle with day to day needs to remain violence free in their homes.

Over the last three decades we have seen the support for services to domestic violence victims and their families ebb and flow. As with most human services, our opportunities rise and fall with the economy. When the economy is doing well, our programs are able to respond to the requests for assistance more proactively. Then when the economy falters, our programs find themselves hunkering down and cutting back to the bare necessities just so they can be available to the most vulnerable.

During this same time frame, the issue of domestic violence and accompanying problems have permeated our social conscience to the point that most people now understand that physical violence is unacceptable in our home. We all deserve to be safe. We have created shelters and safe places for those in immediate danger to stay until they can get a court order for protection or make other arrangements for a place to live.

The Illinois Legislature has provided a revenue stream for domestic violence intervention services since 1985. When the state budget was solid and stable, this line item grew over time. During the current decade, there have been small increases and decreases that have left the state portion of these services barely $100,000 higher than 10 years ago.

By the same token, the requests for services continue to rise. This is a good thing. More and more people understand that they do not have to spend their lives being terrorized in their own home by someone they love. They no longer have to raise their children to believe that this is the way family life has to be. This does lead people to believe that when they finally get the courage to call for help, the help is going to be there. Today, programs are looking at making tough decisions about how much availability they can continue to provide given the loss of funding at the national, state and local levels.

Over the last two years, the funded programs in Illinois have experienced significant cuts in the federal funding streams and the local private dollars that make up the rest of their operating budgets. They have had to cut back or lay off staff in an era where the demands have risen exponentially. During one 24 hour period in September 2008, 65 of the DHS funded domestic violence programs in Illinois reported receiving 1,217 hotline calls for service or information. During this period, the programs provided shelter to 1,104 adults and children and another 1,722 adults and children received counseling and advocacy. 909 people were not able to get their requests met due to a shortage of staff able to meet their needs. Programs continue to try to respond to more and more people with fewer and fewer resources. The alternative is more homelessness, increased police calls and more individuals living in their homes in fear.

Absolute minimum, the general revenue line for domestic violence services needs to come back to SFY 2002 level of $22,119,200.00. Best scenario would be to add an additional $17,000,000.00 to get programs all over the state up to a level where they did not have to refuse services to anyone asking for assistance. This ultimately has a cost benefit to the state. The fewer children we have growing up in violent homes, the fewer domestic violence services we will need in the future.

Since the 1980's ICADV and its members have searched for revenue enhancements that are acceptable to support these programs. Our initial marriage license fee was found unconstitutional. Last year, the legislature passed a bill allowing an additional $5.00 dollars added to marriage license fees. This money goes into the Married Families Domestic Violence Fund and is appropriated through the Attorney General to support legal advocacy services. This just went into affect in June of 2008 and has not yet garnered enough income to be allocated. There has been previous consideration of a divorce fee but has not been fully explored. Based on the finding of the Supreme Court in the 1980's the types of funding streams that have been considered must be supporting court services. This does not help us fund core emergency services. ICADV is always reading to discuss other possibilities.

Thank you for your time and attention. I appreciate the difficult job you have in crafting a budget during this recession. I encourage you to hold to the adage, penny wise is pound foolish.

**<u>WRITTEN TESTIMONY FOR HEARING OF COMMITTEE ON DEFICIT REDUCTION</u>**
**March 10, 2009**
**Submitted by the Illinois Council of Case Coordination Units**

The Illinois Council of Case Coordination Units would like to thank you for the opportunity to provide comments as you begin the process of making decisions concerning the Illinois State budget deficit. The Illinois Council of Case Coordination Units is a member association of case coordination units and elder abuse provider agencies serving over 90,000 older adults annually across the state.

The persons served through case coordination units and elder abuse agencies are the frail and vulnerable older adults in all of our communities. The Illinois Council of Case Coordination Units is greatly concerned that any erosion of the services which support these frail and vulnerable older adults would have a catastrophic impact on their health, safety, and ability to remain in their community residence. They depend on these services to provide for their necessary daily living tasks which enable them to remain in their homes and to protect them from abuse, neglect, and exploitation.

The Illinois Council of Case Coordination Units recommends that State of Illinois continue the commitment to supporting frail older adults to live in their community residence and commitment to protecting them from abuse, neglect and exploitation by providing funding for services the following services:

- Comprehensive Care Coordination through the Case Coordination Units. Case Coordination Units have not received a rate increase since FY2000. They have received additional tasks to perform but the rate for the new tasks was based on the rate established in FY2000. Case Coordination Units assist older adults through comprehensive care by assessing the needs, prescreening before a nursing home placement, and arranging for services and programs which enable them to remain home or return to their home following a nursing home placement. Examples of comprehensive care coordination include: evaluating the home environment and accessing programs to modify the home; completing Medicaid, Circuit Breaker, Illinois Cares RX, Medicare Part D, Energy Assistance, Weatherization, and other assistance applications; arranging for home delivered meals and transportation; coordinating with home health services; evaluating behavioral health needs including alcohol and substance abuse screenings, depression screenings and making referrals as needed; determining eligibility for the community care program, developing care plans and monitoring community care program services. These programs and services are woven together by care coordinators into a care plan addressing their health, medication, behavioral health, financial, home environment, legal and activity of daily living needs. For frail older adults in our communities, a reduction in any piece of their plan would most likely result in the need to enter a nursing home for care.

- Elder Abuse and Neglect Program. Vulnerable older adults are targets for abuse, neglect and exploitation. The Program investigated 10,574 complaints during FY2008. We must remain committed to this problem and not allow older adults to be abused, financially exploited, or neglected in our communities. We must address the problem of self neglect. It is a growing problem which Illinois recognized through previous legislation. However, program implementation continues to wait for funding. It is time to appropriate funds to address this statewide need.

- Community Care Program. The Homemaker, Emergency Home Response Systems, and Adult Day Services provide essential daily and safety needs for the most frail of our communities' older adults. A cut to these services will place them in a nursing home or at risk resulting in an earlier nursing home placement. The impact on their quality of life for this small amount of funding is immeasurable.

- Long Term Care Ombudsman Program. The Ombudsman Program provides advocacy on behalf of nursing home residents. They provide them with a voice to resolve complaints and assure their rights as residents in licensed care facilities in Illinois.

In addition to the services above which support those most frail and vulnerable of our older adults, the ICCCU supports the funding which create a community network of support for older adults including:

- Community-Based Services
- Planning and Service Grants for Area Agencies on Aging
- Home Delivered Meals
- Senior Health Assistance Program (SHAP)
- Red Tape Cutter Program
- Long Term Care Systems Development
- Senior Employment Specialist Program
- Programs serving Grandparents Raising Grandchildren

The Illinois Council of Case Coordination Units understands the difficulties faced by the State of Illinois. We urge that careful consideration be given to the long term impact of an erosion of the services for older adults. We believe that services in the community are cost effective for the State of Illinois. As the number of older adults continues to grow, we must decide where we should prepare to provide care. We must make difficult decisions that serve us now and will also serve us in the future. To that end the ICCCU believes a state income tax increase is an important component to an overall revenue package for the State

On behalf of the Illinois Council of Case Coordination Units, I thank you for this opportunity to provide testimony.

Respectfully submitted,

Amy Reeser, Co-President
Deb Hartshorne, Co-President

IPHCA

Illinois Primary Health Care Association

**IPHCA Written Testimony**
**Senate Committee on Deficit Reduction**
**Tuesday, March 10, 2009**

The Illinois Primary Health Care Association (IPHCA) represents all of Illinois' Community Health Centers (CHCs), which provide quality, comprehensive and affordable care to all individuals, regardless of insurance status or ability to pay. Currently, there are over 300 health center sites statewide, providing access to primary, dental and mental health care to over 1 million patients annually. Of those 1 million patients, nearly 50% are enrolled in Medicaid, Family Care or the All Kids program, while 32% have no insurance at all.

MEDICAID MEDICAL HOME

**HFS: Maintain Illinois Health Connect**

Representing the State's largest network of safety-net providers, IPHCA would like to express concerns over proposed changes to the current Medicaid and All Kids programs, specifically the recommendations for mandatory enrollment in Managed Care Organizations (HMOs) made by the Civic Committee of the Commercial Club of Chicago. Illinois has already implemented Illinois Health Connect, a nationally recognized primary care case management (PCCM) program, which features mandatory enrollment for Medicaid and All Kids recipients. Given the chance to become fully operational, this program will provide Illinois' medical assistance programs with greater cost savings and better health outcomes for patients.

As opposed to Managed Care Organizations, which are often driven to make a profit by restricting a physician's ability to practice in the patient's best interest, the PCCM model achieves savings through a patient-centered relationship focused on comprehensive, coordinated care provided in a medical home. Illinois Health Connect requires patients to choose a primary care physician to ensure that patients and their families receive the necessary primary and preventive care to keep them healthy, avoiding costly and unnecessary visits to the ER.

In addition to Illinois Health Connect, a disease management program called Your Healthcare Plus was implemented in 2006 which provides significant guaranteed savings by interventions with Medicaid enrollees who incur the largest health care costs. Most estimates of savings from mandatory enrollment in Managed Care Organizations are largely attributable to disease management principles already underway in Illinois.

PAYMENT CYCLE

**HFS: Reduce and maintain payment cycle with $2.9 billion in additional federal match**

With the passage of the federal stimulus package, Illinois has a real opportunity to use the increased federal matching funds to address the issue of the Medicaid payment cycle. For too long, Illinois has been balancing the state budget on the backs of providers responsible for the health and welfare of its most vulnerable populations. As safety-net providers, the slightest change in payment cycle or rates can have devastating effects on a health center's ability to fund its operations. Because over 30% of CHC patients are uninsured and nearly 50% are covered by Medicaid, health center administrators cannot simply shift costs onto the remaining 20% of patients. In December, some payments to CHCs were over four months which seriously threatened the sustainability of their operations. Additionally, payment cycles for most Medicaid providers, including hospitals and nursing homes must meet the 30-day requirements of the federal Prompt Payment Act for Illinois to be eligible for the additional Medicaid match. Unfortunately, CHCs are not covered by this mandate so if the state chooses not to apply the same payment standard to these providers, the health care for over 1 million of the state's most vulnerable citizens will be compromised and could result in more people needing to seek costlier care in hospital emergency rooms.

COMMUNITY HEALTH CENTER EXPANSION PROGRAM

**DPH: Maintain FY09 appropriation of $9.9 million**

Even with a fully funded Medicaid program, there will still be areas of the state that lack access to primary care and providers willing to take Medicaid and uninsured patients. In 2001, the General Assembly passed legislation creating the Community Health Center Expansion Act, which provides competitive grants to CHCs for start-up and operating costs associated with the expansion of new sites and services in underserved communities. These grants place Illinois health centers in a better position to leverage federal grant funding to help sustain the operational costs of the health center permanently.

To date, the Department of Public Health has awarded 48 grants, including four just announced in February 2009. Unfortunately, the four recently announced grants were pulled back by the Department as part of the FY09 budget review process. Our understanding is that projects are being reviewed on the basis of life, health and safety concerns. While we do understand the severity of the state's fiscal situation, we would hope that a review of this important program will demonstrate the need for expanded health services in the following communities:

- Lawndale Christian Health Center – Chicago
- Christopher Rural Health Planning Corporation – Johnson City
- Great Elgin Family Care Center – Elgin
- Community Health Care, Inc. – Moline

However, if the decision is made by the administration not to fund these projects in FY09, IPHCA respectfully requests the program continue to be funded at its current appropriation of $9.9 million in FY10 and that these four projects be awarded on July 1, 2009, with the beginning of the new fiscal year.

*Please note that because the grants are awarded in 3-year cycles, reductions to the current appropriation will cut into the base of the program, placing previously initiated projects in jeopardy of not being completed. Likely outcomes of such cutbacks include reductions in operating hours, available services, patients seen, and jobs provided for both professional and administrative staff in underserved areas of the state.

ELECTRONIC HEALTH RECORDS

**DPH: Maintain FY09 appropriation of $500,000 for IPHCA EHR Project**

EHR systems not only improve quality of care, they also reduce medical errors, improve patient safety, reduce healthcare delivery costs, improve clinical documentation to support appropriate billing services (including Medicaid), and meet the requirements of legal, regulatory and accreditation standards. However, because many health centers lack the resources necessary to purchase these large systems, IPHCA convened a committee in late 2004 to conduct an extensive investigation to determine the most cost-effective means of making new technologies available to its members.

As a result in 2006, IPHCA began the process of developing and implementing a statewide EHR system, known as e-Net. Initial implementation for the first five community health centers will begin spring 2009. The first group of centers to be placed on the network will include:

- Central Counties Health Centers, Inc., Springfield
- Community Health Improvement Center, Decatur and Champaign
- Chicago Family Health Center, Chicago, South Chicago, Roseland
- Christopher Rural Health Planning Corp., Christopher (Williamson and Franklin Co.)
- Southern Illinois Healthcare Foundation, East St. Louis

Combined, these organizations serve 174,000 patients. In 2007, they provided in excess of 580,000 unduplicated patients visits at over fifty clinic sites across Illinois. They also employ nearly 1,000 staff including doctors, nurses, dentists and other health care professionals. While implementing the initial phase of e-Net, IPHCA is also working with fourteen other health centers on issues of readiness and execution of the Management Services Agreement (MSA).

Thus far, IPHCA has secured funding for the e-Net project from a variety of different sources, which include Congressional earmarks, federal grants dollars, and approximately $1 million in grant support from the State of Illinois. IPHCA estimates that by the end of June 2009, $3.9 million in combined federal, state and MSA assessments will be spent to purchase the infrastructure, equipment, software, and other expenses associated with planning and implementation for the first five health centers. However, total capital cost for the next phase is estimated at $2.4 million. Therefore, IPHCA respectfully requests maintaining the current appropriation of $500,000 in the Department of Public Health's budget to support the implementation and expansion of this statewide project.

The federal stimulus package does include funding for health information technology, which will be administered by the Department of Healthcare and Family Services in Illinois. Funding will come in the form of enhanced Medicaid payments to providers with a certified EHR system – with preference given to safety-net providers, such as Community Health Centers and Rural Health Centers. A fully implemented EHR system will place IPHCA members in a better position to draw down these federal dollars.

COMMUNITY HEALTH CENTER CONSTRUCTION PROGRAM

**DPH/CDB: Include $50 million in statewide capital spending bill**

Part of the Community Health Center mission is to meet the needs of underserved communities by continually expanding sites and services in areas currently lacking access to primary care. However, given their non-profit status and the population they serve, health centers often find it difficult to access the financing necessary for large capital projects. SB 150 (Clayborne) and HB 208 (Feigenholtz) establish a competitive grant program to provide health centers a portion of the capital funds necessary to leverage additional financing from banks, foundations and the community. Additionally, providing capital funds to Community Health Centers will also have the benefit of creating both construction jobs and long-term professional and administrative jobs in underserved communities throughout the state.

As drafted, HB 208 and SB 150 specifically state that funding for the CHC Construction program is contingent upon the appropriation of capital funds. **IPHCA is seeking $50 million in the statewide capital spending bill to fund this program – an amount expected to be spent over several years.** Last year, CHCs were specifically included in the capital bill that passed the Senate. Several other states, including Missouri, have recently passed CHC Capital programs.

REVENUE ENHANCEMENTS

In light of the State's current fiscal situation, the IPHCA Board of Directors recently voted to amend our 2009-2011 State Legislative Agenda to include the following language:

> **Support state revenue enhancement proposals which provide adequate funding (1) for the State's Medical Assistance programs; (2) for programs that directly or indirectly impact IPHCA and community health centers; and (3) to meet the State's current and future obligations to avoid delayed state payments and reductions in programs directly or indirectly impacting IPHCA and community health centers.**

INVESTING IN COMMUNITY HEALTH CENTERS

Investing in health centers generates substantial benefits for patients, communities, payers, and state and local governments. Even though health centers treat more chronically ill and uninsured patients now than at any time in their 40 year history, they are still able to further reduce the use of costly emergency departments, hospitals, and specialty care.

Health centers **save the health care system between $9.9 and $17.6 billion a year** – a figure that will grow as health centers do.

Medicaid beneficiaries relying on health centers for usual care were **19% less likely to use the emergency department for an ambulatory care sensitive (ACS) condition and 11% less likely to be hospitalized for an ACS condition** than Medicaid beneficiaries using outpatient and office-based physicians for usual care.

Patients living in underserved areas with a health center have **5.8 fewer preventable hospitalizations per 1,000 people over 3 years** than patients who live in areas where there are no health centers. **In 2006, $ 853,731,297 was wasted on avoidable ER visits in Illinois.**

If avoidable visits to emergency rooms were redirected to health centers, **the nation could save over $18 billion in annual health care costs.**

IPHCA is proud of our strong partnership with the State of Illinois and look forward to continuing our work to provide access to care in the State's most underserved communities.

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Sources: NACHC, *Safety Net on the Edge*, August 2005; *Nation's Health at Risk I* (March 2004), *II* (August 2004), *and III* (March 2005). Proser et al *JACM* (2005). Falik M et al *Medical Care* (2001). See www.nachc.com/research. For more information, email research@nachc.com.

Planned Parenthood®
of Illinois

**Statement on PPIL's Budget Concerns**
**Pamela A. Sutherland, Vice President of Public Policy**
**Senate Deficit Reduction Committee**
**March 10, 2009**

**1. What areas of the state budget are you interested in protecting and why are those areas important?**

**Planned Parenthood of Illinois (PPIL) strongly supports funding for continued access to reproductive health care and family planning services through the Illinois Department of Human Services Family Planning Program and the Illinois Department of Healthcare and Family Services Medicaid and Illinois Health Women Programs. PPIL strongly opposes any effort to shift Medicaid patients into a managed care system.**

The overwhelming majority of patients served by PPIL are in need of subsidized family planning services (only 8% have health insurance coverage). Overall, 28% of our patients are on Medicaid and 27% are supported by Medicaid (including Illinois Healthy Women). Some of our health centers serve even higher proportions of Medicaid eligible patients. At our Englewood center, 70% of our patients are supported through Medicaid. The individuals who come to PPIL health centers are seeking basic health care services like Pap smears, breast exams, and birth control. For many of the individuals we serve, we are their only health care provider. If funding is cut for family planning or reproductive health care services, they would have nowhere else to go.

The cost of unintended pregnancy can be significant to the State of Illinois and society as a whole. About 42% of all births in Illinois are unintended. About one in six of Illinois women of child bearing age are without health insurance coverage. 58% of the births to women on Medicaid were unintended. The cost of an uncomplicated vaginal birth is about $5,000. If there are complications, the costs can go into the hundreds of thousands or even millions. And complications are more likely with unintended pregnancies because they are more likely to result in babies with low birth weight and other problems. These complications can lead to life-long medical problems for the women and children involved.

In recent years the number of sexually transmitted infections (STI's), like chlamydia and gonorrhea, has been on the increase. The longer these diseases are left untreated the more expensive it is to treat them. The chances of complications and infertility also increase. Likewise, it is always healthier and more economical to detect diseases like breast cancer, cervical cancer, diabetes and hypertension as early as possible. The best option, however, is to prevent these diseases altogether through patient education and counseling.

The patients who receive family planning services at PPIL health centers understand the personal and economic costs of unintended child bearing and untreated disease. They are trying to prevent these costs by obtaining reproductive health care services. Each year the Illinois Family

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Planning Program prevents about 36,000 pregnancies. Access to family planning services through Medicaid also prevents many more. Moreover, thousands of women and men are tested and treated for STI's through these programs. This saves the State of Illinois millions in taxpayer dollars for the potential costs related to prenatal care, delivery, newborn care, and disease treatment. In fact, according to the Guttmacher Institute, every $1.00 invested in helping women avoid pregnancies they did not want to have saved $4.02 in Medicaid expenditures that otherwise would have been needed. State expenditures for family planning can capture federal funding. Every $1 spent by the State under the Illinois Healthy Women Program brings in $9 in federal funds. Therefore, an investment in family planning and reproductive health care services can bring enormous financial benefit to the State of Illinois. This is why PPIL believes it would be short sighted for the State to cut funding for family planning and reproductive health care services.

For family planning and reproductive health care programs in Illinois to be successful, they must remain voluntary and allow for patient autonomy. Because of the sensitive and personal nature of reproductive health care, patients must be comfortable with their medical provider. Likewise, a successful reproductive health care provider must be willing and able to provide additional education and counseling. Thus, shifting Medicaid patients into a managed care system would work against these principles by forcing patients to see providers with which they may not be comfortable or those that may not have the particular expertise to serve their needs. When faced with this, many patients will forego care and become at greater risk for unintended pregnancy or STI's. Therefore, PPIL firmly opposes any proposals to move Medicaid patients into managed care.

**2. What revenue enhancements would you recommend be implemented to support those areas?**

**PPIL supports all of the revenue enhancements that have been receiving recent media attention including, but not limited to, an income tax increase, a tobacco/cigarette tax increase, and additional gaming revenue.**

**WRITTEN TESTIMONY FOR HEARING OF COMMITTEE ON DEFICIT REDUCTION**
**March 10, 2009**
**Submitted by Shawnee Alliance for Seniors**

Thank you for this opportunity to provide written testimony from Shawnee Alliance for Seniors, a division of Shawnee Health Service and Development Corporation, on the Illinois Budget Deficit Reduction. For twenty-six (26) years, Shawnee Alliance for Seniors has been providing services to older adults in southernmost Illinois (lower thirteen counties). Shawnee Alliance is a case coordination unit and elder abuse provider agency. Shawnee Alliance provided services to 9,498 of the 59,199 older adults living in our thirteen county area during FY08 (16.04% of all persons age 60+ ).

The older adults served through the Shawnee case coordination units and elder abuse program are frail and vulnerable. They depend on the services provided for their health, safety, and ability to remain in their own home. These services provide for their necessary daily living tasks which enable them to remain in their homes and to protect them from abuse, neglect, and exploitation.

Shawnee Alliance for Seniors recommends continued priority be given to the following programs:

- Comprehensive Care Coordination through the Case Coordination Units. Case Coordination Units assist older adults through comprehensive care by assessing the needs, prescreening before a nursing home placement, and arranging for services and programs which enable older adults to remain home or return to their home following a nursing home placement. Shawnee Alliance for Seniors provided Comprehensive Care Coordination Services to over 5,037 older adults during FY08.

- Elder Abuse and Neglect Program. Shawnee Alliance for Seniors received 831 reports of abuse, neglect, and exploitation during FY08. This represents and incidence reporting rate of 14.05. The statewide incidence reporting rate is 5.48. We are well aware of the significance of the elder abuse, neglect, and exploitation problem in southern Illinois.

- Community Care Program. The Homemaker, Emergency Home Response Systems, and Adult Day Services provide essential daily and safety needs for the most frail of our communities' older adults. Without these services they will be forced to reside in nursing homes in order to have their essential needs met.

- Long Term Care Ombudsman Program. The Ombudsman Program provides advocacy on behalf of nursing home residents. They provide them with a voice to resolve complaints and assure their rights as residents in licensed care facilities in Illinois. Persons in a nursing continue to be in need of advocacy and many have no ability or family to speak on their behalf.

Controlling cost and establishing priorities for funding is imperative for Illinois. Services being provided to older adults which enable them to remain in their own home and not enter a nursing are cost effective and provide a more long term cost savings for the State and for Medicaid. The community based long term care system in Illinois has proven to be extremely cost effective for the State of IL. Older adults want to remain in their community residence, as will we. As you work to establish priorities, assure the funding necessary to provide care, support the health and welfare, and protect older adults as they strive to remain in their own home. Do not cut funds to services which are absolutely essential in preventing inappropriate or premature nursing home placement. Do not cut funding to programs which protect older adults.

Thank you for this opportunity to submit testimony.

Carol Aronson
Director
Shawnee Alliance for Seniors

# **Senate Committee on Deficit Reduction**

March 17, 2009 / Agenda*
9:00 AM, Room 212

Senator Donne Trotter Co-Chair
Senator Matt Murphy Co-Chair

*Hearing #3 General Topic: Pensions and State Operations*

| | |
|---|---|
| 9:00-9:15 – | Committee Organization |
| 9:15-9:40 – | Civic Federation<br>*Existing Pension Obligations and Ideas for Reform* |
| 9:40-10:05 – | Civic Committee of the Commercial Club of Chicago<br>*Existing Pension Obligations and Ideas for Reform* |
| 10:05-10:30 – | Center for Tax and Budget Accountability<br>*Existing Pension Obligations and Ideas for Reform* |
| 10:30-10:55 - | Taxpayers Federation of Illinois<br>*Existing Pension Obligations and Ideas for Reform* |
| 10:55-11:20– | Service Employees International Union<br>*Christine Boardman – Pension Reform Concept* |
| 11:20-11:45 - | AFSCME<br>*State Operational Needs and Staffing Levels* |
| 11:45-12:00 – | Closing Remarks from Committee Members |

* individuals and organizations wishing to testify but not listed on the agenda may submit written testimony to Senate staff and may be asked to testify at a later date

TESTIMONY OF R. EDEN MARTIN
WITH RESPECT TO ILLINOIS FINANCE
STATE PENSIONS
MARCH 17, 2009

Good morning. My name is R. Eden Martin. I am President of the Civic Committee of The Commercial Club of Chicago. The Civic Committee consists of approximately 90 senior business leaders in the Chicago area, and works to make the region a better place to live and work.

The topic today is pensions – which may be divided into two parts: (1) what is the problem, and (2) what we propose should be done about it.

First the facts:

## I. What is the Problem?

When the Civic Committee issued its updated report on State finance in February 2009, we included a chart that showed what the budget imbalance appeared to be at the beginning of the current fiscal year – back in July 2008. On a cash basis, it appeared that the budget was out-of-balance to the extent of about $2.4 billion.

The problem is that the original estimate assumed that revenues this year would be up over last fiscal year to the extent of $500 million. According to Governor Quinn's spokesman last week, it is now expected that State revenues this year will be down "a combined $1.8 billion from the previous" year. (*Tribune*, March 14, Section l, p. 9.) If everything else stayed the same, this would mean the cash gap would widen from $2.4 billion to $4.7 billion.

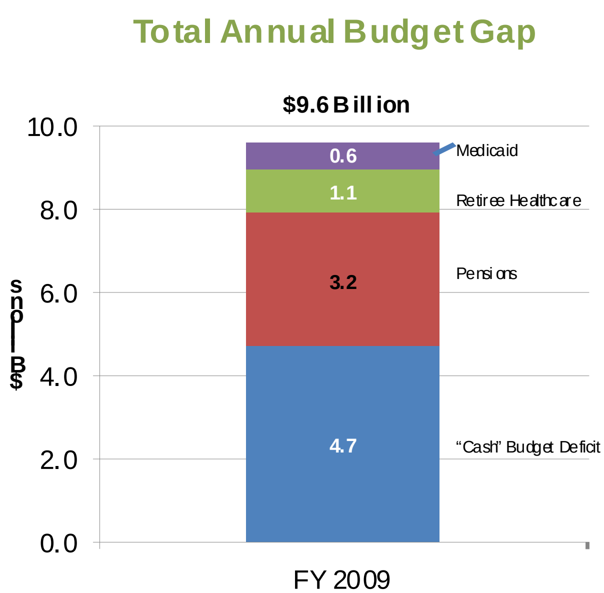
But that isn't the whole story. As you know, the State has not properly funded its pension costs for many years. The original formula adopted back in the 1990's deliberately provided for annual funding in the early years in amounts less than what would be required under normal actuarial standards. In other words, the formula back-end-loaded the costs – putting them off to future years, to be borne by future taxpayers.

Another reason for the growth in State pension costs is that State retirees have received – and receive today – more generous benefits than most Illinois taxpayers. Competition has forced most private-sector companies to cut benefits and/or adopt defined contribution plans prospectively. It has forced them to increase contributions from workers. And the current economic crisis has forced many employers to discontinue accrual of additional benefits altogether. The State has not been subject to these same competitive forces.

To compound the under-funding problem, during many years the State did not even follow the formula – it funded less than what the formula would have required.

During the current fiscal year, Illinois is funding the pension systems to the extent of $2.8 billion (with an additional $500 million or so payment on the State's pension bonds). That seems like a lot. But if you were adhering to actuarial standards – which require recognizing and funding current costs this year, not putting them off to future years – you would be funding pensions to the extent of an *additional $3.2 billion.*

If you look at the State's budget gap not just from the standpoint of cash, but from the standpoint of accrual concepts – recognizing obligations incurred this year, even though they won't be paid until the future –the total gap goes up to $9.6 billion.

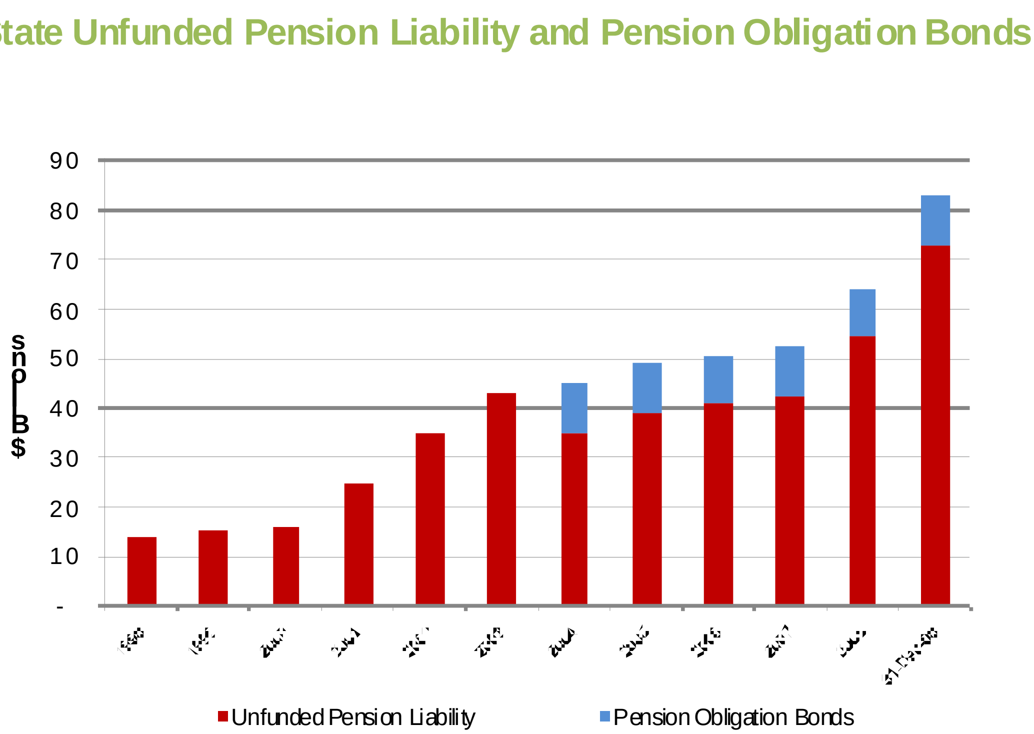



Note: Cash budget deficit assumes State revenues for FY 2009 will be down $1.8 billion from the previous year (*Tribune*, March 14, Section 1, p. 9). Pension gap is equal to Normal Cost Plus Interest payment in FY2009 of $6.1 billion minus Total Employer Contribution of $2.9 billion. Retiree healthcare gap is equal to FY2008 ARC of $1.7 billion minus FY2008 State healthcare payments for retirees of $.6 billion. Medicaid gap is equal to forecasted increase in State share of unpaid Medicaid bills from FY2008 to FY2009 ($.3 billion) plus amortization of State's share of FY2008 Section 25 liabilities (assuming $1.3 billion in State Section 25 liabilities are amortized over 4 years).

Source: "Report on the Financial Condition of the State Retirement Systems," February 2009, Commission on Government Forecasting and Accountability; Governor's office estimates; Taxpayers' Federation of Illinois analysis; Chicago *Tribune.*

This systematic underfunding of pensions, along with the underfunding of retiree health costs, has led to a massive build-up in the State's unfunded obligations.

Here is a chart that shows the buildup in pension obligations.

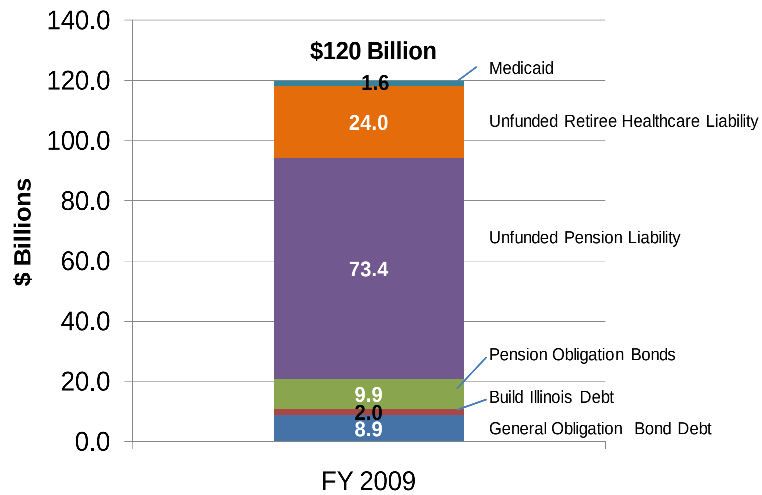



Source: "2007 Bonded Indebtedness Report of the State of Illinois," January 2008, Commission on Government Forecasting and Accountability; "Report on the Financial Condition of the State Retirement Systems," February 2009, Commission on Government Forecasting and Accountability; Commission on Government Forecasting and Accountability Monthly Briefing, February 2009; "Report on the Financial Condition of the State Retirement Systems," February 2008, Commission on Government Forecasting and Accountability; "Report on the Financial Condition of the State Retirement Systems," July 2007, Commission on Government Forecasting and Accountability; Historical unfunded liability data from Senate GOP staff.

When we put out our update report a month ago, based on the most current information then available, we estimated the unfunded pension liability alone to be $70 billion. Since then, more current information as to the liabilities has led to an increase in that total *to $73.4 billion.*

That's well over half of the State's total state debt and unfunded obligations.

## Total State Debt and Unfunded Obligations




Note: GO bond debt and Build Illinois debt are COGFA forecasts of June 30, 2009 amounts outstanding. Pension Obligation Bond debt is forecast of June 30, 2009 debt based on POB principal repayment schedule from COGFA. Unfunded pension liability estimate is December 31, 2008 unfunded liability estimate from COGFA February 2009 briefing. Unfunded retiree healthcare liability estimate is point estimate from the Governor's office of the 2008 unfunded retiree health care liability. Medicaid debt assumes that half of projected unpaid Medicaid bills at the end of FY 2009 are the responsibility of the State (based on 50% federal match).

Source: Various reports of the Commission on Government Forecasting and Accountability; Governor's office estimates; Taxpayers' Federation of Illinois analysis.

And that $73.4 billion number does not reflect the drop in value of the assets in the pension funds since December 31, 2008 – a drop that is probably in the range of 15% or more of the assets in the funds.

It also does not reflect the fact that the present value of the liabilities are way understated because the State uses an unrealistically high discount rate – 8.5% instead of something closer to 6%.

What does this mean in terms of annual costs? Think of it like a house mortgage that you have to pay off over a long period – say 40 years. What would you have to pay a bank – or a big consortium of banks – to take this unfunded pension liability off your hands – each year, in constant dollars – over the next 40 years.

The answer is roughly $6 billion per year. By the way – that's just to pay off the $70 plus billion. It doesn't count the additional $1.5 billion or so of additional liability we add each year for current pension costs. (Nor does it count the additional dollars needed to pay off the unfunded retiree health care obligation.)

These unfunded obligations are so huge in relation to the total State budget that they threaten to overwhelm it in the future unless we get the growth in these obligations under control – that is, unless we (a) stop the growth, and (b) start to pay down the piled-up obligations.

## II. Our Proposal

In our updated report, we recommend that the State do two things related to pensions: (a) reduce the benefit levels and costs, and (b) start to fund them adequately. The reductions and cuts are compelled by both the State's fiscal realities and considerations of fairness vis-à-vis taxpayers. The funding is required by considerations of fairness to State workers and retirees. It is a cruel hoax on workers to lead them to believe that when they retire, they will be protected by a State pension – only to find as they near retirement, that the pension funds are running out of money.

Suppose the funds did run out of money. What then? Would the State be contractually liable to take over the unfunded obligation? Not clear. What is clear is that if the State attempted to make these payments on a pay-as-you-go basis – writing the checks each year out of current operating revenues – the pension payments would soon overwhelm the rest of the budget. This would lead to further – and far more dramatic – cuts in State services and in funding local governments and school districts, or massive increases in taxes. The likely consequences of such events – including the probability of businesses, investments and jobs fleeing the State – may be left for a different hearing. Or perhaps to your imaginations.

How can the State reduce benefit levels and costs in light of the current Constitutional provision that arguably prevents cutting "benefits" to current employees?

First, we propose that the State create a new pension system for State employees who are hired after the effective date. Such a new system could be a defined contribution system – which would both eliminate the risk of underfunding to the State going forward, and also create greater political pressure to fund adequately on an ongoing basis. Many employers in the private sector have adopted such plans.

A less-desirable alternative would be to adopt a new defined benefit plan with less-costly benefit levels going forward. Any such new plan should be aligned with private sector standards. For example:

1 The retirement age should be raised to 67 (same as Social Security) with 10 years of service for full pension benefits. (Early reduced benefits should be made available only upon reaching the age of 62 with 10 years of service.)

2 The pension benefit formula – the percent of salary that active employees accrue toward their pension each year – should be lower than the previous pension systems, with members covered by Social Security receiving 1.4% of final

average salary for each year of service, and non-covered members receiving 2% of final average salary for each year of service.

3 Annual cost of living increases should be set at lower levels – for example, the lesser of 2.4% or 60% of the CPI.

Second, the required percentage of compensation that all employees – including current employees – must contribute to fund their own pensions should be increased. We suggesting increasing employee contributions to 7% for members covered by Social Security and 11% for members not covered by Social Security. The State Constitution may preclude reductions in benefit levels; but it does not preclude increasing employee contributions.

Unfortunately, the hard reality is that – from a pure cash-only standpoint – cutting pensions costs going forward and properly funding the growing liability will not save the State much money in the immediate future. The cost-savings will come only over time, as new employees enter the State's work force. The proper funding will require more cash – not less.

But when you think economics – not just cash – and when you take into account the huge growth in the State's unfunded obligation – than the reforms and cuts and the proper funding are all necessary to bring the piling-up of obligations under control.

The risk is that the State will leap to a tax-only solution – rather than (a) reforming the plans, (b) cutting the costs going forward, and (c) using tax proceeds to support new commitments.

Although the economic contraction that hit in 2008 has made our fiscal problems worse, those problems existed long before October 2008. In December 2006 we reported that the State was headed toward fiscal implosion unless it started to deal with its growing mass of unfunded liabilities. We reported then that Illinois was among the worst in the country in terms of funding its State pensions. The folks who now want a tax-only solution won't be able to blame the 2008 economic downturn for our massively under-funded pensions.

We think if you jump to taxes – *without* the reforms – *without* the cuts – and if any new tax revenues are *not used* to stop the snowball of debt from getting even bigger as it rolls downhill – then it's likely you'll have a taxpayer revolt on your hands.

# A FISCAL ROADMAP FOR CREATING A SUSTAINABLE STATE BUDGET:
## Actionable Recommendations for Governor Pat Quinn and the Illinois General Assembly

Prepared by:

The Institute for Illinois' Fiscal Sustainability
at
The Civic Federation

March 9, 2009

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## EXECUTIVE SUMMARY: CIVIC FEDERATION PRINCIPLES FOR THE FY2010 BUDGET

- In FY2010, the State of Illinois cannot increase spending. It should cap or reduce spending.
- The income tax should not be raised unless an increase is reserved to make significant reductions in existing liabilities, not to fund new programs.
- Any new capital spending program must include a transparent capital improvement plan that provides an identification and evaluation of infrastructure priorities.

### State Spending

**The State Cannot Afford New Spending Initiatives.** New program initiatives are unaffordable and imprudent during an economic downturn and will only increase the state's inability to meet its existing obligations. Raising broad-based taxes in a recession to close a budget deficit would be counterproductive and could further exacerbate the ill effects of the recession. Therefore, the state should consider freezing spending at FY2009 levels or reducing spending from previous levels.

**Spending for Many Existing Programs Must be Reduced to Balance the Budget.** Either a spending freeze or budget cuts will require reductions in existing programs, perhaps even deep cuts. It may well require employee layoffs and reductions in generous employee benefit packages as well as reductions in state provided grants to other governments, entities, and individuals. In our view, cutting spending and limiting future liabilities is the only fiscally responsible option that will shore up the state's precarious fiscal situation.

**The State Must Prioritize Spending and Only Fully Fund Critical Programs.** Only those state programs deemed absolutely necessary in FY2010 should receive full funding. Any move to cut state spending must of course consider federal mandates and the impact reductions could have on the receipt of federal matching funds. It could require the redrafting of rules and regulations in certain areas.

**The Pension Systems Must be Funded According to the 1995 Reform Law.** A top priority of the FY2010 budget must be full payment of the state's pension obligations under the terms of the 1995 pension funding reform law. Deviating from the path laid out by that law renders it meaningless. Eliminating or reducing the statutorily required payment will only further exacerbate the pension funds' enormous fiscal challenges.

**The State Should not Borrow Funds to Pay for Operations.** The Civic Federation strongly opposes any proposal to borrow funds for the FY2010 operating budget. Borrowing funds for operational expenses is a monumentally poor deal for taxpayers. It forces them to pay for costs assumed and benefits enjoyed today over a decade or more in the future. It adds hundreds of millions of dollars in interest costs that must be paid over that same time period. It pushes responsibility for today's poor fiscal planning into the future.

**One-Time Revenues Should not be Used to Pay for Operations.** The state must not use one-time proceeds, such as from asset leases or sales, to help eliminate its operating budget deficit. One-time revenues should never be used for recurring operating expenses. Simply put, the money will not be available the next year. Rather, the appropriate use of one-time revenue windfalls is to reduce short or long-term liabilities, such as debt, pension, or other post-employment liabilities.

**A Commission on State Spending Should be Convened**. The Governor should convene a Commission on State Spending. The purpose of this Commission would be to conduct a comprehensive review of state spending programs with the ultimate goal of prioritizing state programs. Those programs that are deemed to be essential to the well being of Illinoisans should be maintained or even enhanced. Those programs that are not essential may require reductions or even elimination. The framework for a review of state spending should be comprehensive and include the following considerations:

- Cost containment strategies must be considered for mandated programs;
- There must be a cap or moratorium on the expansion of state employee benefits until the state can demonstrate it can control those costs;
- The state should not implement new programs without new revenues or spending cuts; and
- There must be enhanced accountability for state programs. Providing accountability is key to gain public trust about the need for and continuation of programs.

**The State Must Develop a Performance Measurement System to Determine Priorities.** Ideally, budget spending cuts in areas where they are possible should be based on a careful assessment of program and service performance rather than an across-the-board approach. Unfortunately, however, the State of Illinois does not have a fully effective performance evaluation system in place that would permit careful executive assessments. The failure to effectively measure and evaluate program performance is a serious defect in the state's management of its operations. This defect must be rectified if state programs are ever to be managed more efficiently and effectively.

**The State Should Develop a Long-Term Financial Plan.** The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process. Internally, the State of Illinois currently employs many of the techniques of a long-term financial planning process, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the state does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the state develop and implement a formal long-term financial planning process.

## State of Illinois Retirement Systems

**Fund State Pension Systems at Certified Contribution Amount.** We urge the state to fund its pension obligations at the full amount required by the 1995 law each year. Each time the state reduces contributions to the retirement systems, it is deferring expense to future years.

**Impose a Moratorium on New Pension Benefits.** The state should impose a moratorium on **any** new employee benefits until the pension system has achieved a 90% funded ratio. We call on the legislature to reject, and the Governor to veto, any new pension enhancements regardless of whether they are tied to additional funding sources.

**Raise the Retirement Age for New Hires.** Members of the state's retirement systems are currently eligible for full retirement benefits when they reach age 60, unlike the federal Social Security system, which makes 67 the minimum age of retirement with full benefits. Therefore, the Civic Federation believes that the age at which employees become eligible for full benefits should be increased to age 67 for employees with between 8 and 30 years of service, age 65 for employees with between 30 and 35 years of service, and age 62 for employees with 35 or more years of service.

**Fix Automatic Increases for New Hires at the Lesser of 2% or the Rate of Inflation.** For new hires only, automatic increases should be limited to the lesser of the rate of inflation or 2% and should apply only to the first $12,000 in annual pension payments for retirees covered by Social Security and $24,000 for retirees not covered by Social Security.

**Require Balance on Pension Boards between Employees, Management, and Taxpayers.** Board seats should be set aside for members with professional expertise or certification in financial asset investment, and all members who do not already possess such expertise should be required to receive some relevant financial training on an annual basis.

**Require a 1% Increase in Employee Contributions.** The Civic Federation believes that all public employees covered by the state's five retirement systems should contribute an additional 1% of their salaries to the cost of their pensions.

**Study the Costs and Benefits of Conversion to a Defined Contribution Plan.** The state should undertake a study to determine both the costs and benefits of moving to a defined contribution pension plan such as is now the private sector standard.

**Require Pension Benefit Reforms Before Authorizing Pension Obligation Bonds**. The State of Illinois should not issue more pension obligation bonds unless it follows the precedent of the Chicago Transit Authority and negotiates reforms to employee pension benefits with unions that will curb future pension liabilities first.

**<u>State of Illinois Employee and Retiree Health Insurance Plans</u>**

**Eliminate the Costly Indemnity Plan** and place enrollees in HMO or OAP plans that cost significantly less. This measure could save the State between **$176.6** and **$253.4 million** per year (estimated savings in 2007).

**Eliminate Free Health Care for Retirees** for a savings of between **$20.7** and **$146.0 million per year** in premium costs (estimated savings in 2007).

**Increase Employee Premium Contributions**, which are lower than employee contribution levels required by other state and local governments, as well as private sector organizations. Bringing employee premium contributions in line with national averages could yield as much as **$67.3 million** in savings annually (estimated savings in 2007).

**Establish an independent healthcare trust** similar to the one created by the CTA to manage and provide State of Illinois retiree benefits. The trust would initially receive a one-time infusion of state funding, but subsequent funding would be from employee contributions. Once created, the trust would be solely responsible for providing retiree healthcare benefits.

## State Revenues

**No Increase in the State Income Tax without Significant Reforms.** Raising a broad-based tax, such as the income tax, in a recession to close a budget deficit could be counterproductive and further exacerbate the ill effects of the current recession. The Civic Federation supported a reasonable 1% income tax increase to provide funds to address the State of Illinois' billions of dollars in unpaid liabilities and to provide money for education and transit in 2007. However, our support of this new revenue stream was conditioned upon such funds being coupled with structural reforms that would reduce employee benefit costs and inject more accountability into the management of school funds. The failure of our political leaders to address the enormous fiscal issues faced by the State of Illinois led us to withdraw our support for any income tax increase in 2008. Until the state can clearly demonstrate its dedication to putting its fiscal house in order, the Civic Federation and the public will not be convinced that any new tax dollars will be well spent. A new infusion of tax revenues to provide more money for new expensive programs will do nothing to reduce the enormous obligations that the State of Illinois has already incurred.

**No Increase in the State Sales Tax Rate**. The state sales tax is currently 6.25%. Of that amount, 5% is reserved for state purposes and 1.25% is reserved for local governments. Home rule governments may impose their own sales taxes in increments of 0.25% and other local governments have authority to impose sales taxes as well. In Chicago, the composite state and local sales tax rate is 10.25%. In suburban Cook County, the sales tax ranges from 9.00% to 10.25%, while in DuPage County the composite rate can be 7.25% to 8.25%. Because of the very high sales tax rates in Chicago, suburban Cook County, and the Collar Counties, the Civic Federation opposes any increase in the current state sales tax.

**No State Gross Receipts Taxes.** The Civic Federation strongly opposes any attempt to levy a gross receipts tax (GRT) on businesses. It is fundamentally a regressive, seriously flawed tax because: 1) it imposes a tax on businesses regardless of profitability or ability to pay, 2) it will increase production cost because of the pyramiding effect, 3) it is ultimately passed on to consumers, and 4) it is not transparent.

**Support for User Fees and Charges.** User fees and charges are voluntary payments for goods and services that benefit the individual using them. Only those individuals enjoying the use of the goods or services pay for them. This is in contrast to taxes, which are compulsory and used to pay for public goods which may or may not directly benefit the user. The Civic Federation generally supports the use of user fees and charges rather than taxes to pay for goods and services that directly benefit individuals and that can be sold in discrete units for a price.

**No Securitization of Long-Term Revenues**. Securitization involves packaging future cash flows into debt which is sold to investors. The state proposed in its FY2009 budget to securitize certain long-term revenues, such as tobacco settlements, to fund its one-time child and business tax credits. The Civic Federation rejects proposals that require issuing debt to pay for operating costs, particularly one-time expenses.

**Support for Special Purpose Funds Sweeps.** More than 600 special purpose funds have been created in Illinois to receive earmarked revenues that are only used for a designated purpose. Over time, the number of special purpose funds has increased, consuming ever larger portions of the state budget. The Civic Federation supports the concept of transferring surplus revenues from special purpose funds to General Funds with the exception of certain federal trust funds which cannot be utilized for general purposes.

## Medicaid

**No Changes in Eligibility Levels Should be Undertaken Without Corresponding Changes in the Budget**. Expanding eligibility by simply extending payment cycles is an implicit tax on providers and discourages participation in the Medicaid program.

**The First Call on Any New Money Due to Increased Match From the Federal American Recovery and Reinvestment Act (ARRA) Should be to Pay Down the Billing Backlog.**

**The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) Should Accelerate Efforts to Move Medicaid Recipients from Non-Matchable Long-Term Care Settings.** Illinois spends a large amount, perhaps as much as $700 million, on long-term care services for people with mental illness that is not matched by Medicaid because it violates federal standards. Moving these clients to settings eligible for Medicaid match—and in compliance with court orders—has the potential to create savings over a relatively short period of time and the opportunity to improve the quality of life for Illinoisans receiving such services.

**Develop a Coherent Strategy for the Medicaid Program as a Whole.** The Governor and General Assembly should create an emergency commission to review the entire State of Illinois Medicaid program. Medicaid is 25% of the state's budget and is a very complicated program that provides primary healthcare coverage for 11% of the state's citizens. In the past six years a large number of new programs have been enacted with little financial planning or coordination. Items high on the list for consideration would include:

- Where can Illinois afford to set its basic eligibility threshold for Medicaid? The General Assembly has mandated a report on the AllKids program for 2010. This report should provide a framework for addressing how and what the state's Medicaid program will provide.
- The current reimbursement for specialist physicians and outpatient procedures is particularly inadequate. While the rate increases in primary care over the last several years were needed, without access to the next level of specialist care when required, the ability of primary care physicians to provide appropriate care is limited.
- When the AllKids program was expanded in November of 2006, the HFS created two programs—Primary Care Case Management (PCCM, also referred to as a medical home model) and a disease management program. The HFS claimed these would generate savings sufficient to fund AllKids. These programs make conceptual sense, but the HFS must provide more detailed and transparent information on how the programs are being

monitored and evaluated. Such enhanced reporting is also necessary to determine how the programs can be improved.

- The current Illinois hospital reimbursement program is outdated and incoherent, particularly on the outpatient side. Revising this system will be complicated, contentious, time-consuming and, potentially, expensive. Work to reform it should begin soon.
- The state should reconsider whether the Illinois Cares Rx program is the highest priority for state dollars in light of the implementation of the Medicare pharmaceutical program.
- Illinois' approach to non-institutional long-term care, while improved in the last several years, is behind most other states. Expanded efforts in this area should be on the table, particularly those that can approach cost neutrality.
- Using the additional funds from the ARRA to reduce the state's Medicaid billing backlog would be a good first step. However, a longer term solution will require a sustained effort to reduce payment cycles to reasonable and consistent levels. Specific targets and steps to achieve and maintain it are necessary.
- Less specifically, the state should devote increased efforts to understanding the Medicaid program as an overall insurance program for supporting people's health rather than a collection of individual provider-focused programs. While there are many obstacles to such an approach—the lack of continuity in eligibility and various federal regulations foremost among them—there are potentially large payoffs, both in terms of expenditures and beneficiaries' health.

## State Capital Budget and Program

**The Civic Federation Supports Capital Improvements for the State of Illinois**. The maintenance and construction of infrastructure is critical to the economic vitality of a region. Illinois needs investments in its infrastructure, including mass transit. However, there must be a serious evaluation of how state money will be used and prioritized before, not after, the funds are appropriated.

**A Capital Improvement Plan Must be Developed to Evaluate and Prioritize Capital Projects.** A serious evaluation of how capital dollars should be spent requires the development of a comprehensive five-year Capital Improvement Plan (CIP). Unfortunately, the state has not developed such a plan. Far too often capital program decisions are based on subjective standards regardless of need.

The Civic Federation believes that the citizens of Illinois and the members of the General Assembly should receive a formal CIP before being asked to approve any new revenue sources or approve any new capital projects. The public deserves, and the General Assembly should demand, as much information as possible on both the condition of existing infrastructure and the benefits of new investments so that they can make sound decisions about the efficacy of a multi-billion-dollar plan that will be paid over a number of years. Absent such a report, it is difficult for citizens and public officials to evaluate or prioritize capital improvement proposals.

A CIP has the following characteristics:

- Identifies priorities, provides a timeline for completing projects, and identifies funding sources for projects;
- Is updated annually and has formal approval by the governing body;
- Is made publicly available for review by elected officials and citizens; and

- Is published in the budget or as a separate document and made available on the government's website.

A CIP includes the following information:
- A five-year summary list of projects, expenditures per project, and funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

**State Assets Sales or Long-Term Leases**

The state proposed to lease all or a portion of the State Lottery in its FY2008 and FY2009 budgets. There may well be further discussions of the sale or long-term lease of state assets in coming months and years. The Civic Federation believes that any forthcoming proposal to transfer responsibility for a state asset to a private firm or nonprofit organization should meet the following criteria:

- There must be a marketplace of competitive, qualified vendors or service providers and strong, sustained management oversight by the government.
- The state must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by the asset lease or sale. These efforts should include the public reporting of efficiencies and/or savings achieved.
- Asset sales or leases should only involve entities that deliver non-essential services or programs.
- When transferring responsibility for service delivery by means of a long-term lease or sale, the state must carefully consider the policy implications of matters such as limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not preclude a government's ability to plan for future transportation needs in the vicinity of that toll road, including the ability to plan, acquire land, and construct new roads.
- Revenues from asset sales or leases should not be used for recurring expenditures.
- Revenues, asset sales or leases should be used to reduce existing obligations, such as long-term debt, short-term debt, or unfunded pension obligations.

## STATE SPENDING

Illinois faces an enormous deficit in both the current year (FY2009) and likely in the new fiscal year that will begin July 1, 2009 (FY2010). The backlog of unpaid bills is increasing and revenues are declining from amounts collected in FY2008.

- State Comptroller Dan Hynes released a report in February estimating that the state faced a combined FY2009 and FY2010 budget deficit of $8.9 billion. The deficit is due to lower than projected revenue estimates, the backlog of unpaid Medicaid bills and required FY2010 increases for pension payments and Medicaid.[1]
- Governor Blagojevich released a statement on December 16, 2008 stating that Illinois faced a $2 billion deficit in FY2009, the current fiscal year. At that time, the state borrowed $1.4 billion in General Obligation certificates to relieve cash flow problems.[2]
- The Governor has made $1.4 billion in cuts in FY2009 spending to date.[3]
- State Comptroller Dan Hynes reported in November 2008 that the state's $4 billion backlog of unpaid bills could balloon to $5 billion by March 2009. He noted that the 12-week payment delay experienced by vendors and local governments could increase to 20 weeks by the spring.[4]
- The Commission on Governmental Forecasting Accountability reports in its December 2008 Monthly Briefing that state revenues are declining. In FY2009 as of December 2008, General Funds revenues have declined by $577 million or 3.8% from FY2008. The biggest revenue declines come in the following areas:
    - Interest earnings are down 71.8%, or $84 million;
    - Corporate Tax receipts are down 4.1%, or $32 million; and
    - Sales tax receipts have fallen by 2.2%, or $81 million.

### Spending Trends

Governor Blagojevich originally proposed a total FY2009 operating budget of $49.7 billion. This was an increase of $654.6 million, or 1.3%, over the FY2008 originally proposed appropriation of $49.1 billion.

The largest fund group in the budget is the **General Funds**, which represent 58.2% of total recommended appropriations. The Governor originally proposed $28.8 billion in General Funds appropriations. These funds are used for general operations such as education, public safety, and health and human services. They are the funds over which the state has the most control and discretion. In FY2009, the Governor proposed to spend $28.9 billion in General Funds. The General Assembly ultimately approved $28.3 billion in General Funds spending.[5]

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[1] Office of the Illinois State Comptroller, "Transitional Fiscal Report/FY 2010 Budgetary Outlook," February 4, 2009.
[2] Office of the Governor, "$1.4 Billion to be Available to Pay Bills before the New Year," December 16, 2008.
[3] Christopher Wills,"Illinois Budget Questions Answered," Associated Press, December 1, 2008.
[4] Office of the Illinois Comptroller, "Hynes: State Faces Unprecedented Bill Backlog – Urges Immediate Action," November 11, 2008.
[5] Commission on Government Forecasting and Accountability. *FY2009 Budget Summary of the State of Illinois*. October 2008, p. 24

The **"Other State Funds"** are intended to receive tax revenue distributions or specific revenues such as permit and license fees which are reserved for specific projects. These funds include Highway Funds and approximately 300 funds that support diverse activities ranging from medical assistance to children's assistance to health insurance.[6] These funds represent approximately 30.0% of the total state operating budget proposal for FY2009.

**Federal funds** support education, healthcare and human service, community development, transportation, and energy programs financed with federal revenues.[7] They represented nearly $5.9 billion in FY2008 and FY2009.

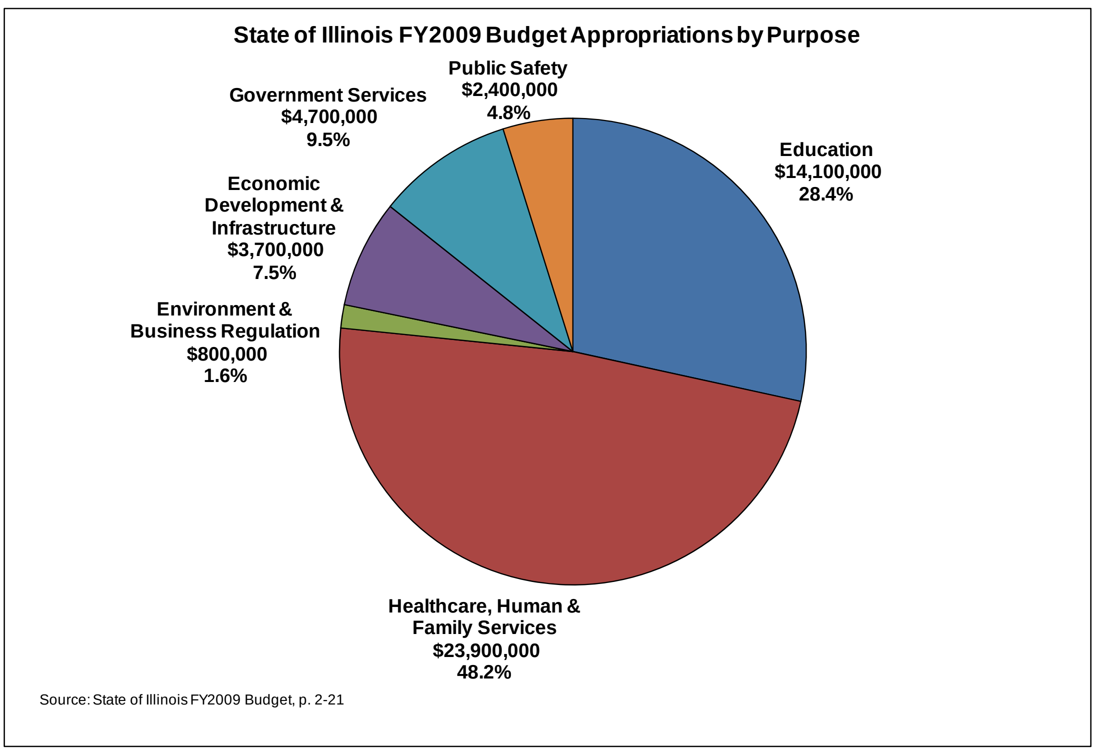
**State of Illinois Appropriations by Fund: FY2008-FY2009 (in $ thousands)**

| | FY2008 Prop. | FY2009 Prop. | $ change | % change |
|---|---|---|---|---|
| General Funds | $ 28,858,988 | $ 28,909,285 | $ 50,297 | 0.2% |
| Other Funds | $ 14,333,216 | $ 14,908,166 | $ 574,950 | 4.0% |
| Federal Funds | $ 5,867,905 | $ 5,897,232 | $ 29,327 | 0.5% |
| **Total** | **$ 49,060,109** | **$ 49,714,683** | **$ 654,574** | **1.3%** |

Source: State of Illinois Budget FY2008, p. 2-35; State of Illinois Budget FY2009, p. 2-36

### *Distribution of State Funds*

The largest share of the FY2009 state budget was earmarked for healthcare, human, and family service programs. They were expected to consume 48.2%, or $23.9 billion, of the entire spending plan. Spending for elementary, secondary, and higher education was the second largest category, with 28.5%, or $14.1 billion, of all appropriations. The third largest category was government services, which included those agencies involved in the administration of state government.

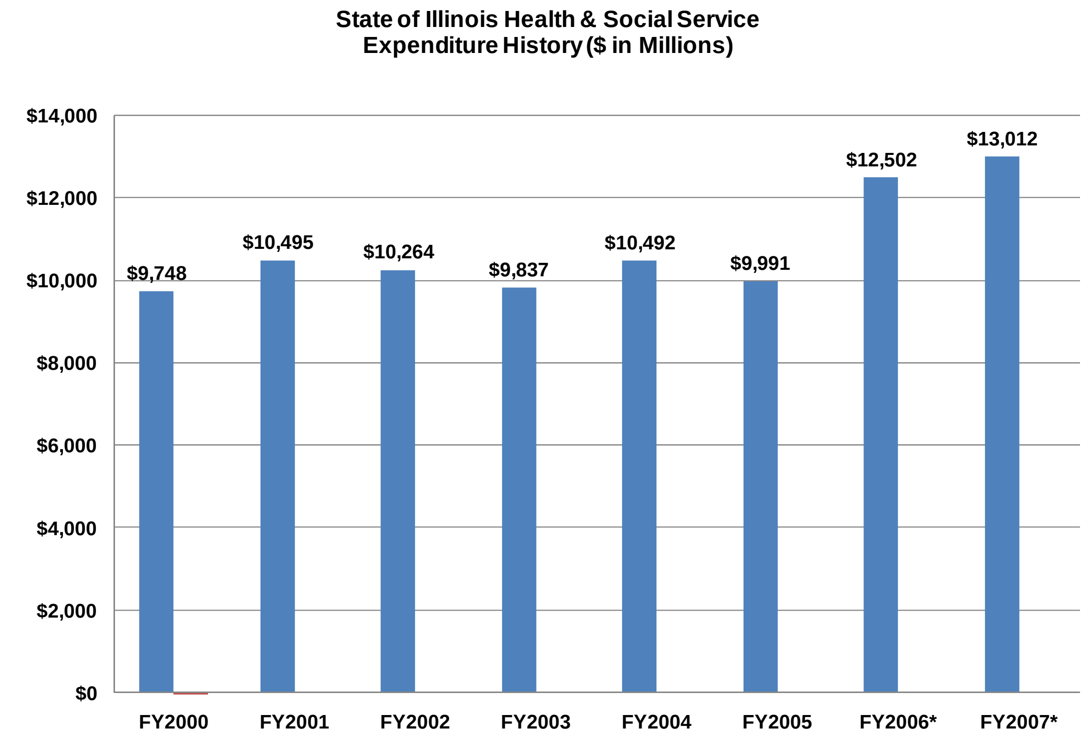



6 *State of Illinois FY2009 Budget*, p. 2-11.
7 *State of Illinois FY2009 Budget*, p. 2-12.

*Spending for Social Services and Education*

The Governor of Illinois generally proposes an operating budget in February. However, the General Assembly later approves a final budget in appropriation bills. The monies that are actually spent each year represent a different final number. The next three exhibits present historical trend information regarding actual spending for two significant elements of the state budget: health and social services and elementary and secondary education. The third exhibit shows the history of general state aid educational foundation levels, the amount that the state mandates as the minimum per pupil level of funding statewide.

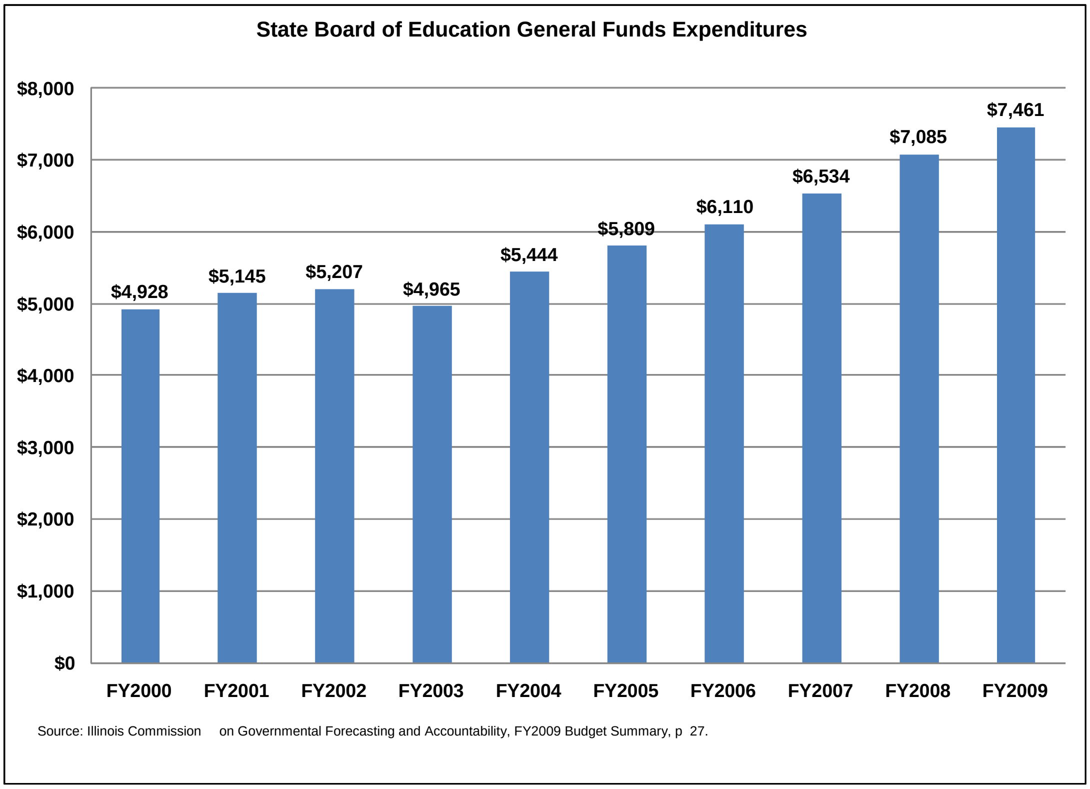
Health and social service spending has risen by 33.5% between FY2000 and FY2007, from $9.7 billion to $13.0 billion. However, much of the sharp increase in FY2007 was due to a category reclassification as spending for state employee health insurance was transferred from the general government to this category.[8]



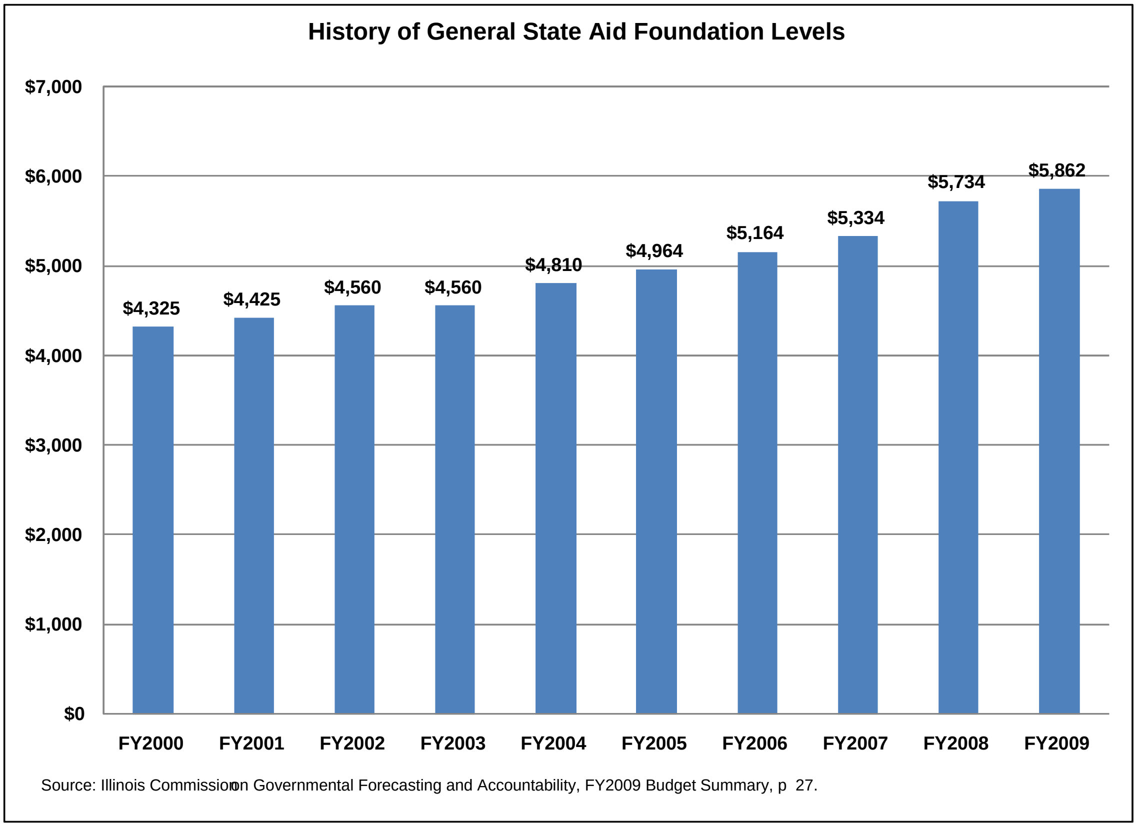
Source: Illinois Commission on Governmental Forecasting and Accountability, FY2009 Budget Summary, p. 31
*FY2006 & FY2007 expenditures reflect the shifting of employee health insurance from General Govermnent to Health & Social Services.

Expenditures for the State Board of Education for the funding of elementary and secondary education increased by 51.4% between FY2000 and FY2007, rising from $4.9 billion to $7.5 billion.

[8] Commission on Governmental Forecasting and Accountability, *FY2009 Budget Summary of the State of Illinois*, October 2008, pp. 31 and 32.




The final exhibit shows the foundation level for elementary and secondary education from FY2000 and FY2009. During that period, the foundation level increased from $4,325 per pupil to $5,862. This is a 35.5% increase.



## Civic Federation Recommendations on State Spending

**The State Cannot Afford New Spending Initiatives.** New program initiatives are unaffordable and imprudent during an economic downturn and will only further the state's inability to meet its existing obligations. Raising broad-based taxes in a recession to close a budget deficit would be counterproductive and could further exacerbate the ill effects of the recession. Therefore, the state should consider freezing spending at FY2009 levels or reducing spending from previous levels.

**Spending for Many Existing Programs Must be Reduced to Balance the Budget.** Either a spending freeze or budget cuts will require reductions in existing programs, perhaps even deep cuts. It may well require employee layoffs and reductions in generous employee benefit packages as well as reductions in state provided grants to other governments, entities and individuals. In our view, cutting spending and limiting future liabilities is the only fiscally responsible action possible that will shore up the state's precarious fiscal situation.

**The State Must Prioritize Spending and Only Fully Fund Critical Programs.** Only those state programs deemed absolutely necessary in FY2010 should receive full funding. Any move to cut state spending must of course consider federal mandates and the impact reductions could have on the receipt of federal matching funds. It could require the redrafting of rules and regulations in certain areas.

**The Pension Systems Must be Funded According to the 1995 Reform Law.** A top priority of the FY2010 budget must be full payment of the state's pension obligations under the terms of the 1995 pension funding reform law. Deviating from the path laid out by that law renders it meaningless. Eliminating or reducing the statutorily required payment will only further exacerbate the pension funds' enormous fiscal challenges.

**The State Should not Borrow Funds to Pay for Operations.** The Civic Federation strongly opposes any proposal to borrow funds for the FY2010 operating budget. Borrowing funds for operational expenses is a monumentally poor deal for taxpayers. It forces them to pay for costs assumed, and benefits enjoyed, today over a decade or more in the future. It adds hundreds of millions of dollars in interest costs that must be paid over that same time period. It pushes responsibility for today's poor fiscal planning into the future.

**One-Time Revenues Should not be Used to Pay for Operations.** The state must not use one-time proceeds, such as from asset leases or sales, to help eliminate its operating budget deficit. One-time revenues should never be used for recurring operating expenses. Simply put, the money will not be available the next year. Rather, the appropriate use of one-time revenue windfalls is to reduce short or long-term liabilities, such as debt, pension, or other post employment liabilities.

**The State Must Develop a Performance Measurement System to Determine Priorities.** Ideally, budget spending cuts in areas where it is possible should be based on a careful assessment of program and service performance rather than an across-the-board approach. Unfortunately, however, the State of Illinois does not have a fully effective performance evaluation system in place that would permit careful executive assessments. The failure to effectively measure and evaluate program performance is a serious defect in the state's management of its operations. This defect must be rectified if state programs are ever to be managed more efficiently and effectively.[9]

**The State Should Develop a Long-Term Financial Plan.** The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[10] Internally, the State of Illinois currently employs many of the techniques of a long-term financial planning process, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the state does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the state develop and implement a formal long-term financial planning process.

**A Commission on State Spending Should be Convened**. The Civic Federation recommends that the Governor convene a commission on state spending. The purpose of this commission would be to conduct a comprehensive review of state spending programs with the ultimate goal of prioritizing state programs. Those programs that are deemed to be essential to the well being of Illinoisans should be maintained or even enhanced. Those programs that are not essential may require reductions or even elimination. The framework for a review of state spending should be comprehensive and include the following considerations:

- Cost containment strategies must be considered for mandated programs;
- There must be a cap or moratorium on the expansion of state employee benefits until the state can demonstrate it can control those costs;
- The state should not implement new programs without new revenues or spending cuts; and
- There must be enhanced accountability for state programs. Providing accountability is key to gain public trust about the need for and continuation of programs.

## STATE OF ILLINOIS RETIREMENT SYSTEMS

The total unfunded liability for the State of Illinois' five state-funded pension funds surpassed **$54 billion** at the close of the fiscal year on June 30, 2008 and has further increased as of December 31, 2008 to more than **$73 billion** due to months of massive market losses. The unfunded liability jumped by over **$31 billion** between June 30, 2007 and December 31, 2008, while the funded ratio dropped from 62.6% to 40.0%.

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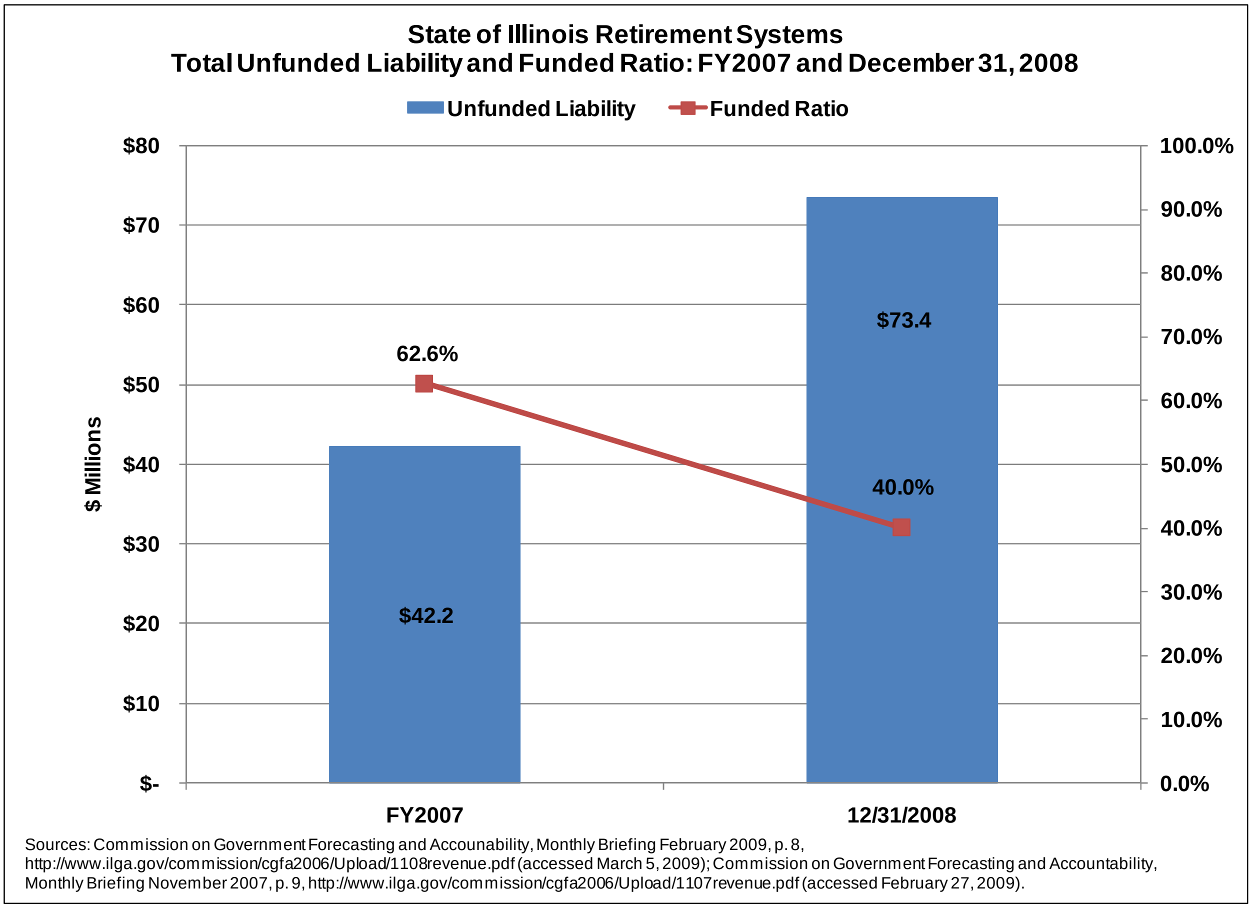
[9] The FY2009 Illinois State Budget included five years of performance metrics for each agency. However, most of these metrics were workload measures, which are counts of the number or percentage of activities undertaken or services delivered. While these are important statistics, they do not provide information about the goals for the statistics that are being measured. This system makes it impossible to determine if agencies are meeting, exceeding, or falling short of program and policy goals. In addition, there are no efficiency, effectiveness or service quality measures that would permit a focused evaluation of how well agencies and programs are meeting stated goals.

[10] National Advisory Council on State and Local Budgeting, "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting," Government Finance Officers Association, p. 43, http://www.gfoa.org/services/dfl/budget/RecommendedBudgetPractices.pdf (accessed February 27, 2009).




The worsening of the retirement systems' fiscal condition in 2008 means that the state will have to contribute more money to the systems in FY2010 in order to fulfill the statutory requirement that the systems attain a 90% funded ratio by June 30, 2045. The required contribution for FY2010 is now over **$4.0 billion** or roughly 8% of the state's current operating budget.

**State of Illinois Retirement Systems**
**Projected State Contribution Requirements as of June 30, 2008**
**($ millions)**

| Pension Fund | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|
| Teachers (TRS) | $ 1,449.9 | **$ 2,087.7** | $ 2,189.6 | $ 2,267.1 | $ 2,380.4 | $ 2,494.3 |
| University (SURS) | $ 450.2 | **$ 702.5** | $ 733.5 | $ 760.4 | $ 788.7 | $ 818.8 |
| State Employees (SERS) | $ 863.0 | **$ 1,167.3** | $ 1,217.5 | $ 1,265.3 | $ 1,316.2 | $ 1,362.7 |
| Judges (JRS) | $ 60.0 | **$ 78.8** | $ 82.2 | $ 85.5 | $ 88.7 | $ 91.7 |
| General Assembly (GRS) | $ 8.8 | **$ 10.5** | $ 10.9 | $ 11.3 | $ 11.7 | $ 12.2 |
| **TOTAL** | **$ 2,831.9** | **$ 4,046.8** | **$ 4,233.7** | **$ 4,389.6** | **$ 4,585.7** | **$ 4,779.7** |

Note: Projections for the five state-funded retirement systems are based on the laws in effect on June 30, 2008
Source: Commission on Government Forecasting and Accountability, Monthly Briefing November 2008, p. 13, http://www.ilga.gov/commission/cgfa2006/Upload/1108revenue.pdf (accessed February 27, 2009).

## Civic Federation Recommendations for State Pension Reform

**Fund State Pension Systems at Certified Contribution Amount.** We urge the state to fund its pension obligations at the full amount required by the 1995 law each year. Each time the state reduces contributions to the retirement systems, it is deferring expense to future years.

**Impose a Moratorium on New Pension Benefits.** The state should impose a moratorium on **any** new employee benefits until the pension system has achieved a 90% funded ratio. We call on the legislature to reject, and the Governor to veto, any new pension enhancements regardless of whether they are tied to additional funding sources.

**Raise the Retirement Age for New Hires.** Members of the state's retirement systems are currently eligible for full retirement benefits when they reach age 60, unlike the federal Social Security system, which makes 67 the minimum age of retirement with full benefits. Therefore, the Civic Federation believes that the age at which employees become eligible for full benefits should be increased to age 67 for employees with between 8 and 30 years of service, age 65 for employees with between 30 and 35 years of service, and age 62 for employees with 35 or more years of service.

**Fix Automatic Increases for New Hires at the Lesser of 2% or the Rate of Inflation.** For new hires only, automatic increases should be limited to the lesser of the rate of inflation or 2% and should apply only to the first $12,000 in annual pension payments for retirees covered by Social Security and $24,000 for retirees not covered by Social Security.

**Require Balance on Pension Boards between Employees, Management, and Taxpayers.** Board seats should be set aside for members with professional expertise or certification in financial asset investment, and all members who do not already possess such expertise should be required to receive some relevant financial training on an annual basis.

**Require a 1% Increase in Employee Contributions.** The Civic Federation believes that all public employees covered by the state's five retirement systems should contribute an additional 1% of their salaries to the cost of their pensions.

**Study the Costs and Benefits of Conversion to a Defined Contribution Plan.** The state should undertake a study to determine both the costs and benefits of moving to a defined contribution pension plan such as is now the private sector standard.

**Require Pension Benefit Reforms Before Authorizing Pension Obligation Bonds.** The State of Illinois should not issue more pension obligation bonds unless it follows the precedent of the Chicago Transit Authority and negotiates reforms to employee pension benefits with unions that will curb future pension liabilities first.

## STATE OF ILLINOIS EMPLOYEE AND RETIREE HEALTH INSURANCE PLANS

The Civic Federation conducted a review of the State of Illinois' employee health insurance program in 2007. The research was published in a separate report, "State of Illinois Employee Health Insurance Plans: Analysis and Recommendations for Cost Containment," which can be accessed at http://www.civicfed.org/articles/civicfed_245.pdf.

The State of Illinois Group Insurance Program offers three different health insurance plan types to employees, retirees, and dependents of the state government, state universities, the General Assembly, and judges. The plan types are:

- A self insured indemnity plan, commonly called a fee-for-service or traditional plan (the Quality Care Health Plan);

- A modified preferred provider plan (the Open Access Plan or OAP); and
- Various health maintenance organizations (HMOs).

Between FY1998 and FY2009, Illinois State health insurance liabilities are expected to rise from $802.8 million to $1.99 billion, a nearly $1.2 billion or 148.1% increase. These liabilities have risen at a much faster rate than the State of Illinois total budgetary appropriations. The average rate of increase for budget appropriations between FY1998 and FY2009 will be approximately 5.5%, while the average rate of increase for health insurance liabilities was 8.5%.[11]

In FY2009 State employee health insurance liabilities represented approximately 4% of the proposed State operating budget of $49.7 billion. This is an increase from 3.4% of the operating budget in FY2007. The State's employee healthcare costs of $1.99 billion exceeded the entire FY2009 proposed operating budget of $1.3 billion for the Illinois Department of Children and Family Services, the $1.4 billion budget of the Department of Corrections, and the $1.8 billion budget of the State Treasurer.[12]

The Civic Federation's report found that three features of the State of Illinois Group Health Insurance Plan drive larger State health insurance costs: an expensive indemnity plan, the provision of free health insurance to many retired employees, and employee contributions to premiums that are lower than national private sector averages. The Federation recommended that the State move to implement three key fiscal reforms to address these issues:

- Eliminate the Costly Indemnity Plan and place enrollees in HMO or OAP plans that cost significantly less.
- Eliminate Free Health Care for Retirees.
- Increase Employee Premium Contributions to be in line with national averages.

By implementing all of the Federation's recommendations, in 2007 the State could have reduced its total annual spending on employee and retiree healthcare by between **$264.6** and **$466.0 million**. The savings are likely to be even greater today.

The approval of employee benefit reforms by the Chicago Transit Authority (CTA) demonstrates that it is politically possible to reach a consensus among employees and governments in order to achieve reforms that protect employee health benefits, adequately fund healthcare obligations, and contain governments' costs. The reforms negotiated between the CTA and its labor unions were included in omnibus mass transit funding and structural reform legislation approved in 2007 by the General Assembly.[13] We believe that this legislation provides a realistic model for the State of Illinois and other governments. The CTA's healthcare cost containment reforms included:

- Establishing an independent healthcare trust to manage and provide CTA retiree benefits. After January 1, 2009, the trust will be solely responsible for providing retiree healthcare benefits;

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[11] Commission on Governmental Forecasting and Accountability. *Fiscal Year 2009 Liabilities of the State Employees' Group Insurance Program*, March 2008, p. 8.
[12] FY2009 Illinois State Budget, pp. 2-27 to 2-36.
[13] See Illinois P.A. 95-708.

- Requiring active employees to contribute at least 3% of compensation for retiree healthcare on a pre-tax basis (previously they contributed nothing);
- Requiring retirees and dependents to contribute up to 45.0% of coverage (previously retirees paid nothing and dependents paid 20.0% of the cost of coverage);
- Healthcare is available to retirees at age 55 and after 10 years of service (previously 3 years of service);
- Retiree healthcare benefits are no more than 90.0% in network, 70.0% out of network (previously benefits included 100% indemnity coverage); and
- Funding shortfalls will be financed with increased employee contributions or reductions in benefits.

### Civic Federation Recommendations for Employee and Retiree Health Insurance Plans

**Eliminate the Costly Indemnity Plan** and place enrollees in HMO or OAP plans that cost significantly less. This measure could save the State between **$176.6** and **$253.4 million** per year (estimated savings in 2007).

**Eliminate Free Health Care for Retirees** for a savings of between **$20.7** and **$146.0 million per year** in premium costs (estimated savings in 2007).

**Increase Employee Premium Contributions**, which are lower than employee contribution levels required by other state and local governments, as well as private sector organizations. Bringing employee premium contributions in line with national averages could yield as much as **$67.3 million** in savings annually (estimated savings in 2007).

**Establish an independent healthcare trust** similar to the one created by the CTA to manage and provide State of Illinois retiree benefits. The trust would initially receive a one-time infusion of state funding, but subsequent funding would be from employee contributions. Once created, the trust would be solely responsible for providing retiree healthcare benefits.

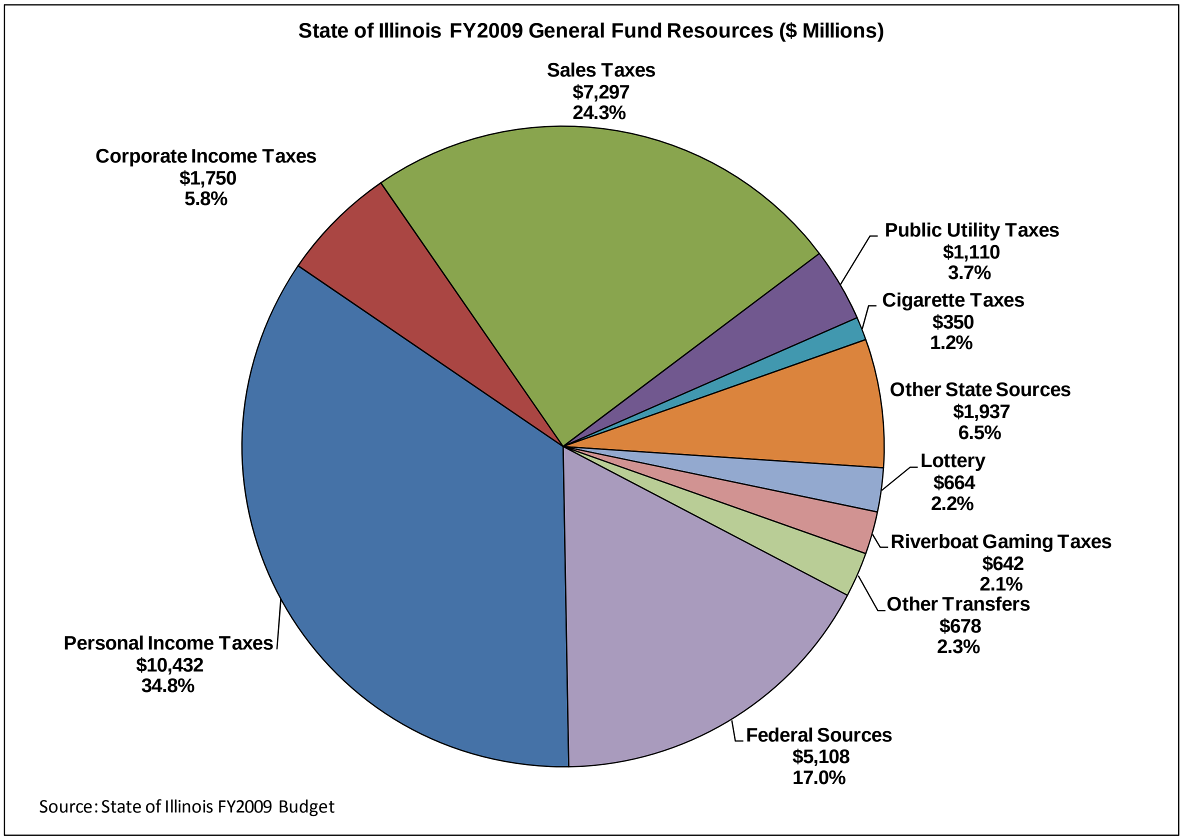
## ILLINOIS STATE REVENUES

### State Revenue Trends

- The Commission on Governmental Forecasting and Accountability reported in its December 2008 Monthly Briefing that state revenues are declining. As of December 2008, General Funds revenues have declined by $577 million or 3.8% from December FY2007. The biggest revenue declines come in the following areas:
  - Interest earnings are down 71.8% or $84 million;
  - Corporate tax receipts are down 4.1% or $32 million; and
  - Sales tax receipts have fallen by 2.2% or $81 million.

### FY2009 General Fund Receipts

General Funds receipts are those resources that the state most directly controls and uses for general operations. In the FY2009 budget, personal and corporate income taxes accounted for 40.6% of all revenues, sales taxes for 24.3% of revenues, and federal receipts or 17.0%.




The exhibit below compares revenue amounts budgeted for FY2009 versus revenues actually received in FY2008. Overall, General Funds were expected to decline by 6.4% between FY2008 and FY2009, falling from $33.8 billion to $31.7 billion, a drop of $2.2 billion. The declines reflect the economic downturn. The major economically sensitive revenues were flat or declining. Personal income tax receipts grew by just 1.1% while corporate income taxes fell by 5.9%. Sales taxes rose by 1.1%, increasing by just $82 million. The FY2009 budget proposal included $575 million in revenues from the sale of the state's tenth riverboat license.[14] However, no funds will actually be received until FY2010, when the state will receive $125 million and the succeeding 30 years when Illinois will receive $10 million per year.

[14] State of Illinois FY2009 Budget, p. 5-17.

| Illinois State Revenues for General Funds: FY2008-FY2009 (in $ millions) | | | | |
|---|---|---|---|---|
| | Actual FY2008 | Budget FY2009 | $ Change FY08-FY09 | % Change FY08-FY09 |
| **Base Revenues** | | | | |
| **State Sources** | | | | |
| Income Taxes (Net) | $ 12,180 | $ 12,182 | $ 2 | 0.0% |
| *Personal* | $ 10,320 | $ 10,432 | $ 112 | 1.1% |
| *Corporate* | $ 1,860 | $ 1,750 | $ (110) | -5.9% |
| Sales Taxes | $ 7,215 | $ 7,297 | $ 82 | 1.1% |
| Public Utility Taxes | $ 1,157 | $ 1,110 | $ (47) | -4.1% |
| Cigarette Taxes | $ 350 | $ 350 | $ - | 0.0% |
| Liquor Taxes | $ 158 | $ 161 | $ 3 | 1.9% |
| Inheritance Taxes | $ 373 | $ 275 | $ (98) | -26.3% |
| Insurance Taxes & Fees | $ 298 | $ 325 | $ 27 | 9.1% |
| Corporate Franchise Fees & Taxes | $ 225 | $ 205 | $ (20) | -8.9% |
| Interest on State Funds & Investments | $ 212 | $ 180 | $ (32) | -15.1% |
| Cook County Intergov. Transfer | $ 302 | $ 256 | $ (46) | -15.2% |
| Other State Sources | $ 474 | $ 535 | $ 61 | 12.9% |
| Transfers-In | | | | |
| Lottery | $ 657 | $ 664 | $ 7 | 1.1% |
| Riverboat Gaming Taxes | $ 564 | $ 642 | $ 78 | 13.8% |
| Other Transfers | $ 679 | $ 678 | $ (1) | -0.1% |
| **Subtotal State Sources** | **$ 24,844** | **$ 24,860** | **$ 16** | **0.1%** |
| Federal Sources | $ 4,815 | $ 5,108 | $ 293 | 6.1% |
| **Total Base Revenues** | **$ 29,659** | **$ 29,968** | **$ 309** | **1.0%** |
| | | | | |
| **Increases to Base Revenues** | | | | |
| Short Term Borrowing | $ 2,400 | $ - | | |
| Budget Stabilization Fund Tranfer | $ 276 | $ - | | |
| HPF & HHSMTF Transfers | $ 1,503 | $ - | | |
| One-Time Revenues | $ - | $ 665 | $ 665 | |
| Recurring Revenues | $ - | $ 1,036 | $ 1,036 | - |
| **Total Adjusting Sources** | **$ 4,179** | **$ 1,701** | **$ (2,478)** | **-59.3%** |
| | | | | |
| **Total General Fund Revenues** | **$ 33,838** | **$ 31,669** | **$ (2,169)** | **-6.4%** |

Sources: State of Illinois FY2009 Budget, Table II-B General Funds Revenues by Source, p. 2-38.
State of Ilinois FY2008 Budget; Commission on Governmental Forecasting and Accountability, FY2009 Budget Summary of the State of Illinois, October 2008, p. 29.

## Civic Federation Recommendations on State Revenue Issues

The Civic Federation offers a number of recommendations on both general state tax policy and specific tax proposals.

### *General Tax Policy*

**User Fees and Charges.** User fees and charges are voluntary payments for goods and services that benefit the individual using them, and only those individuals enjoying the use of the goods or services pay for them. This is in contrast to taxes, which are compulsory and used to pay for public goods which may or may not directly benefit the user. The State of Illinois currently collects over 1,500 different fees. Examples of user fees include park and recreation fees, professional license fees, hazardous waste disposal fees, and bank fees. The Civic Federation generally supports the use of user fees and charges rather than taxes to pay for goods and services that directly benefit individuals and that can be sold in discrete units for a price.

**Securitization of Long-Term Revenues**. Securitization involves packaging future cash flows into debt which is sold to investors. The state proposed in its FY2009 budget to securitize certain long-term revenues, such as tobacco settlements, to fund its one-time child and business tax credits. The Civic Federation rejects proposals that require issuing debt to pay for operating costs, particularly one-time expenses.

**Eliminating Favorable Tax Treatment for Out of State Businesses, Transactions, or Individuals.** No public policy purpose is served by providing out of state companies, transactions, or individuals lesser tax liabilities than in-state companies or individuals. In fact, such treatment unfairly penalizes Illinois companies and residents, putting companies at a competitive disadvantage. In light of this position, the Civic Federation has supported past state efforts to:

- *Tax Industrial Insurance Purchased by Large Companies from Unlicensed International Insurance Companies.* This proposal would bring Illinois tax law into conformity with 27 other states. It is reasonable that the tax code treat all insurance companies doing business in the State of Illinois the same way.
- *Eliminate the Tax Exemption for fuel from in-state refineries that is exported out of state.* Fuel from Illinois' refineries and pipelines that is used in-state is currently subject to a 1.1 cent per gallon storage tank fee.
- *Enforce Withholding on Non-Resident Gaming Winnings Over $1,000.* There is no good public policy reason why out-of-state residents should be able to take their gaming winnings without paying Illinois income taxes.

The Civic Federation would likely support such tax treatment changes again if they are proposed.

**Special Purpose Funds Sweeps.** More than 600 special purpose funds have been created in Illinois to receive earmarked revenues that are only used for a designated purpose. The General Funds, in contrast, are used for any purpose that the state deems fit. Over time, the number of special purpose funds has increased, consuming ever larger portions of the state budget. These funds had aggregate balances of approximately $3.0 billion at the end of FY2007.[15] The special purpose funds will constitute 30.0% of the entire state operating budget, or $14.9 billion in FY2009.

The Civic Federation supports the concept of transferring surplus revenues from special purpose funds to General Funds. It is a common budgetary practice to "sweep" funds and transfer surpluses in segregated funds to help close budget gaps. Exceptions of course must be made for certain federal trust funds which cannot be utilized for general purposes. We do caution that the state has a responsibility to evaluate and review such transfers. A needs assessment should be conducted for special purpose funds supported by targeted user fees and the results of that evaluation should be disclosed in order to be certain that programs have sufficient resources to perform their statutorily required duties and functions. The General Assembly has a corresponding responsibility to review such assessments and determine if proposed appropriations are appropriate for such programs.

[15] *Illinois State Budget FY2009*, p. 2-4.

The Civic Federation also supports efforts to consolidate special purpose funds into the General Fund when appropriate. Such a move would simplify cash management, expedite bill paying, and simplify the state audit process.

***Broad Based Taxes***

**State Income Tax Increase.** The Civic Federation supported a reasonable 1% income tax increase to provide funds to address the State of Illinois' billions of dollars in unpaid liabilities and to provide money for education and transit in 2007. We supported the creation of this new revenue stream if, and only if, such funds were coupled with structural reforms that would reduce employee benefit costs and inject more accountability into the management of school funds. However, the failure of our political leaders to address the enormous fiscal issues faced by the State of Illinois led us to withdraw our support for any income tax increase in 2008. Until the state can clearly demonstrate its dedication to putting its fiscal house in order, the Civic Federation and the public will not be convinced that any new tax dollars will be well spent. A new infusion of tax revenues to provide more money for new expensive programs will do nothing to reduce the enormous obligations that the State of Illinois has already incurred.

**State Sales Tax Rate**. The state sales tax is currently 6.25%. Of that amount, 5% is reserved for state purposes and 1.25% is reserved for local governments. Home rule governments may impose their own sales taxes in increments of 0.25% and other local governments have authority to impose sales taxes as well. In Chicago, the composite state and local sales tax rate is 10.25%. In suburban Cook County, the sales tax ranges from 9.00% to 10.25% while in DuPage County the sales can be 7.25% to 8.25%. Because of the very high sales tax rates in Chicago, suburban Cook County, and the Collar Counties, the Civic Federation opposes any increase in the current state sales tax.

**Food and Drug Exemption for State Sales Taxes.** The current sales tax exemption for food and drugs is far too broad, benefiting many more than the lower income households it was intended to benefit. Removing food and drugs from the sales tax base has also forced rates on general merchandise to levels that now rank among the highest in the nation. It would be a far better fiscal policy to target relief for food and drug purchases to those who need it through refunds or credits than to provide the benefit to everyone. This might make possible a reduction of the sales tax rate as the base is increased.

Counties and municipalities in Illinois currently receive the proceeds of a 1% sales tax on food, prescription drugs, and medical appliances. In Cook County, the Regional Transit Authority (RTA) levies an additional 1.25% sales tax and in the Collar Counties the RTA levies a 0.75% tax. These taxes are collected by the State of Illinois and distributed to the various counties and municipalities; the state does not keep any of this revenue.

The exemption of food and drugs is intended to provide relief to lower income people by limiting sales taxes on purchases of essential items. However, this relief is not targeted. All citizens, rich or poor, benefit from the exemption. In addition, the exemption significantly narrows the base available for taxing sales by limiting it to general merchandise. The result is a very high sales tax rate on non-food items, which paradoxically has a disproportionate impact on lower income individuals.

The Civic Federation believes there are better ways to target relief to the poor than by exempting food and drugs from sales taxes. Federal law already exempts food purchased with food stamps from sales taxes, which covers a significant portion of the typical lower income household's grocery bills. Additional targeted relief can be offered by making lower income taxpayers eligible for refunds of sales tax payments and/or by authorizing state income tax credits for food purchases. Structuring targeted relief helps those who need assistance the most, rather than providing everyone with a broad benefit.

**State Gross Receipts Taxes.** The FY2008 state budget proposed a gross receipts tax on all receipts at two rates: 0.85% for the agriculture, mining, manufacturing, construction, wholesale, and retail industries and 1.95% for service related industries and activities. The proposal included a number of exemptions, including one for businesses with annual receipts under $2 million. The Civic Federation strongly opposes any attempt to levy a gross receipts tax (GRT) on businesses. It is fundamentally a regressive, seriously flawed tax because: 1) it imposes a tax on businesses regardless of profitability or ability to pay, 2) it will increase production cost because of the pyramiding effect, 3) it is ultimately passed on to consumers, and 4) it is not transparent.

***Tax Expenditures***

**Sunsetting of State Tax Incentives and Exemptions.** The Civic Federation endorses state efforts to end outdated and economically inefficient corporate tax deductions or credits, often characterized as "loopholes." We believe as a matter of principle that tax exemptions and benefits should be sunsetted and their renewals debated and discussed, not continued indefinitely.

**Evaluation and Reporting of the Economic Benefits of State Tax Incentives, Credits, and Exemptions.** Tax incentives, credits, and exemptions are usually authorized on the basis of producing jobs or economic development. However, little effort is made to consistently quantify and report the actual benefits produced. The Civic Federation believes that the state should provide evidence that tax credits or reductions granted actually produce the benefits promised through ongoing evaluation processes and that the results of such evaluations be made public. If no evidence can be produced of the beneficial impact of a tax incentive, the General Assembly should seriously consider repeal of that incentive, credit, or exemption. The lack of objective beneficial evidence led the Civic Federation to support repeal of the following two credits in its FY2009 budget analysis:

- The Research and Development Credit because there was little objective evidence that the credit has actually increased research and development activities; and
- The Manufacturer's Purchase Credit because we had not seen any evidence of the effectiveness of this credit.

***Specific Business Tax Treatments***

**Proposals to Decouple State Business Income Tax Treatments from Federal Requirements.** The FY2009 state budget includes proposals to decouple Illinois' treatment of certain corporate income tax regulations from the federal tax code. These specific proposals include:

- Using straight line instead of accelerated depreciation;

- Repealing the deduction for foreign and domestic dividends received by corporations; and
- Decoupling from the Federal Qualified Production Activities Income Deduction.

The Civic Federation believes on principle that Illinois' definition of income for taxation purposes should conform to the federal tax code. Differing federal and state tax treatments violate the core tax principle of simplicity and impose additional economic costs on both businesses and individuals.

**Repealing the Single Sales Factor.** It is critically important that state tax policy be consistent over time so that businesses can make rational economic decisions. Therefore, the Civic Federation opposes the state's proposed shift from the single sales factor back to a three factor income tax apportionment in its FY2009 budget. Many other states are adopting the single sales factor; repeal of the provision will make Illinois businesses less competitive. Further, we believe that the single sales factor is an important incentive for businesses that export most of their production out-of-state to expand facilities and increase jobs, as well as for attracting businesses that are focused on export-oriented activities.

**Collecting Sales Taxes on Prewritten Licensed Software.** The Civic Federation recognizes that some prewritten licensed software used by businesses is similar to software purchased by individuals off the shelf and therefore should be taxed in the same manner. However, we have concerns about how a sales tax on prewritten licensed software would be implemented. Our support for such a tax would be contingent on the Illinois Department of Revenue basing the tax on point of delivery, a method consistent with the sourcing rules of the Streamlined Sales Tax Project. This is the method used in other states that tax software. Methods proposed to date by the State of Illinois fail to meet this requirement. Any taxation of prewritten licensed software used by businesses that is not similar to off-the-shelf software purchased by individuals should be considered in the larger context of the taxation of business services.

**Restricting the Cost of Collection Discounts.** The Civic Federation supports efforts to reduce cost of tax collection discounts offered to vendors. It is reasonable to limit discounts for larger vendors in particular as the automation of records has dramatically reduced the administrative costs associated with collection of various taxes. The discount amounts to a windfall for larger businesses and many other states limit it.

Regarding sales taxes, retailers currently are allowed to take a discount of 1.75% of the tax receipts collected if they file returns and pay sales taxes owed on time. The discount is intended to be an incentive for prompt payment of the tax and to compensate businesses for administrative costs.[16] However, automation of records has dramatically reduced the administrative costs associated with collection. As a result, 24 states offer no discount. Nine states cap the discount at amounts ranging from $600 to $39,600 per year, and one state caps the amount at $30 per report.[17]

[16] Illinois Department of Revenue. *Publication 133: Retailer's Overview of Sales and Use Tax*, April 2005, p. 8.
[17] Federation of Tax Administrators, "State Sales Tax Rates and Vendor Discounts." January 1, 2007. www.taxadmin.org/fta/rate/sale_vdr.html.

## MEDICAID

### Illinois Medicaid Issues

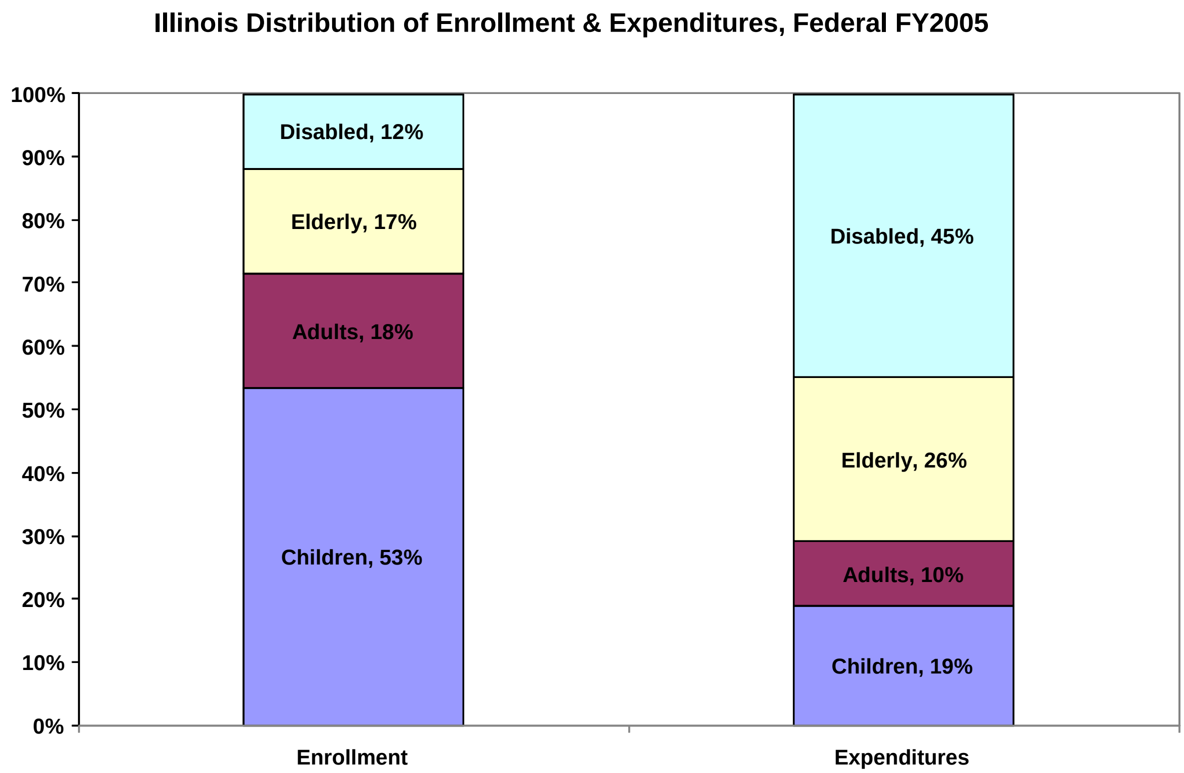
- Illinois historically has experienced difficulties in meeting its Medicaid obligations to providers in a timely fashion due to serious cash flow issues.
- The size of the backlog in bills owed to hospitals and pharmacies for Medicaid-related expenses was approximately $2.8 billion of the $4.5 billion in unpaid bills the state owed for FY2009.[18]
- State Comptroller Dan Hynes released a report in February noting that the Medicaid payment cycle increased sharply in FY2009 and that circumstances were likely to grow worse as the recession deepens and state revenues fall.[19]
- The Associated Press reports that the official wait for payment from state Medicaid to healthcare providers is currently up to 62 days.[20]
- In addition to billions of dollars monies owed for services already rendered, appropriations in FY2010 may have to grow by $1.95 billion to keep up with increases in the Medicaid population and to reduce the payment cycle to a reasonable level that assures the reliability of service provision.[21]
- Some financial assistance is forthcoming to Illinois from the recently approved federal stimulus package. Approximately $15 billion will available in first payments to the states for Medicaid assistance. Of that amount, Illinois' estimated proportion will be $471 million.[22]

### Facts about the Illinois Medicaid Program

Medicaid, Title 19 of the Social Security Act, is a joint federal-state program to support healthcare services for specified populations under rules promulgated by the federal government. These populations include children and adults living in poverty and the disabled. Medicaid was created in 1965, along with Medicare, and is a major feature of every state's budget, as well as the federal budget. Medicaid is a state-administered program with federal financial participation. The federal government offers a financing match (ranging from 50% to 70%, depending on a state's wealth) to state expenditures for healthcare to eligible recipients.

Medicaid has often been thought of as a program to support healthcare for mothers and children on welfare. However, an equally accurate characterization of the program would be as a supplement to the Medicare program. As the exhibit below shows, while more than 60% of Illinois recipients are mothers or children, more than 60% of the expenditures are on behalf of people who are or eligible for Medicare or to bridge eligibility to Medicare. Illinois is completely typical among the states in this regard.

[18] Associated Press, "Obama's Medicaid Money Release Could Mean $471 Million For Illinois," February 23, 2009.
[19] Office of the Illinois State Comptroller. *Transitional Fiscal Report/FY 2010 Budgetary Outlook*, February 4, 2009.
[20] Associated Press, "Obama's Medicaid Money Release Could Mean $471 Million For Illinois," February 23, 2009.
[21] Office of the Illinois State Comptroller. *Transitional Fiscal Report/FY 2010 Budgetary Outlook*, February 4, 2009.
[22] Associated Press, "Obama's Medicaid Money Release Could Mean $471 Million For Illinois," February 23, 2009.

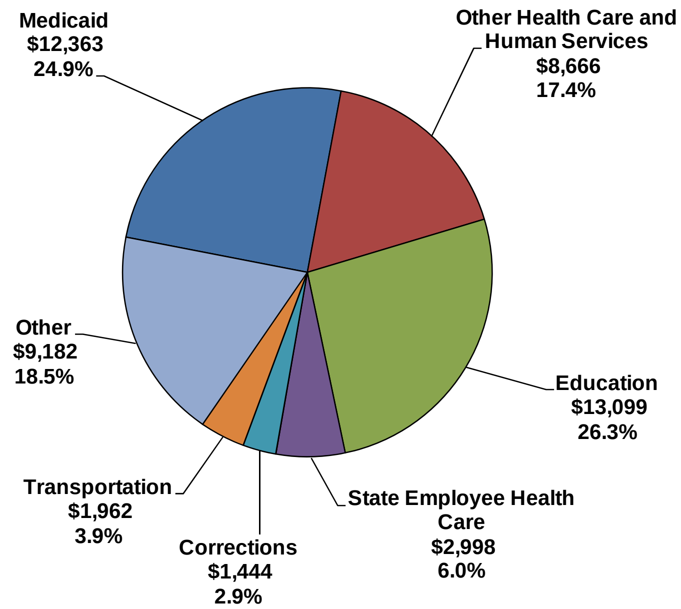



Source: Kaiser Family Foundation Website, "Illinois Distribution of Medicaid Enrollees by Enrollment Group, FY2005," Kaiser Family Foundation http://www.statehealthfacts.org/ (accessed Feburary 27, 2009).
Note: Includes State Children's Health Insurance Program expenditures. Data were adjusted to exclude uncategorized expenditures.

The Illinois Medicaid program is administered primarily by the Department of Healthcare and Family Services (HFS)[23] and "Medicaid" is often treated as synonymous with the HFS Medical Assistance program. However, while there is significant overlap, 1 out of 6 Medicaid dollars is expended by some other Illinois agency—mostly the Department of Human Services (DHS)—and only 4 out of 5 dollars in the HFS program budget are funded by Medicaid. In addition, all expenditures include expenditures from the State Children's Health Insurance Program (SCHIP). Overall, Medicaid expenditures constitute approximately one-quarter of the state's operating budget.

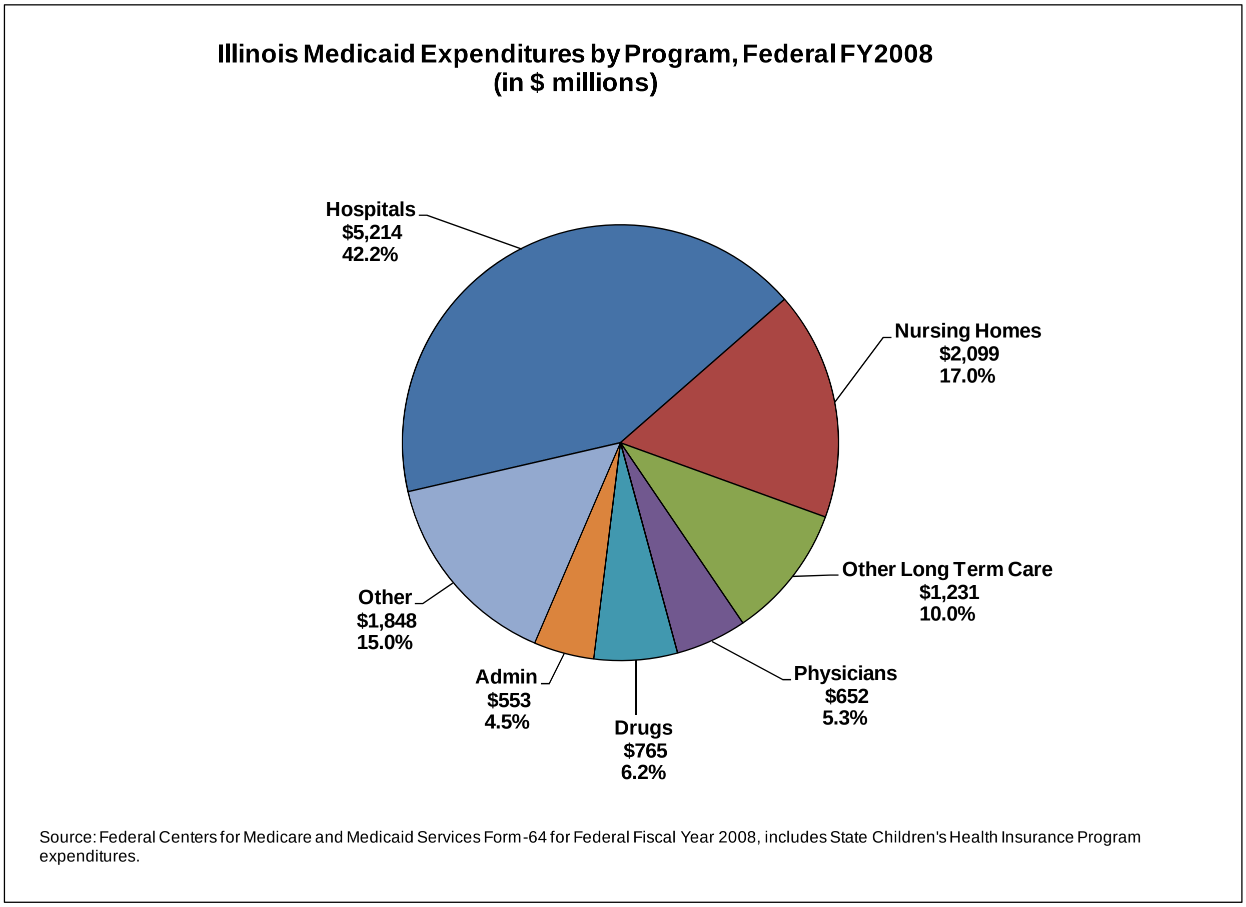
[23] The HFS was previously known as the Illinois Department of Public Aid and many people still refer to it as "IDPA" rather than HFS.

State of Illinois FY2009 Budget Appropriations by Function
(in $ millions)




Source: State of Illinois FY2009 Budget p. 2-27 and 2-35 and calculations based on Federal Centers for Medicare and Medicaid Serivces, Form-64s

More than 40% of total expenditures within the Medicaid program are made in hospitals. Nursing homes account for another 17.0% of all Medicaid expenditures, while other long-term care (LTC) accounts for another 10.0%. Other LTC includes Medicaid-eligible expenses for mental health facilities. No other program accounts for more than 10% of total expenditures.




## Civic Federation Recommendations on Medicaid

**No Changes in Eligibility Levels Should be Undertaken Without Corresponding Changes in the Budget**. This is such a fundamental idea that it should not be necessary to articulate, but it is. Legal and political issues aside, expanding eligibility by simply extending payment cycles is an implicit tax on providers and discourages participation in the Medicaid program.

**The First Call on Any New Money Due to Increased Match from the Federal American Recovery and Reinvestment Act (ARRA) Should be to Pay Down the Billing Backlog.**

**The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) Should Accelerate Efforts to Move Medicaid Recipients from Non-Matchable Long-Term Care Settings.** Illinois spends a large amount, perhaps as much as $700 million, on long-term care services for people with mental illness that is not matched by Medicaid because it violates federal standards. Moving these clients to settings eligible for Medicaid match—and in compliance with court orders such as the Olmstead decree[24]—has the potential to create savings over a relatively short period of time and the opportunity to improve the quality of life for Illinoisans receiving such services.

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[24] This 1999 U.S. Supreme Court decision upheld the integration mandate of the Americans with Disabilities Act that requires public agencies to provide services "in the most integrated setting appropriate to the needs of qualified individuals with disabilities." *Olmstead v. L. C.* (98-536) 527 U.S. 581 (1999) 138 F.3d 893, affirmed in part, vacated in part, and remanded.

**Develop a Coherent Strategy for the Medicaid Program as a Whole.** Attacking this issue must be the first order of business for this administration. A reasonable step would be for the Governor and General Assembly would be to create an emergency Commission to review the entire State of Illinois Medicaid program. Medicaid is 25% of the state's budget and is a very complicated program that provides primary healthcare coverage for 11% of the state's citizens. In the past six years a large number of new programs have been enacted with little financial planning or coordination. Comprehensive review of the Medicaid program is needed since so many of the state's individual programs impact on one another. Items high on the list for consideration would include:

- Where can Illinois afford to set its basic eligibility threshold for Medicaid? The General Assembly has mandated a report on the AllKids program for 2010. This report should provide a framework for addressing how and what the state's Medicaid program will provide.
- The current reimbursement for specialist physicians and outpatient procedures is particularly inadequate. While the rate increases in primary care over the last several years were needed, without access to the next level of care when required, the ability of primary care physicians to provide appropriate care is limited.
- When the AllKids program was expanded in November of 2006, the HFS created two programs—Primary Care Case Management (PCCM, also referred to as a medical home model) and a disease management program. The HFS claimed these would generate savings sufficient to fund AllKids. These programs make conceptual sense, but the HFS must provide more detailed and transparent information on how the programs are being monitored and evaluated. Such improved reporting is also necessary to determine how the programs can be improved.
- The current Illinois hospital reimbursement program is outdated and incoherent, particularly on the outpatient side. Revising this system will be complicated, contentious, time-consuming and, potentially, expensive. Work should begin soon.
- The state should reconsider whether the Illinois Cares Rx program is the highest priority for state dollars in light of the implementation of the Medicare pharmaceutical program.
- Illinois' approach to non-institutional long-term care, while improved in the last several years, is behind most other states. Expanded efforts in this area should be on the table, particularly those that can approach cost neutrality.
- Using the additional funds from the ARRA to reduce the billing backlog would be a good first step. However, a longer term solution will require a sustained effort to reduce payment cycles to reasonable and consistent levels. Specific targets and steps to achieve and maintain it are necessary.
- Less specifically, the state should devote increased efforts to understanding the Medicaid program as an overall insurance program for supporting people's health rather than a collection of individual provider-focused programs. While there are many obstacles to such an approach—the lack of continuity in eligibility and various federal regulations foremost among them—there are potentially large payoffs, both in terms of expenditures and beneficiaries' health.

## ASSET SALES AND LONG-TERM LEASES

Governments in the United States increasingly are considering transferring the ownership or management of assets such as toll roads or parking facilities to the private sector. In recent years, the City of Chicago has successfully concluded long-term asset leases of the Chicago Skyway, municipal parking garages, and Midway Airport with private operators.

Asset sales or long-term leases are forms of "alternative service delivery" or ASD. ASD is any process that shifts some or all of the functions or responsibilities of delivering a service from the public sector to the private sector. It is commonly referred to as privatization. In regard to transferring control of public assets, ASD can take two forms:

- **Asset Sale or Transfer,** whereby a government divests itself **completely** of an asset, turning over ownership to a private firm, a nonprofit organization or another government.
- **Contracting out Management** of an asset, service, or function to a private or nonprofit entity. In this case, the government retains ownership of any asset involved. However, the managing entity assumes responsibility for personnel. If a government transfers responsibility for management of service provision or a function to a **private** entity, it is referred to as **commercialization**. An example of a commercialization effort is long-term lease arrangement that the City of Chicago has negotiated with the Cintra-Macquarie Consortium for operation of the Skyway. An example of a nonprofit entity managing an asset is the Lincoln Park Zoological Society operating the Lincoln Park Zoo in Chicago.[25]

The Civic Federation supports alternative service delivery efforts that contain certain safeguards. If properly implemented and monitored, these efforts can be effective means of reducing costs and/or improving efficiency. In our view, competition from private, nonprofit, and even other public entities helps reduce the cost and operational inefficiencies inherent in a system of monopoly service provision by a single government.

In evaluating alternative service delivery proposals advanced by state or local governments, the Civic Federation uses the following criteria.

### General Guidelines for Alternative Service Delivery Efforts

- Alternative service delivery or privatization is not a panacea for a government's financial problems.
- Transferring responsibility for service delivery to a private firm or nonprofit organization can be beneficial only if there is a marketplace of competitive, qualified vendors or service providers and strong, sustained management oversight by the government.
- Governments must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by any alternative service or privatization efforts. These efforts should include the public reporting of efficiencies and/or savings achieved.
- Privatization efforts, i.e., the transfer of service delivery responsibilities to the private sector, should be focused on non-essential services or programs.
- When transferring responsibility for service delivery by means of a long-term lease or sale, governments must carefully consider the policy implications of matters such as

[25] Civic Federation, "Alternative Service Delivery: A Civic Federation Issue Brief," December 1, 2006, p. 3.

limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not preclude a government's ability to plan for future transportation needs in the vicinity of that toll road, including the ability to plan, acquire land, and construct new roads.

***Appropriate Disposition of the Revenues from Asset Sales or Leases***

- Revenues from commercialization efforts such as asset sales or leases should not be used for recurring expenditures.
- These revenues should be used to reduce existing obligations, such as long-term debt, short-term debt, or unfunded pension obligations.

## State of Illinois Long-Term Asset Lease Proposals

Governor Blagojevich made two proposals to enact a long-term lease of the State Lottery.

***Lottery Lease in the FY2008 State Budget***

As part of the FY2008 budget, the Governor proposed a long-term lease of the Illinois State Lottery. This transaction was projected to generate at least $10 billion. All proceeds of the lottery lease transaction would be paid into the state retirement systems. The Governor proposed replacing the $650 million in annual general fund lottery revenues that funded education with revenues generated by the gross receipts tax.

The Civic Federation supported the Governor's proposal provided that the adoption of this proposal was linked to the implementation of significant pension benefits reforms. Such reforms would include a moratorium on new pension benefit enhancements, a higher retirement age for new hires, and the limitation of automatic increases to the lesser of 2% or CPI for new hires. Revenues lost as a result of the lottery lease would be supplemented by funds from an increase in the state income tax, not from the gross receipts tax proposed by the Governor. The Civic Federation's support for the Governor's proposal was also contingent upon all proceeds from the transaction being used to reduce past unfunded liabilities rather than to avoid paying the pension fund's current annual operating costs. We believe that the pension fund's normal costs must be paid for out of current revenues.

The General Assembly did not enact the Governor's proposal.

***Lottery Lease in the FY2009 State Budget***

In the FY2009 budget, Governor Blagojevich again proposed a long-term lease of the Illinois State Lottery. This time the proceeds were to be used to partially fund a $25.0 billion capital program entitled *Illinois Works*.

The second proposal differed from the first in that the state offered only a partial concession of the Illinois State Lottery system. A partial concession meant that the state would retain a 20.0% ownership stake in the Lottery as well as the ability to regulate the operations of the entire entity. The partial concession would likely last for a 30-year term and was expected to generate between $10-12 billion, $7.0 billion of which would be directly used to fund *Illinois Works*. Approximately $3.5 billion in proceeds from the long-term lease, plus revenues from the 20.0%

share retained by the state, would be placed in a trust fund to guarantee a continued funding stream for education. These proceeds were expected to generate General Fund revenues of $657.0 million in FY2008 and $664.0 million in FY2009. It was expected that the proceeds would also generate all fund revenues of $986.0 million in FY2008 and $976.0 million in FY2009.[26] The long-term Lottery lease would be the first effort of its kind in the United States.

The Civic Federation opposed the long-term partial concession of the Illinois State Lottery in the FY2009 budget year because the proceeds were to be used to support a multi-year $25.0 billion capital program that failed to provide the public with sufficiently detailed information about how the funds would be spent and did not include either a needs assessment or information regarding prioritization criteria.

The General Assembly did not enact the Governor's proposal.

## Civic Federation Recommendations on Asset Sales and Long-Term Leases

Any forthcoming proposal to transfer responsibility for a state asset to a private firm or nonprofit organization must meet the following criteria to gain Civic Federation support:

- There must be a marketplace of competitive, qualified vendors or service providers and strong, sustained management oversight by the government.
- The state must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by the asset lease or sale. These efforts should include the public reporting of efficiencies and/or savings achieved.
- Asset sales or leases should only involve entities that deliver non-essential services or programs.
- When transferring responsibility for service delivery by means of a long-term lease or sale, the state must carefully consider the policy implications of matters such as limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not preclude a government's ability to plan for future transportation needs in the vicinity of that toll road, including the ability to plan, acquire land, and construct new roads.
- Revenues from asset sales or leases should not be used for recurring expenditures.
- Revenues from asset sales or leases should be used to reduce existing obligations, such as long-term debt, short-term debt, or unfunded pension obligations.

# ILLINOIS CAPITAL BUDGET

## Capital Budget Challenges

Much of Illinois' infrastructure is in dire need of repair or replacement. In 2007 the Illinois Department of Transportation requested nearly an additional $10.9 billion investment over the next five years to keep roads and bridges in the state system from falling in to further disrepair.[27] The Regional Transit Authority claims it needs another $7.3 billion to maintain the current

[26] *State of Illinois Budget FY2009*, pp. 2-37 and 2-38. These are estimated figures.
[27] Illinois Department of Transportation, *Special Report: System Preservation and Maintenance*, amended December 2007. http://www.illinoistransportationplan.org/info_center/presentations.html (accessed February 27, 2009).

services over the same timeframe and a total of $10 billion to enhance mass transit in order to keep up with demand.[28] These needs are well beyond the capacity of the state's current pay-as-you-go funding sources and do not include other critical capital investments for public schools, hospitals, and other government resources.

Although Illinois can expect some immediate funding from federal stimulus package aimed at infrastructure investment, such funding will pale in comparison to the state's current needs. It is also unclear how long the state will have to wait for its next annual allotment of federal transportation dollars. The current six-year national highway transportation bill expires on September 30, 2009 and needs reauthorization by Congress before states will receive further annual formula-based dollars, which provide essential pay-as you-go funding for road, bridge, and other mass transit projects. [29]

## Capital Budget Trends

The Illinois Capital Budget Act requires the Governor's office to present an annually updated five-year capital plan coordinated with all state agencies requesting capital appropriations as part of the annual state budget process.[30] However, the FY2009 Capital Plan proposed by the governor did not include a five-year plan but was tied to the $25 billion Illinois Works Capital Program. The Illinois Works legislation, which was not approved by the legislature, was presented as an appropriations bill lacking any significant capital planning documentation. To finance the program the bill proposed:

- Several new funding sources but a no five year spending plan for the FY2009 Capital Budget;
- The majority of the funds were to come from an 80% lease of the state lottery along with some smaller bond issuances. This program would have included $13.5 billion in new capital appropriation for FY2009; and
- The Illinois Works Program was primarily a pay-as-you-go plan and without the new funding sources, only $2.1 billion of reappropriated bond funds from previous years were available for new funding in the 2009 Illinois Capital Budget.

The possibility of securitization of state revenue, long-term leases of assets, new bond issuances, and other new revenue sources will likely be reconsidered as part of the FY2010 capital budget process.

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[28] Regional Transportation Authority, *Mass Transit Capital Funding: The need to maintain enhance and expand*, http://www.rtachicago.com/CMS400Min/uploadedFiles/Bklt-Web.pdf (accessed February 27, 2009).
[29] The current federal highway and transit bill, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), was signed into law August 10, 2005. It guaranteed funding for highways, highway safety, and public transportation totaling to $244.1 billion. SAFETEA-LU builds off two transportation bills: the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and the Transportation Equity Act for the 21st Century (TEA-21).
[30] 20 ILCS 3010

**Lack of Capital Improvement Plan (CIP)**

The state legislature has not approved a statewide CIP since the Illinois FIRST legislation was passed nearly a decade ago.[31] It is unclear without an updated planning document what areas of infrastructure are now in the most critical need for investment and what the state's spending priorities should in the FY2010 capital budgeting process. A proper CIP provides objective standards to determine which projects deserve continued funding from scarce pay-as-you-go resources in the upcoming state budget or whether new revenue from securitization of revenue, long-term leases, capital bonds for financing, or other new revenue sources are justifiable.

Goals and guidelines in a comprehensive CIP document help manage spending effectively to meet legislative goals, which should include maintaining current assets while improving those assets through upgrades and improvements while monitoring any increases in operational cost that often accompany new capital projects.

The Capital Development Board (CDB) along with Central Management Services (CMS) and Governor's Office of Management and Budget (GOMB), have yet to complete the process of identifying and prioritizing the system-wide capital and repair projects with state owned facilities which was underway during last year capital budget process.[32] It is essential for the results of this process to be made public in order to properly prepare a multi-year CIP.

**Civic Federation Recommendations on Capital Budgeting**

The Civic Federation **opposed** Illinois Works for lack of a comprehensive CIP prior to the introduction of a capital budget. The Civic Federation **agrees** with the National Advisory Council on State and Local Budgeting that all governments should develop a five-year capital improvement plan (CIP) that identifies priorities, provides a timeline for completing projects, and identifies funding sources for projects. The CIP should be updated annually and have formal approval by the governing body. A formal capital improvement plan includes the following information:

- A five-year summary list of projects, expenditures per project, and funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

In addition, the CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget or as a separate document and made available on the government's website.

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[31] Illinois Fund for Infrastructure, Roads, Schools, and Transit (FIRST) was passed in 1999 (IL SB 1018, 1028, 1066, 1203). It was the last statewide capital funding bill approved by the legislature. Illinois FIRST appropriated $6.3 billion for school and transportation projects and through matching funds matching funds provided $2.2 billion for schools, $4.1 billion for public transportation, another $4.1 billion for roads, and $1.6 billion for other projects. Illinois FIRST funding expired in 2004.

[32] *State of Illinois FY2009 Capital Budget*, p. 3.

The citizens of Illinois and the members of the General Assembly should receive a formal CIP before being asked to approve any new revenue sources or approve any new projects. The public deserves, and the General Assembly should demand, as much information as possible on both the condition of existing infrastructure and the benefits of new investments so that they can make sound decisions about the efficacy of a multi-billion dollar plan that will be paid over a number of years. Absent such a report, it is difficult for citizens and public officials to evaluate or prioritize such capital improvement proposals.

The Civic Federation supports capital improvements for the State of Illinois. The maintenance and construction of infrastructure is critical to the economic vitality of a region. Illinois needs investments in its infrastructure. However, we believe that there must be a serious evaluation of how state money will be used and prioritized before, not after, the funds are appropriated.

1. What areas of the state budget are you interested in protecting and why are those areas important?

Illinois state government is facing a significant, multibillion dollar deficit (with published estimates of the deficit ranging from $4 billion - $9 billion), at the same time its economy is suffering through a deep and long lasting national recession that started over 14 months ago, in December, 2007. Given that confluence of difficult factors, the best economic solution for Illinois in the short term and fiscal solution for state government in the long term would be maintaining spending on essential services by raising appropriate amounts of revenue progressively. The Center for Tax and Budget Accountability ("CTBA") has attached a copy of its report "Moving Forward" as part of this testimony. That report demonstrates why raising taxes progressively to maintain essential services should both shorten the state's recession and address long term structural deficit issues.

The essential services CTBA believes should be maintained include education, health care, human services, public safety and natural resources. Collectively, these essential services in one way or another help Illinois produce a competent and competitive workforce for the global economy, while ensuring vulnerable populations receive needed care and the state offers a decent quality of life to its residents. Moreover, if the state made additional capital investments in infrastructure, it could expect to generate $1.59 of economic activity for every public dollar spent, potentially creating over 400,000 jobs, many in the high-paying construction industry.

2. What revenue enhancements would you recommend be implemented to support those areas?

Raising revenues in a progressive fashion is the best policy choice available. Given the restraints of the state constitution concerning a flat income tax rate, attaining stable, fair, responsive and efficient long term revenue growth will require: (i) an increase in the individual income tax rate from 3% to 5%, with a corresponding increase in the corporate income tax rate from 4.8% to 8%; (ii) expanding the state's sales tax base to include all consumer services (and, depending on the size of the base expansion, potentially lowering the state sales tax rate from 5% to 4.75% or 4.5%); and (iii) targeting tax relief to low and middle income families through the use of refundable tax credits like the Earned Income Tax Credit and Family Tax Credit contained in SB750 and HB855.

3. What suggestions can you provide to reduce the State’s short-term and long-term pension costs?

Under current law, the pension payment for FY2010 is scheduled to increase to about $4.2 billion, from the FY2009 level of $2.831 billion, as part of the ramp. The pension ramp approach, which backloads costs and creates continually increasing fiscal pressure, must be abandoned. In its stead, the state should front load costs by amortizing its full unfunded liability of $73.4 billion over an extended period of time, say 50-60 years, and then fund flat, annual payments to cover the cost. Note that this effectively front load costs, and since the annual payments remain the same in nominal dollars, creates a long term savings and a diminishing fiscal burden, after the impact of inflation is considered. Add on normal cost for current employees which is about $2 billion, and some combination of that normal cost figure plus a portion of the amortized payment on the unfunded liability would be the amount of new revenue needed for pensions.

The state should always bargain in good faith with public employee unions to ensure the state has designed a pension system that is both fair to taxpayers from a cost standpoint, and capable of attracting top flight workers to provide public services. Hence any thoughtful negotiations with the unions should be data based, take into account the cost savings Illinois government enjoys from not participating in Social Security (and the corresponding negative financial impacts on the state's public workers who not only do not receive Social Security benefits, but also stand to lose or have diminished the Social Security benefits they or their spouses earned in the private sector, under the GPO and WEP provisions of Social Security). With that in mind, bargaining over issues such as retirement age would make sense.

4. Are reforms of pension benefits for newly hired State employees warranted to lower the State's long-term pension costs? Do you support such reforms?

We do not support defined contribution plans as a short or long term solution to solve the state's $73.4 billion unfunded pension liability. Implementing a defined contribution system would cost Illinois taxpayers millions of dollars more annually in administrative costs, while doing nothing to decrease the state's unfunded liability. In addition, research shows that under a defined contribution savings plan retirees outlive their savings and receive (lower) inadequate returns on their investments, which result in inadequate retirement benefits. In the long run a defined contribution system for new employees would not lower the state's long term pension costs, the state would still have to maintain the current defined benefit system for active members (resulting in more costs) and those retirees who do not receive adequate returns during retirement will have to rely on the state for public assistance.

5. Are increased contributions from current pension system members warranted? Do you support increased pension contributions from current members?

Decision makers should bear in mind that contributions that Illinois teachers currently make to their own retirement benefit ranks among the highest in the nation. That said, certainly it would be appropriate for state government to raise this issue with the various public employee unions when it negotiates the next union contract with the understanding that the issue of employee contributions has not been the primary problem creating the unfunded liability in the first place. Rather, it has been the state's historic failure to fully fund its employer contribution to the pension systems despite low normal costs (27% less than national averages) and average benefit levels. Instead, state government has elected to use its pension system as a credit card by diverting employer contributions to covering the cost of providing public services.

• Members with Social Security: 3.5% of compensation (pension) + .5% (survivors') = 4.0% total
• Members without Social Security: 7.0% of compensation (pension) + 1.0% (survivors') = 8.0% total

Proposal: Increase employee contributions to each of the five retirement systems by 1%.
Savings Projected: The State would save $13.72 billion in contributions between 2006 and 2045.

http://civicfed.org/articles/civicfed_220.pdf


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# MOVING FORWARD

## *To Counter the Current Recession, Illinois State Government Should Maintain or Enhance Spending—Even if it Means Progressive Tax Increases—Rather Than Cut its Budget*

March 2009

*MOVING FORWARD*

## *TO COUNTER THE CURRENT RECESSION, ILLINOIS STATE GOVERNMENT SHOULD MAINTAIN OR ENHANCE SPENDING—EVEN IF IT MEANS PROGRESSIVE TAX INCREASES—RATHER THAN CUT ITS BUDGET*

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### *ABOUT CTBA*

Founded in 2000, the Center for Tax and Budget Accountability is a non-profit, bi-partisan research and advocacy think tank committed to ensuring that tax, spending and economic policies are fair and just, and promote opportunities for everyone, regardless of economic or social status.

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## ACKNOWLEDGEMENTS

The Center for Tax and Budget Accountability would like to thank the following individuals for their time, knowledge and expertise in reviewing this report:

Peter A. Creticos, Ph.D., President & Executive Director, Institute for Work and the Economy
Paul Kleppner, Director, Office of Social Policy Research, Northern Illinois University
Jim Nowlan, Former Republican State Legislator and Campaign Manager for U.S. Senate & Presidential Campaigns
Hank Scheff, Director of Research & Employee Benefits, AFSCME Council 31
Stephen B. Schnorf, Vice President, Center for Tax and Budget Accountability

## *MOVING FORWARD*

### *TO COUNTER THE CURRENT RECESSION, ILLINOIS STATE GOVERNMENT SHOULD MAINTAIN OR ENHANCE SPENDING—EVEN IF IT MEANS PROGRESSIVE TAX INCREASES—RATHER THAN CUT ITS BUDGET*

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# MOVING FORWARD

## *To Counter the Current Recession, Illinois State Government Should Maintain or Enhance Spending—Even if it Means Progressive Tax Increases—Rather Than Cut its Budget*

## I. *Short Summary*

Illinois decision makers are confronted with two immense challenges. On the one hand, state government is facing the largest deficit in its history, with published estimates of the hole ranging from $4 billion to $9 billion. At the same time, the U.S. and state economies are suffering through what looks like the worst recession since the Great Depression. How the state elects to resolve its record deficit will have a meaningful impact on the size and duration of the recession in the state's economy. Given this scenario, the state's best hope of growing its economy and countering the recession is to close its deficit by raising taxes progressively and maintaining or expanding spending on services.

## II. *Main Findings*

- Illinois state government is facing a significant, multibillion dollar deficit (with published estimates of the deficit ranging from $4 billion - $9 billion), at the same time its economy is suffering through a deep and long lasting national recession that started over 14 months ago, in December, 2007.
- If the state were to close its $4 billion to $9 billion budget deficit by cutting spending, it could cause the state's economy to lose anywhere from 56,893 to 128,008 jobs, thereby worsening the recession and the state's unemployment rate.
- If Illinois state government desires to create jobs and counter the deepening recession, its best option for eliminating the deficit is to raise taxes progressively, and maintain or enhance total spending.
- If state government chooses the option to maintain or enhance spending, it could maintain and/or create up to 128,008 jobs, potentially shorten the recession in Illinois by over six months, and reduce the state's unemployment rate by almost two percentage points (1.9%), based on multipliers created by Mark Zandi, chief economist at Moody's Economy.com.
- Moreover, if the state made additional capital investments in infrastructure, it could expect to generate $1.59 of economic activity for every public dollar spent, potentially creating over 400,000 jobs, many in the high-paying construction industry.
- The economic benefits flowing to the state from infrastructure investments could be increased significantly at no cost to Illinois taxpayers, to the extent federal matching dollars can be leveraged by state investments.

## III. *Why Illinois Should Not Cut Spending During a Recession*

The economic recession gripping our nation began in December, 2007.[1] That means it has already lasted 14 months, which is longer than the average length of all recessions in the U.S. since World War II.[2] Not only is the current recession threatening to be the worst downturn since the Great Depression, it also does not appear to have hit bottom yet. The January, 2009, jobs report from the Labor Department revealed that the nation lost almost 600,000 jobs during that month alone, and 3.6 million jobs since the recession started.[3] Moreover, the U.S. Commerce Department initially estimated that our national Gross Domestic Product would decline by 3.8 percent for the final quarter of 2008. Now that the final numbers are in, however, the picture is even worse, with the Commerce Department announcing our GDP actually declined by 6.2 percent during that period.[4]

Prospects for a quick turnaround are dim. The rest of the world, including our major trading partners in Asia and Europe, are entering or experiencing downturns.[5] The problem is so severe that some economists predict the labor market will continue to shrink through the middle of 2010.[6] According to Mark Zandi, chief economist at Moody's Economy.com, the nation is "trapped in a very adverse, self-reinforcing cycle. The downturn is intensifying, and likely to intensify further unless policymakers respond aggressively."[7]

This begs the question, what type of policy initiatives should decision makers implement to meet Zandi's urging to "respond aggressively?" The answer from the federal government was to pass President Obama's $787 billion stimulus package. Mark Zandi, who in addition to his work at Moody's Economy.com served as an economic advisor to Senator McCain during McCain's 2008 presidential campaign, predicts that Obama's stimulus package will create 3.8 million jobs, and should result in the nation having an unemployment rate that is two percentage points lower by the midpoint of 2010 than it would have been without the stimulus package.[8]

That is all fine and well for the federal government, which can deficit spend to its heart's content. The question for state government is, how to counter the impact of the recession here in Illinois, given it faces one major constraint the federal government does not—the mandate of a balanced budget?[9] Moreover, it is not like Illinois has a lot of extra revenue at its disposal to use for a stimulus. Quite the contrary, in the current fiscal year 2009, Illinois is looking at a revenue shortfall of at least $4 billion,[10] and may have a deficit that exceeds $9 billion by 2010.[11] Illinois surely can not expect state revenue growth to come to the rescue, far from it. Even in the best economic times, Illinois' poorly structured fiscal system fails to generate enough revenue growth to sustain the same level of public services from one year to the next. In fact, this "structural deficit" (as illustrated in Figure 1), is the main reason the state has been unable to balance its budget for decades.

**Figure 1**

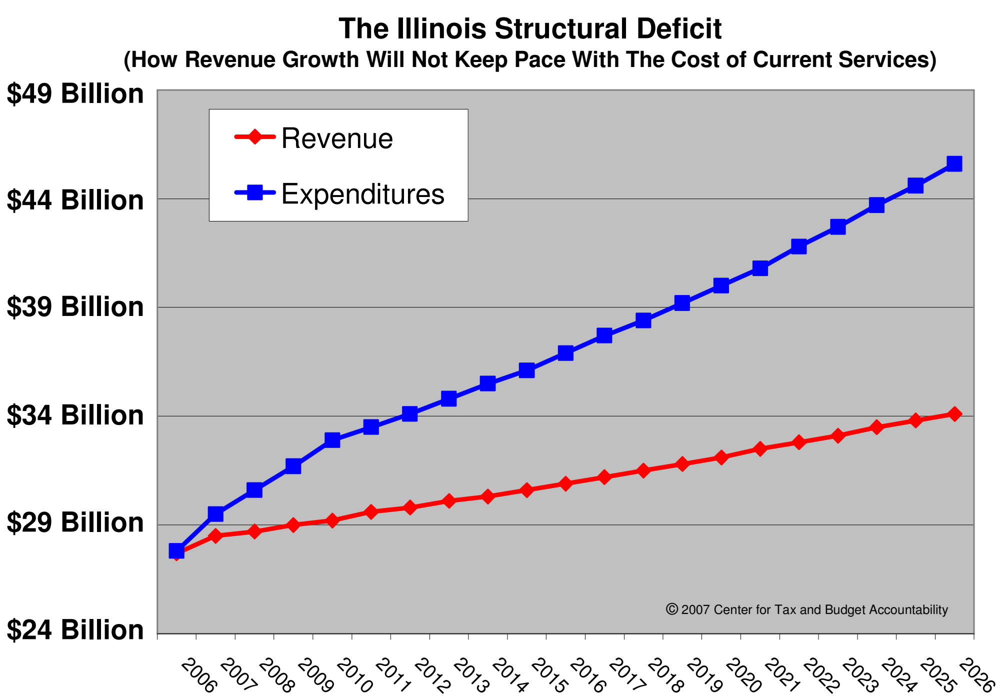



Figure 1 projects future expenditures and costs by adjusting solely for historic rates of inflation and population growth. The projection further assumes: a balanced budget in FY2006 (the state actually had a deficit of almost $2.5 billion); normal economic growth based on historic trends; and continuation solely of existing law—that is, no new programs are passed and no existing services are expanded—Illinois just continues to provide the same level of services that were authorized in FY2006 into the future.

The state's ongoing deficit and fiscal shortcomings present the following quandary to Governor Quinn and the General Assembly: during a significant economic downturn, should Illinois close its budget gap by cutting spending—at the very time when demand for public services is growing—or by raising tax revenue and maintaining or enhancing spending, or by some combination thereof?

Some policymakers feel the best way to eliminate the state's deficit is simply to cut spending, as opposed to raising taxes. This probably sounds like it makes sense. After all, if the state is spending too much money and is in debt, why not just spend less money. The problem with that reasoning is that such an approach would likely worsen the recession in Illinois, costing the state thousands of lost jobs.

In fact, there is relatively strong consensus that state governments that cut spending during a recession are making a huge mistake, that will set their economies back further.[12] Raising revenues in a progressive fashion, on the other hand, and maintaining or enhancing state spending is the best choice to counter recessionary cycles and generate job growth. The reasoning behind this is actually easy to understand. During a recession, the economy is already contracting. Cutting state government spending takes even more money out of local economies, worsening both the recession and job loss.[13] No one makes this point more clearly or articulately than Nobel prize winning economist Joseph Stiglitz, currently an economics professor at Columbia University.

Stiglitz pointed out that "in a recession, you want to raise (or not decrease) the level of total spending by households, businesses and government in the economy. That keeps people employed and buying things."[14] Simply stated, budget cuts reduce spending in the local economy, while state and local government spending boost it.

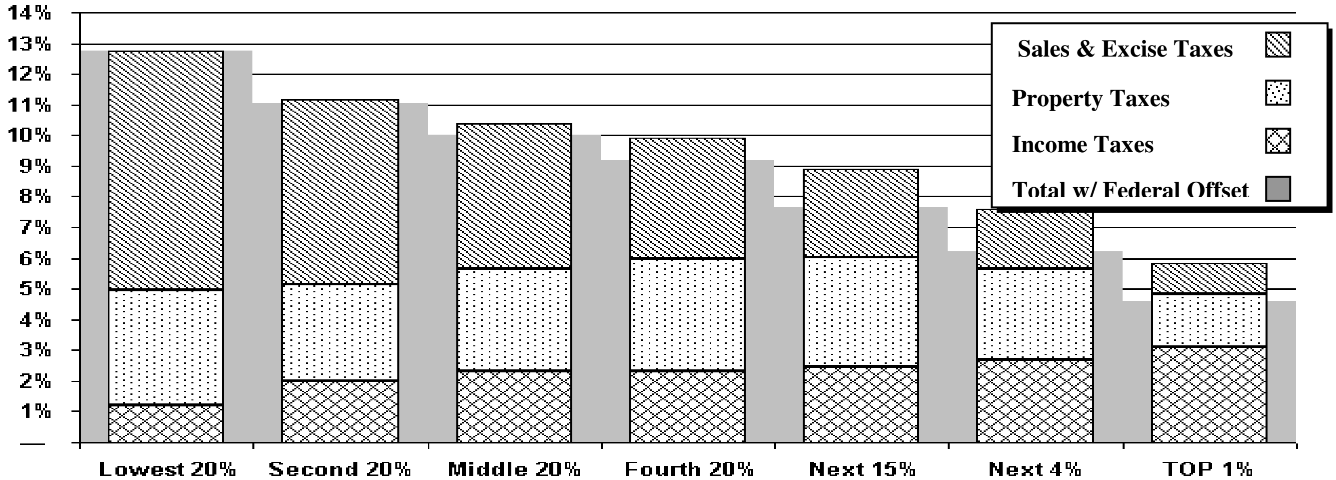
In a recent letter he sent to Governor Paterson of New York, Stiglitz emphasized the importance of state spending to counter recessions. Among other things, Stiglitz used his letter to advise New York's elected officials that, "When faced with such an unpleasant choice, economic theory and evidence give a clear and unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures."[15]

The reason progressive tax increases work better during a recession than spending cuts becomes clear, once you consider an individual's or family's "Marginal Propensity to Consume" or "MPC". "Marginal Propensity to Consume" simply measures the likelihood that a particular individual, given his or her overall income level, will choose to save or spend when they receive additional income.[16] Wealthy individuals have a lower MPC than other individuals, meaning they spend less of their overall income on consumption, and save more. Raising taxes on the affluent will therefore generally result in them saving less money, but with little to no change in their consumption patterns. This is another point Stiglitz emphasized in his letter to the governor of New York, noting that although raising taxes on high income households may reduce spending some, it will certainly be less than the amount of the tax increase "since those with plenty of income typically spend only a fraction of their income—and some of what they spend is on luxury goods made abroad."[17] So, even though affluent individuals will have less money following a tax increase focused on them, there will not be a dollar-for-dollar loss in the economy. ***A state budget cut, however, would result in a dollar-for-dollar loss in economic activity***.

In contrast, low income persons have a high MPC, so any reduction in transfer payments to them (like unemployment insurance, food stamps or TANF benefits, for example), or increases in taxes they pay, is likely to result in lower levels of consumption. These families simply do not earn enough money to save, so if they have less money coming in, due to tax increases or transfer reductions, they generally spend less money in the economy, period. It follows then, that reductions in transfer payments, or raising taxes on lower income individuals, would have *more harmful* effects than raising taxes on the wealthy. Since those families who receive transfer payments (food stamps, unemployment insurance, etc.) typically spend almost all their income, the negative impacts of a reduction in transfer payments could be as harmful as a direct reduction in government spending, and should be avoided.

Making the state's tax increase progressive is particularly important in Illinois, which has one of the most regressive, that is, unfair, tax systems in the nation.[18] As Figure 2 shows, Illinois places a significantly greater tax burden on low and middle income families than on affluent families when tax burden is measured as a percentage of income. Describing Illinois' fiscal system as unfair because it is regressive is not as controversial as it seems. Sure, tax policy is by its nature a contentious subject. In the end, individuals pay different proportions of their incomes in taxes to fund public services—and a completely different matrix of individuals use those services. Given this dichotomy, establishing a definition of what constitutes the most fair way to tax seems difficult.

**Figure 2**
**State and Local Tax Burden as a Percentage of Income**
(Source: Institute on Taxation and Economic Policy)




| **Income Group** | **Lowest 20%** | **Second 20%** | **Middle 20%** | **Fourth 20%** | **Top 20%** | | |
|---|---|---|---|---|---|---|---|
| | | | | | **Next 15%** | **Next 4%** | **Top 1%** |
| **Income Range** | Less than $16,000 | $16,000 – $30,000 | $30,000 – $48,000 | $48,000 – $77,000 | $77,000 – $148,000 | $148,000- $295,000 | $295,000 or more |
| **Average Income in Group** | $8,900 | $22,600 | $38,500 | $61,100 | $101,000 | $204,000 | $1,322,000 |
| **TOTAL TAXES** | 12.8% | 11.2% | 10.4% | 9.9% | 8.9% | 7.6% | 5.8% |
| **Federal Deduction Offset** | –0.0% | –0.2% | –0.4% | –0.7% | –1.2% | –1.4% | –1.2% |
| **TOTAL AFTER OFFSET** | **12.7%** | **11.0%** | **10.0%** | **9.2%** | **7.7%** | **6.2%** | **4.6%** |

Fortunately, there is a well settled definition of what constitutes fair taxation, at least in a capitalist society. According to Adam Smith, the father of modern capitalism, a fair tax system is a progressive system, i.e., one that imposes a greater tax burden on affluent, than middle or low income taxpayers, when tax burden is measured as a percentage of income. In his seminal work, the Wealth of Nations, Smith explained the rationale for reaching this conclusion. He contended that under capitalism, affluent income classes will always benefit disproportionately from economic expansion. Since the greatest benefits of the system inure to upper income classes, fairness dictates they ought to have the greatest tax burdens, to support the government that delivers such economic benefits to them. According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ….As Henry Home (Lorde Kames) has written, a goal of taxation should be to 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"[19]

Was Adam Smith right? A review of Illinois' economic performance over the last three decades demonstrates that his reasoning was on target. The vast majority of growth in the Illinois economy since 1980 went to the wealthiest 10% of taxpayers. In fact, the bottom 40% of income earners in Illinois actually took home less money on an inflation-adjusted basis in 2005 than they did in 1980.[20]

In light of what has really transpired in our economy, it is easy to understand why a progressive tax system is fair, and a regressive tax system would be considered unfair. In simple terms, low- and middle-income families are realizing either declining or stagnant real incomes over time, while affluent families are realizing significant real income growth.

## IV The Multiplier Effect

So, how exactly could Illinois benefit by taking the approach recommended by Stiglitz, and maintaining spending through progressive tax increases? Fortunately, Mark Zandi has developed a simple metric for determining how certain public expenditures create an economic multiplier that actually generates more than a dollar-for-dollar benefit as those public expenditures move through a state's economy.

An economic multiplier, defined by economics textbooks such as Dornbusch and Fischer's *Macroeconomics*, is "the amount by which output changes when autonomous aggregate demand increases by one unit."[21] OK, what does that mean? The definition may sound arcane, but what happens is very straightforward. Say state government invests in a new road or in bridge construction. State government initially stimulates the economy by making a direct payment to contractors, construction workers, etc. for work and economic activity that otherwise would not take place. As these individuals then spend some of the money they earn from the state on other purchases in the economy, such as food, clothing or car repairs, a portion of the initial state investment made on construction becomes additional purchases in other sectors. One person's spending becomes another individual's income, who in turn spends that income again on other purchases in the local economy, and so on.

Mark Zandi of Moody's.com modeled how this multiplier effect works for different types of public spending, as detailed in Figure 3. Although Zandi's data is from January 2008, it has been used as recently as January 2009, in testimony before the US Congress, by economists including Zandi himself, Stiglitz, Peter Orszag of the Brookings Institute, and Nicholas Johnson of the Center on Budget and Policy Priorities.[22]

**Figure 3**

| **Government Action** | |
|---|---|
| **Tax Cuts** | **Associated Multiplier** |
| Non-Refundable lump-sum tax rebate | 1.02 |
| Refundable lump-sum tax rebate | 1.26 |
| | |
| Temporary Tax Cuts | |
| Payroll Tax Holiday | 1.29 |
| Across the board tax cut | 1.03 |
| Accelerated Depreciation | 0.27 |
| | |
| Permanent Tax Cuts | |
| Extend alternative minimum tax patch | 0.48 |
| Make Bush income tax cuts permanent | 0.29 |
| Make dividend/cap gains tax cuts permanent | 0.37 |
| Cut in corporate tax rate | 0.30 |
| | |
| **Spending Increases** | |
| Extending Unemployment Insurance Benefits | 1.64 |
| Temporary increase in food stamps | 1.73 |
| General aid to state governments (for spending on items such as education, public safety, health and human services) | 1.36 |
| Increased infrastructure spending | 1.59 |

As Figure 3 clearly illustrates, the largest economic 'bang for the buck' comes from spending increases, not tax cuts. Moreover, it is pretty clear that tax cuts, at any level, reduce the revenues coming into government. Given the size of the deficit the state already faces, this is hardly a point in time when Illinois can afford to realize further revenue loss. As the multiplier effects outlined above demonstrate, maintaining or increasing state spending has the greatest potential to produce the largest gains for Illinois' overall economy.

Authorizing an extension of unemployment benefits and a temporary increase in food stamps are, as Zandi states, “the most effective way to prime the economy’s pump.” This is because the people who receive these transfer payments are already hard-pressed financially, and will almost immediately spend any additional aid they receive directly in the local economy. Investments in education, health and human services will also pay off handsomely, generating $1.36 of economic activity for every taxpayer dollar spent.

The flip side of Zandi's multipliers are the potential negative impacts of cutting state spending. In other words, if making $4 billion in expenditures on critical services such as education, healthcare and human services can be expected to generate a positive multiplier of 1.36 (that is, for every dollar spent by the state, Illinois' economy gets a benefit of $1.36), then balancing the budget by cutting that amount of spending would hurt the economy by a similar multiple. The Center for Economic and Policy Research (**"CEPR"**), a national think tank, devised a method of applying Zandi's multipliers to state economies, to determine the potential job impact of state government maintaining or cutting spending.[23]

Figures 4 and 5 show what the potential job impacts could be in Illinois if our state government elected to balance its budget deficit through spending cuts, versus raising taxes (progressively). Note that the estimated budget shortfall amounts cover the range of estimates put forward by everyone from the Governor, to the Comptroller, Commission on Government Forecasting and Accountability and state GOP in recent months.

**Figure 4**

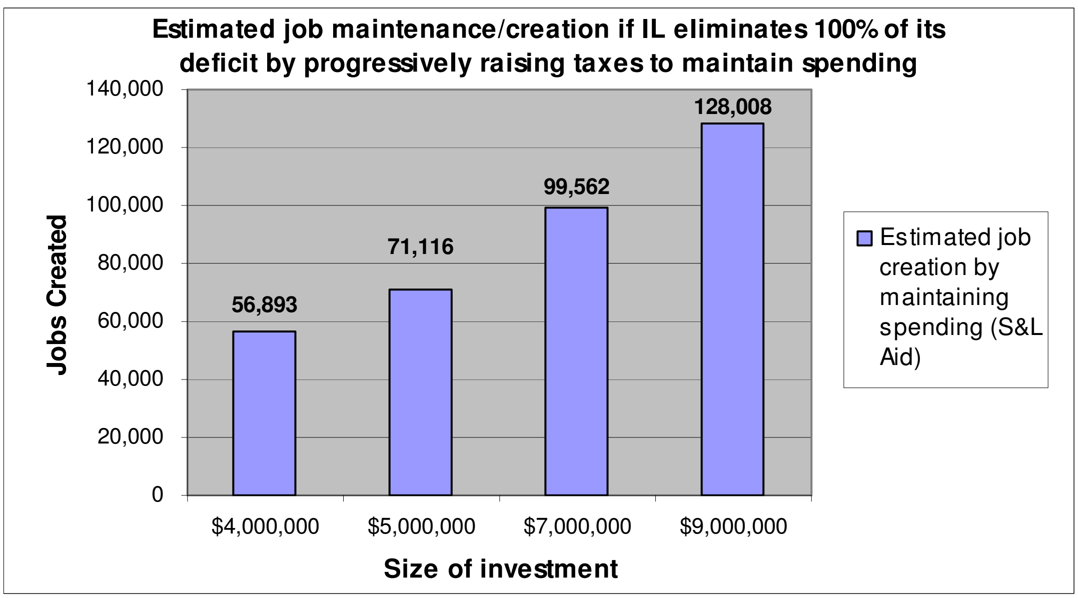
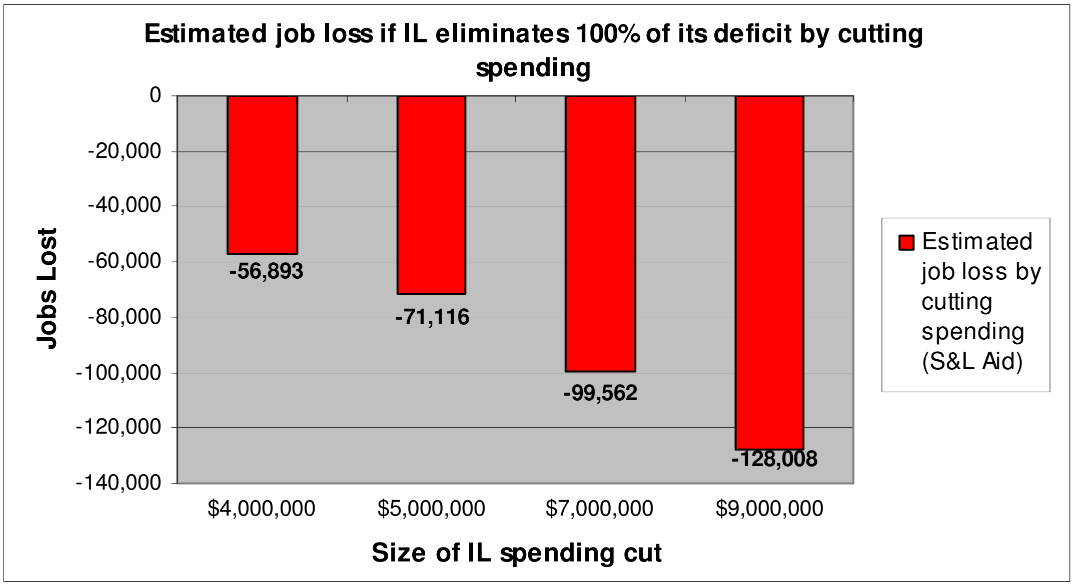


**Figure 5**




Note the potentially devastating economic impact of spending cuts that is illustrated in Figure 5. If, as Comptroller Hynes estimates, the state's deficit falls in the $9 billion range, then balancing the budget through spending cuts could cause the state to lose up to 128,008 jobs—during a recession. Such an outcome would be hard to justify, especially since Illinois already lost 243,000 jobs in the one year period from December 2007 (the beginning of the recession) through the end of December 2008.[24] A budget cut of that magnitude could cause Illinois job loss to worsen by over 52 percent!

On the positive side, if the state instead closed its budget gap by raising revenue (progressively) to invest in public services, Illinois could see 128,008 jobs maintained or created, potentially shortening the state's recession by over six months, and cutting its unemployment rate by just under two percentage points (1.93%).[25] This could effectively produce the same positive reduction in the unemployment rate for Illinois that Zandi predicts the federal stimulus will generate for the nation.

## *V Doing More—How Capital Investments will Grow Illinois' Economy*

The state of Illinois has not passed a capital program in over seven years. Meanwhile, as the national and state economies continue to erode, so too does Illinois' infrastructure. Raising just over $1 billion in recurring, state-based revenue in a progressive fashion, would finance a state bond program of around $13 billion, which in turn, through federal match and other local initiatives, could leverage another $12 billion in local and federal spending for capital projects for the state.[26] That means Illinois could implement a $25 billion capital program if the state were to develop the approximately $1.2 billion in recurring revenue to fund it.

Using Zandi's multiplier of 1.59 for public investments in infrastructure, a capital program at that level would generate almost $40 billion in economic activity at the state level. This would have a major impact on employment in Illinois, with the potential to create up to 415,713 jobs.[27] Moreover, many of those jobs would be in construction, one of the highest paying sectors in the Illinois economy.[28]

One concern that is frequently voiced about infrastructure spending is that it will not occur quickly enough to have the fully intended stimulative impact. That is because few capital projects are "shovel ready", and therefore require months of planning before construction actually begins. By that time, the economy could have turned around.

While generally this is a legitimate concern, it really only becomes a problem if the recession will be short lived.[29] If, on the other hand the recession is likely to be longer running, this particular timing drawback is not pertinent.[30] As previously indicated, the current recession is projected, unfortunately, to be one that will be quite lengthy in duration, effectively nullifying this concern.

Currently, the legislature is considering at least three pieces of legislation that would finance capital projects. The first, House Bill 1, was introduced by Representative John Bradley (D-117). It would raise the gasoline tax by eight cents per gallon. This would generate $500 million in annual revenue, that would be used to underwrite $5.9 billion in bonds to fund road, bridge, transit and other transportation related investments. True, excise taxes like a gasoline tax are generally regressive, so the bill would have to be partnered with tax relief targeted to low and middle income families, like expanding the state's Earned Income Tax Credit. With that accomplished, Zandi's 1.59 multiplier for the $5.9 billion transportation/infrastructure program outlined in HB1 could generate about $9.4 billion in economic activity in Illinois, and create about 98,108 jobs, many of which will be in the high paying construction sector.

The potential positive economic impact of HB1 could be even greater. For the last few years, Illinois has left federal dollars targeted to funding transit, bridge and similar infrastructure projects on the table, due to the state's failure to raise revenue that would qualify for various federal matching programs. If the state were to receive, say, a 50 percent federal match on the revenue raised under HB1, it could effectively double the positive job growth (196,218 new jobs) at half the cost in state tax dollars.

The current versions of House Bill 855 introduced by Representative David E. Miller (D-29) and Senate Bill 750 introduced by Reverend Senator James T. Meeks (D-15), would fund the larger, $25 billion infrastructure investment program discussed above.

## VI *Raising Revenue Progressively*

As it turns out, Illinois decision makers are presented with a fortunate turn of events when it comes to responding to the current economic crisis, for two reasons. First, Illinois' struggles are coming at the very time the federal government is offering significant financial support to the states. The Federal American Recovery and Investment Act of 2009 (or federal stimulus bill) will provide Illinois with financial assistance to close a portion of the state's estimated $9 billion deficit. Under the stimulus package, Illinois can expect to receive approximately $2.935 billion from the federal government in time to help close the gap in the current fiscal year 2009 budget. Of that $2.935 billion, $880 million must go toward paying the $2.2 billion in back logged bills owed to Medicaid providers. Another $1.681 billion must be used to maintain K-12 and higher education spending, and the remaining $374 million can be used to avert budget cuts in education or in other basic state services. After accounting for the $2.935 billion from the federal stimulus, state lawmakers must essentially raise up to $6 billion in revenue to close the current budget deficit.

Second, the very same fiscal policies that will help counter the recession and grow the state's economy, happen to coincide precisely with the only real, sustainable solutions to the state's ongoing, long-term deficit problems. Simply put, modernizing the state's tax system so it grows with the economy and is not overly reliant on low and middle income families, will both help create jobs and pull Illinois out of the recession in the short term, while promoting the long-term fiscal health and solvency of the state. Even more fortuitous, the federal stimulus money, although non-recurring, will come in relatively soon, thereby bridging some of the gap between the time tax reform passes and the new revenue actually starts to come in.

Attaining the tax modernization required to fulfill the twin objectives of countering the recession and making the state more fiscally sound will require three simple elements: (i) an income tax rate increase; (ii) a broadening of the state's sales tax base to include consumer services; and (iii) targeted tax relief to low and middle income families.

The income tax is inherently the most fair of all taxes because it is the only one that actually increases or decreases the burden it places on a taxpayer in accordance with that taxpayer's ability to pay. If a taxpayer receives a raise, her income tax liability will increase. If on the other hand she loses her job, her income tax liability will decrease. No other tax adjusts its burden in accordance with a taxpayer's ability to pay.

Moreover, since an income tax can have a progressive rate structure—that it, impose slightly higher tax rates on individuals with higher incomes—a well designed, progressive income tax can actually help make a state's overall tax burden fair—or at least fairer than it would be without a progressive rate structure. The Illinois Constitution, however, prohibits lawmakers from setting marginal rates at different levels for different income classes, because it mandates a flat tax rate across all income brackets.[31]

This constitutional constraint can be addressed in a number of ways. The first and most direct would be an amendment to the Illinois Constitution that permits utilization of a progressive rate structure in the state's income tax. But the constitutional amendment process is time consuming—and the Illinois tax system is unfairly regressive right now, while the need to raise revenue to counter the recession is also immediate.

A second approach, which should be pursued contemporaneously with a constitutional amendment, is using existing tax structures, like refundable credits and the dependent exemption, to create a more fair tax system today. For instance, the dollar value of the personal and dependent exemptions could be increased for low and middle income taxpayers, and reduced for higher income brackets.

While the aforesaid "reverse graduation" of these exemptions would create some progressivity—it would not get to the heart of tax burden for low and middle income families—who are hit hardest by payroll, excise, property and sales taxes. Moreover, to modernize Illinois' tax system, make state revenue generation more stable, and ultimately to eliminate the structural deficit detailed in Figure 1, the state's sales tax base has to be broadened to include consumer services. That's because the service sector is the largest and fastest growing segment of the Illinois economy—accounting for over 60% of all economic activity in the state[32]—and Illinois' sales tax (actually called the Retailers Occupation and Use Tax) for the most part does not include services. Instead, the Illinois sales tax applies predominantly to the sale of goods, which represents just 12% of the economic activity in Illinois today, down from 32% in 1965. The state simply cannot leave the largest and fastest growing segment of its economy out of its tax base and have a revenue system that will work in a modern economy.

That said, sales taxes are generally regressive. So, while a sales tax base expansion is an essential reform from a sound tax policy standpoint—it has the potential to make the state's currently regressive tax system even worse. Refundable tax credits targeted to low and middle income families would be the most efficient policy solution to address the regressive tax burden problems associated with sales taxes, including any sales tax base expansion needed to modernize the Illinois system.

A "refundable" tax credit is one that allows a taxpayer to receive the full dollar value of the credit, even if the credit is greater than the taxpayer's total income tax liability. This is effective because it offsets those taxes other than the income tax (like sales and payroll) that create the greatest burden for low and middle income families. Examples of refundable credits include the state and federal Earned Income Tax Credits and the Family Tax Credit included in Senate Bill 750 and House Bill 855.

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[23] Matthew Sherman – "The Effect of Budget Belt Tightening on Employment," December 2008, Center for Economic and Policy Research, www.cepr.net. To obtain this calculation, CEPR looked at the economic effect of closing a state's fiscal shortfall with budget cuts, proportional to that state's gross domestic product. Assuming employment is proportional to GDP, CEPR took the ratio of economic effect to GDP, and multiplied it by total employment in the given state.

[24] IL Department of Employment Security. Difference is between Gross IL Employment, on December 2007 and on December 2008. http://www.ides.state.il.us

[25] The rationale for the two percent reduction in the unemployment level comes from the potential maintained/new job total of 128,008 which represents approximately 2 (1.9%) percent of the overall IL labor force of approximately 6,636,000. Moreover, from December, 2008, through December, 2009, Illinois lost jobs at the rate of 20,250 per month. Therefore, creating or maintaining 128,008 jobs that otherwise would not exist or be lost, has the potential to shorten the recession by six months (that is 128,008 ÷ 20,250 = 6.32), if job loss continues at that monthly rate.

[26] Illinois Works, the FY 2009 Capital Plan available at <http://www.state.il.us/budget/FY%202009%20Capital%20Budget%20Book%20v2.pdf>

[27] The 415,713 job projection assumes no substitution, that is, state funded capital projects do not substitute for or replace other construction jobs that would have been generated by normal economic expansion. Given that we are experiencing economic contraction, the impact of public sector expenditures on capital should have minimal substitution issues.

[28] State of Working Illinois 2008, Northern Illinois University and the Center for Tax and Budget Accountability, Figure 1, page 12

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**Statement of J. Thomas Johnson**

**President of the Taxpayers' Federation of Illinois**

**Senate Committee on Deficit Reduction**

**Pensions Hearing**

**March 17, 2009**

One of the most significant contributors to our state's fiscal challenges is our failure to properly set aside assets to meet our responsibilities to fund future employee retirement benefits. The lack of proper employer contributions and the recent significant adjustment in the value of investment assets now puts the state in a position where we only have 40% of the resources required to meet our future liabilities. This development has not occurred overnight but it has been a result of decisions made over the last 30 years. Our greatest concern is what will be required to service this $70+ Billion dollar debt. Future projections suggest that it will take as much as 25% of own source revenue to do so. That will take resources away from other things such as investments in education and the capital infrastructure of the state. Healthcare availability for our most needy citizens will be impacted by this enormous debt.

In order to understand our predicament, we should first look at the original design of the retirement benefit structure and evaluate whether times have changed to the point that they need to be changed to meet the modern day. Originally the benefit was structured to provide a decent retirement for our long term government employees. After a long and dedicated career one would retire (really) and be with us long enough to draw maybe ten years worth of benefits. Over the years age access to these benefits have been reduced, benefits have been enhanced, and the life expectancy demographics have developed to the point that some full benefit annuitants will now receive benefits for a period longer than they actually were employed. As these occurred the state did not keep up with the plan modifications and funding levels to produce a properly funded plan. The benefits available in the existing plans are much more generous than what exists today in the private sector. Initially, plan benefits were created in part to "compensate" for the compensation levels of the government versus private sector. There has been dramatic change in this arena since original plan design. (See attached chart.)

The other action or inaction, is once the underfunding level was acknowledged, the state designed a back loaded funding catch-up program that pushes the problems down the road. This funding plan creates even larger fiscal challenges for future state leaders as they will be balancing the pressures of demand for government services and a responsible tax structure. The state's long term fiscal health is dependent upon a balanced tax burden that can keep Illinois competitive for both job creation and investment.

The answers then are pension program redesign and an adherence to a fiscally responsible funding plan for current normal costs and debt amortization. I will address the components of the first and ready to discuss the funding plan at the appropriate time.

Pension program redesign should start with what is the level of benefit we want to provide and at what time should those benefits be able to be accessed. We are concerned that at this time quite often employees that complete their career today in our various programs start drawing pensions at a relatively "young" age compared to those of a couple generations ago and in many cases start a new career at competitive compensation levels in the private sector where they start accruing new benefits usually under a defined contribution system. That generally was not the career path of the retiree when these plans were originally established. When you retired you retired.

So what are some of the options that should be considered?

1. Increase the retirement age to the levels incorporated in the Social Security program.
2. Determine the level of benefit that should be established at the end of the retiree's career. (% of replacement earnings.) This should vary dependent upon whether the employee is coordinated with Social Security.
3. Change the annual accrual rate to correspond to the later retirement age and level of benefit.
4. Change the COLA adjustment to a more reasonable level.
5. Rationalize and increase the employee contribution responsibility.
6. Determine whether we should convert to a defined contribution program rather than a defined benefit system or some form of hybrid. Under SERS today employees are covered under social security, other programs are not. All private sector employees are covered under Social Security. One option would possibly be to establish a defined benefit program to produce the same level of benefits that could be achieved under Social Security (at a lower cost) coupled with a defined contribution or cash balance system.

One of the issues that should be reviewed is which of these proposed changes to our retirement plan structure could be adopted for current employees for prospective benefit accruals.

Inexorably, tied to these modifications is the impact they would have on the cost of retiree healthcare programs. Today the greatest retiree healthcare cost burden is associated with the early retiree. Full costs associated with these participants are impacted largely because of lack of the ability to coordinate with the Medicare program. The cost of employee healthcare coverage is greatest during the ten year period prior to Medicare coordination. A later retirement age would greatly reduce retiree healthcare costs.

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**Senate Committee on Deficit Reduction**

**Responses to Committee Questions**

J. Thomas Johnson, President

1. What area of the state budget are you interested in protecting and why are those important?

    The only area that should be protected is the required contribution to the state pension funds. Failure to do so will cause future generations of state taxpayers to be required to pay a liability incurred by prior generations. This inordinate debt will overwhelm the state's resources crowding out other appropriate spending. All other areas of state spending should be investigated to identify spending reductions.

2. What revenue enhancements would you recommend be implemented to support those areas?

    Expected revenue growth from existing tax base along with savings identified by above effort should be used for this purpose.

3. What suggestions can be provided to reduce the State's short-term and long-term pension costs?

    A two tiered pension program which would increase employee contributions, reduce automatic COLA adjustments, and adjust the retirement age for access to pension benefits to correspond to the Social Security retirement age are actions that should be considered at a minimum.

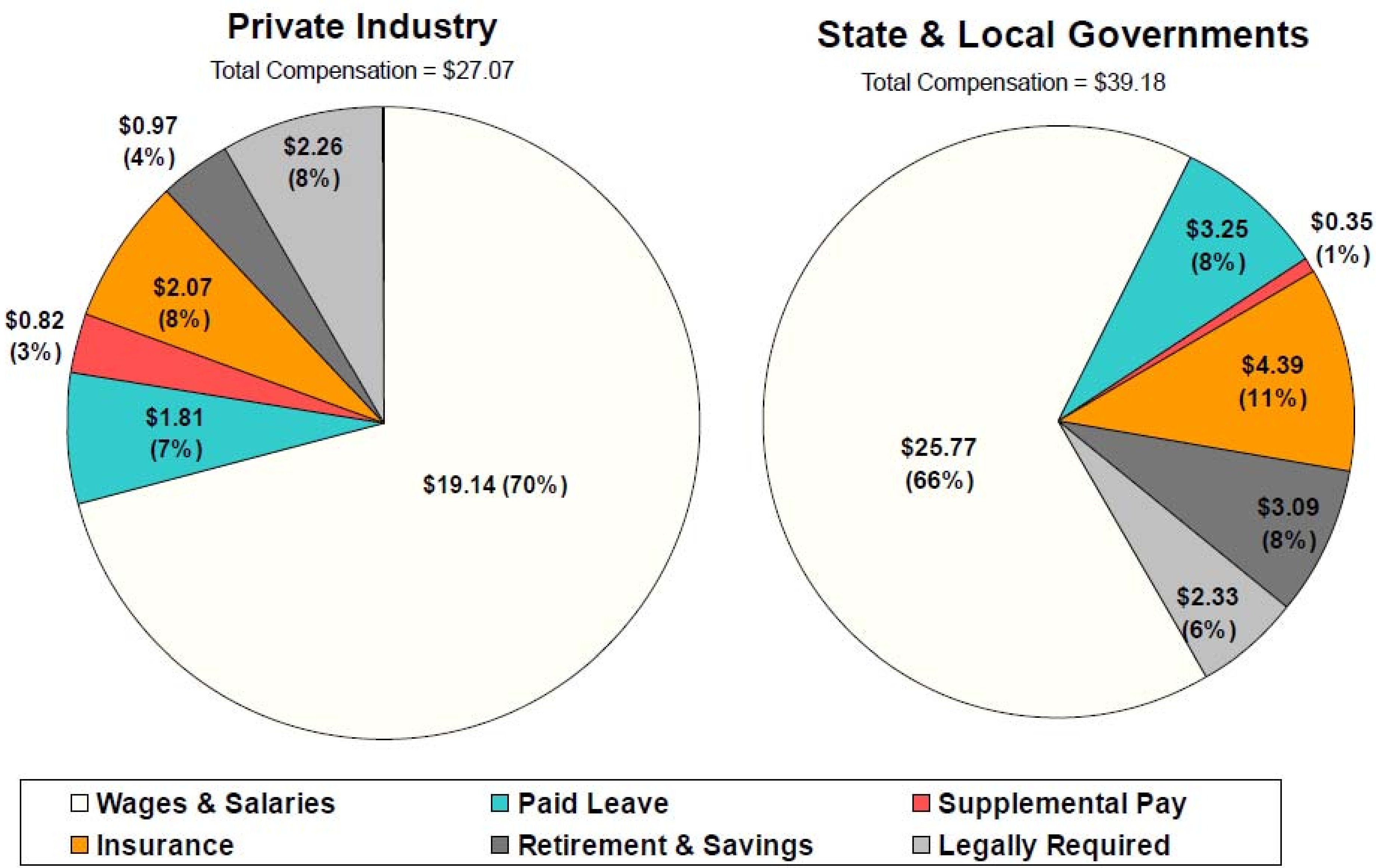
4. Are reforms of pension benefits for newly hired State employees warranted to lower the State's long-term pension costs? Do you support such reforms?

    Yes, see comments above. Some of these changes could possibly be made for current employees as well.

5. Are increased contributions from current pension system members warranted? Do you support increased pension contributions from current members?

    Yes, rationalizing the contribution levels between the various pension systems and increasing the amount of employee contributions should be part of the solution.

# Hourly Compensation Comparison




Source: Presentation by Jay A. Mousa, Regional Commissioner, Chicago, U.S. Bureau of Labor Statistics, for The Public and Private Sector Compensation Forum, February 26 ,2009

**Testimony of AFSCME**
**Illinois Senate Committee on Deficit Reduction**
**March 17, 2009**

1. What areas of the state budget are you interested in protecting and why are those areas important?
ALL ASPECTS OF THE STATE BUDGET AND PARTICULARLY THOSE REGARDING STATE SERVICES THAT HAVE BEEN SO SEVERELY CUTBACK AND UNDERSTAFFED OVER THE LAST 7 YEARS.

2. What revenue enhancements would you recommend be implemented to support those areas?
WE SUPPORT ADEQUATE, FAIR AND RESPONSIBLE REVENUE ENHANCERS, INCLUDING HIGHER INCOME TAX RATES, AN EXPANSION OF STATE SALES TAXES TO SERVICES, MOTOR FUEL TAX INCREASES, CLOSURE OF CORPORATE TAX LOOPOHOLES, AND AN EXPANSION OF GAMING.

3. What suggestions can be provided to reduce the State's short-term and long-term pension costs?
BOTH THE SHORT-TERM AND LONG-TERM CRISIS IN PENSION COSTS ARE DUE TO THE STATE'S FAILURE TO MAKE ITS FULL SHARE OF CONTRIBUTIONS OVER THE LAST TWO DECADES. THE ONLY SOLUTION IS TO SIGNIFICANTLY INCREASE THE STATE'S UPFRONT CONTRIBUTIONS NOW, AND THEREBY REDUCE THE LONG-TERM LIABILITY.

4. Are reforms of pension benefits for newly hired State employees warranted to lower the State's long-term pension costs? Do you support such reforms?
NO - BENEFIT REDUCTIONS FOR FUTURE HIRES WILL BRING NO SHORT-TERM SAVINGS AND HAVE ONLY AN INSIGNIFICANT IMPACT ON LONG-TERM COSTS, SINCE THEY WILL NOT REDUCE THE EXISTING UNFUNDED LIABILITY.

5. Are increased contributions from current pension system members warranted? Do you support increased pension contributions from current members?

NO – STATE WORKERS HAVE FULLY PAID THEIR SHARE, EVEN AS THE STATE HAS FAILED TO DO SO. CURRENT STATE WORKERS BENEFITS ARE MODEST AND THE BUDGET SHOULD NOT BE BALANCED ON THE BACKS OF WORKERS WHO HAVE CONSISTENTLY PAID INTO THE SYSTEM.

# <u>Senate Committee on Deficit Reduction</u>

March 24, 2009 / Agenda*
9:00 AM, Room 212

Senator Donne Trotter Co-Chair
Senator Matt Murphy Co-Chair

*Hearing #4 General Topic: Budget Deficit & Revenues*

| | |
|---|---|
| 9:00-9:15 – | Committee Organization |
| 9:15-9:30 – | Commission on Government Forecasting and Accountability |
| 9:30-9:45 – | Dr. Barry Poulson<br>*Advisor – ALEC Task Force on Tax & Fiscal Policy* |
| 9:45-10:00 – | National Federation of Independent Business<br>*Zachary Hoffman, Wiley Office Furniture* |
| 10:00-10:15 - | Senate Bill 750 and Alleviating the Reliance on Property Taxes to Fund Education<br>*Illinois State Senator James Meeks and Ralph Martire, Executive Director, Center for Tax and Budget Accountability* |
| 10:15-10:30– | Increasing the Motor Fuel Tax to Fund State Capital<br>*Illinois State Representative John Bradley* |
| 10:30-10:45 - | Illinois State Chamber of Commerce<br>*Todd Maisch & Connie Beard* |
| 10:45-11:00 – | Tooling & Manufacturing Association, Associated Builders & Contractors |
| 11:00-11:15- | Tax Fairness – Increasing the Income Tax and Personal Exemption<br>*Sean Noble, Voices for Illinois Children* |
| 11:30-11:45 – | Closing Remarks from Committee Members |

* individuals and organizations wishing to testify but not listed on the agenda may submit written testimony to Senate staff and may be asked to testify at a later date

# THE TRUTH ABOUT PROJECT LABOR AGREEMENTS

## WHAT IS A PROJECT LABOR AGREEMENT?

A project labor agreement (PLA) is often required or accepted by a project owner (business or government purchaser) for a construction project. A PLA is a signed contract between the project owner's construction manager and area construction unions. In order to qualify to work on the project, general contractors and subcontractors must sign a letter of assent, thereby agreeing to the terms and conditions of the PLA. Typically, PLAs require contractors to recognize unions as representatives of construction employees on the job; use the union hiring hall referral system to obtain workers; pay union wages and benefits; obtain apprentices exclusively from union apprenticeship programs; and obey the unions' restrictive work rules, job classifications and arbitration procedures. These agreements generally discourage construction companies that employ non-union construction professionals (and employers whose employees are members of unions not signatory to the PLA) from bidding on these projects. Construction unions aggressively promote PLAs because they know these agreements limit competition and will increase economic opportunities for union members. In general, PLAs become "union-only" projects.

## WHO CAN WORK ON A PROJECT LABOR AGREEMENT?

Some PLAs allow for a non-union contractor to keep a core employee workforce. The ratio of union to non-union employees working on the project depends on the PLA. Typically, for every non-union employee hired to work on the job, several union personnel must be hired from the local union halls signatory to the agreement by the successful bidder regardless of the company's labor affiliation. In some cases, non-union employees or even union employees who are not members of the unions who signed the PLA may be allowed to work on the project, but on a significantly limited basis.

## CAN A NON-UNION COMPANY BID AND WORK ON A PROJECT UNDER A PLA?

A non-union employer can bid and work on a project, however, the employer cannot use all of its employees on the job. The employer must adhere to the agreed ratio and only use a percentage of its employees. This means that an employer who is loyal to their own employees must sometimes lay off these employees and, instead, hire unknown individuals from the union hiring hall. The fear of using an unfamiliar and unknown labor force and the consequences of being disloyal to one's own workforce are the strong reasons why merit shop firms avoid bidding on projects with PLAs, thereby limiting the number of bidders and significantly increasing the cost of the project.

## WOULD A PROJECT LABOR AGREEMENT BE CONSIDERED DISCRIMINATION?

**Yes**. Project Labor Agreements, which significantly limit and in some instances prohibit the majority of the construction workforce from working on a public or private construction project because of their union affiliation, are a form of discrimination. Also, minorities and women are often excluded from work because they are underrepresented in unions.

## WHAT IS PROMISED UNDER A PLA?

Labor unions that pursue implementing a PLA on a project promise the following in return for a guarantee of a PLA and a union workforce on the jobsite:

1. A safer work environment
2. A project within budget
3. Project completed on time
4. A better-constructed project
5. No Strikes/Pickets - labor peace

*–Continued on next page-*

## ARE THESE PROMISES KEPT?

In most, if not all instances, these are misleading or false promises. This campaign of misinformation is only used to achieve union special interests' ultimate goal – more jobs for union workers.

1. SAFETY: There is no empirical evidence to support the claim that PLAs increase workplace safety. In addition, there is no evidence that union workers are safer than non-union workers. In fact, OSHA statistics indicate that on average, nonunion workers experience fewer construction worksite fatalities when compared to their union counterparts.

2. WITHIN BUDGET: PLA projects frequently go over budget. In fact, studies have demonstrated that PLAs increase final construction costs.

3. ON TIME: PLA projects have experienced construction delays and missed critical deadlines.

4. A BETTER CONSTRUCTED PROJECT: A project governed by a PLA does not make the final product any better or safer. Countless quality and successful public and private construction projects are built without a PLA.

5. LABOR PEACE: Non-union employees do not strike or cause labor unrest – union employees are almost always the ones responsible for strikes and picketing. Organized labor uses these "labor unrest tools" to their benefit simply to coerce or threaten a private or public project owner into accepting or requiring a PLA.

For specific examples and information, please see: Baskin, M. Esq. *Union-Only Project Labor Agreements: The Public Record of Poor Performance. 2005 edition.*
A complete list of studies supporting these talking points can be accessed on the web at: www.abc.org/pla

## SUMMARY of ARGUMENTS AGAINST PLAs

These agreements intentionally limit competition, which in turn increases construction costs that are eventually passed on to private owners, public owners, customers and taxpayers.

In addition, PLAs limit economic opportunities for businesses and employees and discriminate against small and minority-and women-owned businesses and workers who are not affiliated with construction trade unions.

The arguments supporting the idea that PLAs are necessary to complete a construction project on-time and on budget are misleading and inaccurate. A PLA is not necessary to complete a construction project, regardless of its size or complexity. Open competition is the best and only way to ensure fairness, reduce construction costs and expand job opportunities as the free enterprise system allows every qualified business, regardless of labor affiliation, to fairly compete for construction contracts.

www.cca-il.org

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# TESTIMONY FOR SENATE DEFICIT REDUCTION COMMITTEE
## March 10, 2009

## HUMAN SERVICES

The Child Care Association of Illinois (CCAI) thanks the committee for the opportunity to submit written testimony about the budget deficit and revenue shortfall and the impact on human services.

The CCAI is a membership organization of 76 voluntary, nonprofit agencies that provide child welfare and community services throughout Illinois, and of university affiliate members. Our member agencies provide 85% of the direct care services for the more than 16,000 children who are state wards. Our agencies also provide youth services and delinquency prevention and intervention programs, and child mental health services.

The Human Care system in Illinois has seen deteriorated funding over the last decade. Since the early 90's more than $3 billion has been cut from the Human Services system in Illinois, even as needs have increased and costs have escalated. Concerns about Education and Health Care funding have consumed much attention from the General Assembly the past few years. We agree it is crucial for the General Assembly to implement long-term funding solutions for these 2 pillars of the human care arena. However, it is equally as crucial that the General Assembly protect and implement long-term funding solutions for the third vital pillar of human care---the human services.

We believe that Human Services, Health Care and Education are all linked as part of our human care system. All are committed to the same goals: caring for children, families and vulnerable citizens. Illinois has historically funded health care, education and human services in disjointed silo-like approaches. This approach is not working. The very same beneficiaries of education and health care also require human services:

- A child experiencing a troubled home life does not learn well. The lack of human services to help that child's mentally ill mother can have a devastating impact on that child's ability to learn.
- A mother who is a victim of domestic violence will need strong health care, counseling and guidance in order to protect her children and make sure they are able to get to school and learn.

- A student who is not engaged in school or who has dropped out altogether is at a higher risk for delinquency, drug use, HIV infection and entry into the correctional system.
- A foster parent caring for an Illinois teen ward of the state with a substance abuse problem will need a strong child welfare, drug treatment and education system working together to help her child stabilize and create a new future for himself.

## *Question: What areas of the state budget are you interested in protecting and why are these areas important?*

It is difficult to extract only pieces of the human service system as areas we are interested in protecting because of how these areas are intertwined with health care and education and with each other. Any service provided for one client in essence needs many other services working together to be successful. We believe all human services are important and that the General Assembly should be encouraged to stretch as much as possible in looking away from human services as the place to cut. Human services have already been cut to the bone.

We would like to highlight some of the essential services provided for the clients served by our member agencies that must be protected:

### *Child Welfare*

The 16,000 children in DCFS custody are really your children. They are wards of the state of Illinois and as such, the General Assembly helps serve as their parent. Foster care, adoption, residential treatment and counseling for these wards are essential. Services geared to help families at risk of abuse/neglect help keep kids at home and avoid the family breakup of placement and the costly expenses of state guardianship. Foster parents actually provide 24 hour a day care for 14000 of these wards, for a reimbursement level that is a fraction of the actual cost. The DCFS budget has already lost more than $150 million over the past 6 years via cuts. That DCFS budget cannot afford any further losses.

**We urge protection of the DCFS Budget at the Current Appropriated Level of $1.349 billion.**

### *Child Mental Health*

Children with severe mental illness need access to the highest quality residential treatment and to community resources geared to support parents. A number of mental health programs help support and treat these children.

**We urge protection of the DHS Budget Lines for Individual Care Grants at the Current Appropriated Level of $28,112 million.**

**We urge protection of the DHS Mental Health C & A Grants, Community Grants Line and Block Grant lines at the current appropriated level of $274,352 million.**

## *Youth Services and Delinquency Prevention*

Families in crisis rely on the network of 24-hour access youth programs to help them avoid placement of troubled youth into the child welfare or juvenile justice systems. Delinquency prevention and after school programs provide essential alternatives for young people to avoid delinquent activities. Such programs also support parents as they learn better parenting skills, or work to find services that can help their families avoid future crises.

**We urge protection of the DHS Community Health and Prevention Line Items at the current appropriated level of $792,879 million.**

## *JUVENILE JUSTICE*

The creation of the new Department of Juvenile Justice 2 years ago was meant to create new service models for youth and to reduce the number of youth incarcerated because of recidivism. A high percentage of youth in DJJ are there for supervision/parole violations and not for repeated serious crimes. This points to the need for DJJ to provide aftercare services that help support youth in positive activities, guide parents on new ways of supervising their children and to create new services that will minimize parole violations. The DJJ has not yet been funded at a level that supports Aftercare. There are a number of youth who currently have served their time waiting in DJJ for discharge, yet DJJ has no aftercare funds to find alternatives to incarceration.

**We urge protection of the DJJ Aftercare Line at least at the appropriated level of $6.2 million but urge in increase in this line to at least $11 million.**

## *Question: What revenue enhancements would you recommend be implemented to support these areas?*

We commend the General Assembly for looking at ways to enhance revenue.
We are unable to specify any particular areas. We are social workers and human service providers and know how to provide clinical services and manage human care. We are not experts in tax or fee structures or arbitrage. We encourage the General Assembly to look at all possible opportunities for enhancing revenue before looking to cut human services any further.

Respectfully Submitted,

Margaret M. Berglind
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**Illinois Senate Committee on Deficit Reduction**
**96th General Assembly**
Written Testimony Delivered by:
Elizabeth A. Evans
Executive Director, Illinois Network of Charter Schools
March 4, 2009

Thank you for the opportunity to address the members of the Senate Committee on Deficit Reduction. It is with utmost importance that I share with you the strong return on investment brought to Illinois by its charter public schools.

My name is Elizabeth Evans and I am the Executive Director of The Illinois Network of Charter Schools (INCS). INCS is the collective voice of the Illinois charter movement and promotes high performing charter public schools by directly supporting its members and by building bridges with public education stakeholders and decision-makers.

Currently there are 39 charter schools serving over 32,000 public school students statewide. They serve a student population that is 84% low-income, with 94% coming from African-American and Latino backgrounds. Across Illinois, there are nearly 1,500 full-time charter teachers educating our children. These schools are in such high demand that over 13,000 students remain on waiting lists to enroll in a charter school.

One may ask, what type of tangible return on investment can charters bring to the communities in which they operate? Now more than ever, charters have proven to be a smart investment of public funds. Charters, by their nature as autonomous and innovative schools without obligations to central office mandates, bring an enormous impact to Illinois's communities in 4 ways:

1. **Charter public schools achieve higher results on statewide achievement tests.**
2. **Charter public schools are proven to bring strong economic impact to communities.**
3. **Charter public schools are a more efficient and transparent use of tax-payer dollars.**
4. **Charter public schools have been nationally recognized by President Obama and are a core element of the federal stimulus.**

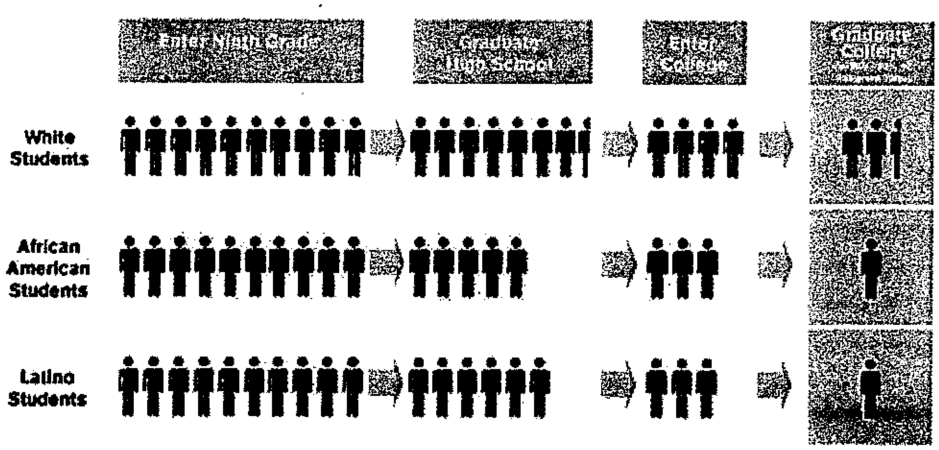
**Charter public schools achieve higher results on statewide achievement tests.**

The autonomies granted to charters under the five broad categories: governance, curriculum, staffing, scheduling, and budget have enabled charter leaders to spread proven innovative classroom strategies that have led to boosts in student achievement.

- 4 out 5 charter public high schools in Chicago score better on statewide tests of reading and math (PSAE) than neighboring traditional schools (2006-2007).[1]
- 90% of K-8 charter public schools in Chicago posted higher combined scores on statewide achievement tests of reading, math and science (Illinois Standards Achievement Test) than neighboring traditional schools (2006-2007).[2]
- The May 2008 RAND Corporation study showed that multi-grade charter high schools significantly improve student achievement in high school graduation (7 percentage point advantage) and college enrollment (11 percentage point advantage)

Further, all respected research today highlights the importance a college education has in bringing economic prosperity to a community given the grim statistics that break down likelihood of college completion by race.

***Only 1 in 10 minority students and 3 in 10 white students earn a post-secondary degree.***




Based on Illinois's 2003 calculated high school graduation rates, national college entrance rates, and national college graduation rates, which allow 150 percent of program length to graduate ***(EPE 2003)***.[3]

[1] Chicago Public Schools Office of New Schools 2006-2007 Charter School Performance Report
[2] Chicago Public Schools Office of New Schools 2006-2007 Charter School Performance Report
[3] Our College Pipeline. Advance Illinois. www.advanceillinois.org

America needs more college graduates to reap the unlimited potential of its citizens. Charter public schools are making a positive difference. More investment must be made in charter public schools which are doing their part in preparing high schools students to graduate from college.

**Charter public schools are proven to bring strong economic impact to communities.**

One of the unique characteristics of charters is that they have more freedom to innovate in the classroom, by lengthening the school day and year, implementing teacher incentive pay, increasing professional development for teachers, and tailoring curricula to meet individual student needs.

The Illinois Charter Impact Projector (CHIP) is a tool created and customized to Illinois which can project how communities can benefit economically from the opening of a charter public school. CHIP was created by Public Impact, [4] a national education policy firm that has designed and implemented some of our nation's most visionary and practical strategies for improving the quality of K-12 education. CHIP shows that the economic benefits charters bring to communities are specific and clear.

***Below are some statistics on the benefits charters have already brought to communities across Illinois:***

| **Result of high-performing charter public school** | **Increased Earnings (per year)** | **Additional Income Taxes (per year)** | **Social Service Savings (per year)** | **Total Annual Benefit** |
|---|---|---|---|---|
| Converting one high school dropout to high school graduate | $9,200 | $2,400 | $1,600 to $3,300 | $13,200 to $14,900 |
| Converting high school graduate to college graduate | $19,100 | $5,300 | $800 to $2,700 | $25,200 to $27,100 |
| **Total from converting a dropout to a college graduate** | **$28,300** | **$7,700** | **$2,400 to $6,000** | **$38,400 to $42,000** |

These data only further cement the need for more charter public schools across our state. The Rockford School District, facing a growing achievement gap between its affluent and low-come

[4] Public Impact is a national education policy firm based in Chapel Hill, North Carolina. Matt Arkin, the lead consultant on the CHIP project founded the Stanford Business of Education Conference and holds Master's degrees in Education and Business Administration from Stanford University.

students moved to authorize two charter schools seeing these innovative public school options as a means to yield more success for all of its students and bring economic prosperity to its community.

**Charter public schools are a more efficient and transparent use of tax-payer dollars.**

Charter public schools are a means to achieving more efficient public school administration. Illinois charter law requires these innovative schools to clearly outline performance measures they will be judged on and to articulate expected outcomes they must achieve. Charters meet these goals and objectives being funded at a lower rate than traditional public schools. Section 27A-11(b) of the Illinois School Code states "In no event shall the funding be less than 75% or more than 125% of the school district's per capita student tuition multiplied by the number of students residing in the district who are enrolled in the charter school." INCS advocates for equitable funding, so charter students may receive the same amount as all other public school students. Presently however, while funded at a lower rate, charters in Chicago, are for the most part outperforming traditional public schools. Communities need more charter public schools that promise this sort of responsibility for results with fewer dollars.

**Charter public schools have been nationally recognized by President Obama and are a core element of the federal stimulus.**

When President Obama signed into law The American Recovery and Reinvestment Act (ARRA) on February 17, it was a sign of the value he saw in charter schools' contribution to the long-term recovery of our economy, and as recently as his address on February 25 Obama stated: "We'll invest in innovative programs that are already helping schools meet high standards and close achievement gaps. And we will expand our commitment to charter schools."

Successful entrepreneur Bill Gates is another charter public school proponent. He backs up his support with his dollars. Mr. Gates said the following of charter schools when asked what he learned from his $2 billion investment in America's public schools:

> "...a few of the schools that we funded achieved something amazing. Almost all of these schools are charter schools....Educational innovation and overall improvement will go a lot faster if the charter school limits and funding rules are changed."

**State leaders must take action now to take advantage of the economic benefits charters bring to Illinois.**

Education spending in Illinois is in an abysmal state, with the state ranking 49th in the nation. With stronger leadership, it doesn't have to be this way. Charter public schools can make a bigger difference in developing reform initiatives that all public school students can benefit from if leaders develop more avenues for charter growth and easier access to federal and state funding.

- In order to secure the roughly $2 billion set aside for Illinois, state leaders must take immediate action to create a plan which includes charter public schools, and allows the state smooth access the funding which is to be distributed and spent by 2011.
- Illinois must build capacity to create an adequate supply of charter schools statewide by either doubling the current cap with geographic restrictions in place or lifting the cap to 120 open to the entire state.
- Illinois must create an independent statewide charter authorizer which will ensure charter growth without the burden of political influences and a hampering bureaucratic process that school district-authorized charters often face.

Members of the Senate Committee on Deficit Reduction, I urge you to heed the call of President Obama, business leaders and Illinois communities and take advantage of the funding available for our state by making a stronger investment in charter public schools. The evidence is clear; the economic impact charters bring to so many of our communities is too immense to not create more of them.

# MANUFACTURING A BUDGET RECOVERY

## A Guide to Reinventing the Illinois State Budget

PREPARED BY:

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UNDERWRITTEN BY:

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# EXECUTIVE SUMMARY

For at least five budgets in a row, Illinois State Government has annually spent more money then it received in tax revenues and federal aid. The result: budget deficits, pension liabilities, and an unfriendly economic and business environment.

It's time legislators insisted on a comprehensive review of all state government program spending, and a rollback of the *over-reaches* of past administrations before any consideration or discussion of tax or fee increases is undertaken.

Among the steps the General Assembly and the Governor can take to create a new, responsible spending blueprint that doesn't hinder Illinois' ability to recover from the recession are:

1) Implementing budget process reforms that empower individual legislators in budget deliberations in order to begin the process of restoring public trust.
2) Implementing a statewide employment and promotion freeze.
3) Implementing pension reform to stop the bleeding or red ink.
4) Addressing immediate school code reforms that should free educators to focus our K-12 schools on the principal of the student ***first***.
5) Suspending ***all*** higher education tuition waiver programs; suspending sabbatical leaves; requiring state universities to report on average teaching loads; and reforming current campus funding formulas to reward improved efficiencies and staff productivity.
6) Rolling back Medicaid eligibility to the level prior to illegal actions taken by Gov. Blagojevich; beginning with a re-qualification program for enrollees; and convening a rate review with the participation of hospitals.
7) Reviewing the Supreme Court budget, and ask the Chief Justice whether the State Supreme Court still needs two separate chambers, or if Appellate judges need food services and lodgings. Asking the Supreme Court to make recommendations for changing judicial pay statutes that allow for productivity.
8) Requiring a comprehensive review and ***justification*** of Illinois' 1,750 plus state programs to determine what should be consolidated or eliminated.
9) Implementing capital contracting and procurement reforms that end project labor agreements, eliminate repair contracts from prevailing wage, and allow schools and local governments the freedom to select the lowest bidder.
10) Set the stage for recovery by fast tracking reforms to improve the employment environment in Illinois.

Recessions cause *creative destruction* in organizations, and force the review and reallocation of resources. Illinois taxpayers have the right to expect a thorough and thoughtful review of state government spending and the programs it supports.

Congress says it will accept no less than a sweeping reorganization of General Motors and Chrysler Corporation, we here in Illinois should demand no less of our state budget.

# FORWARD

The Tooling and Manufacturing Association (TMA) is pleased to present the following report outlining recommendations that the members of Illinois' 96th General Assembly must consider to repair the state's budget while fostering an economic climate allowing for job protection and creation to occur in its manufacturing sector. The TMA understands that some of the recommendations contained in the document may seem unattainable under ordinary circumstances, however Illinois state budget crisis is anything but ordinary. It is with this thought in mind that the TMA Government Relations Committee puts forth this report with the hope that our legislators, executive officials and their respective staffs will discuss the merits of each recommendation.

The current economic crisis has been hard felt by the Illinois manufacturing community, which must be able to compete in a global market place as well as within the Illinois market place. Manufacturing in this state has continued to see job loss some of which is a direct result of policies, which make it impossible to compete from both Springfield and Washington.

Illinois has been one of the country's centers for manufacturing for many years. Most elected officials can quickly rattle off the names of some of our nation's big names in manufacturing such as Caterpillar, Deere and Abbott Laboratories to name just a few. Illinois is also home to thousands of smaller manufacturing companies that are located across the state and that supply the global market place with the special tooling, components, and subassemblies needed to build everything from tractors and automobiles to electrical connectors and medical devices. You will find these companies not only provide good paying jobs to highly skilled workers across Illinois but they also sponsor educational competitions in local schools and sports teams.

Since 1925 when the TMA was founded by eight small manufacturing companies, the association has worked to help its members grow and prosper. As Illinois' Premier Full Service Manufacturing Association the TMA advocates on behalf of its over 1,200 manufacturing and supplier members for pro-job, pro-growth, pro-manufacturing public policy. In addition it offers members unique training opportunities, lead generation assistance and employee benefit solutions. The association is headquartered in Park Ridge, Illinois and is governed by a Board of Directors composed of executives from member companies, currently chaired by Ms. Carol Klingler-Ebel President and majority owner of Janler Corporation located in Chicago. Bruce Braker serves as TMA President, with Brian P. McGuire serving as the association's Executive Vice President.

The Tooling and Manufacturing Association Government Affairs Committee would like to gratefully acknowledge the generous underwriting support from Atlas Tool & Die Works, Inc., which helped make this report possible.

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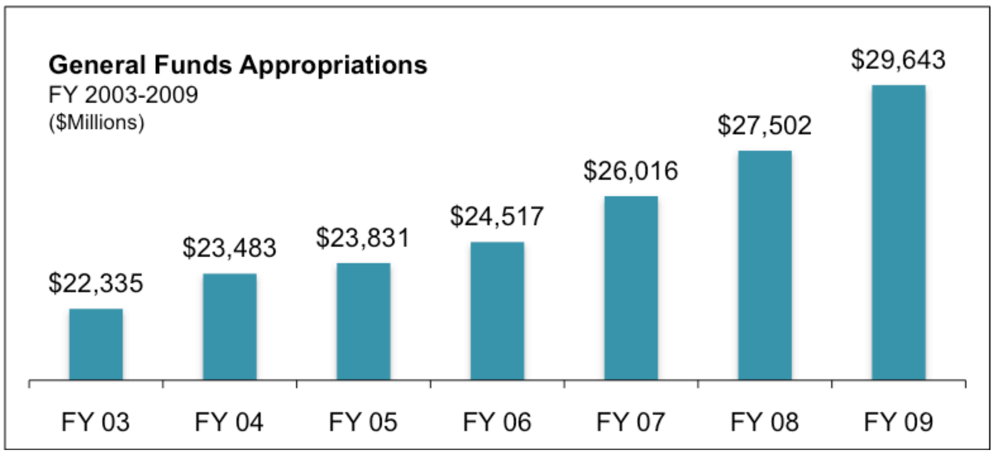
# INTRODUCTION

When you find yourself in a hole and can't get out, the first thing to do is to stop digging. Unfortunately, that's a lesson we've not yet learned in Illinois.

Since the first Blagojevich budget, the Illinois General Assembly has permitted the Governor to keep digging Illinois into an ever-deeper fiscal hole. For at least five budgets in a row, state government has spent more money annually than it received in tax revenues and federal aid. Despite the Illinois Constitution's balanced budget requirement, the General Assembly collaborated in creating the budget situation and must work with the new Governor in addressing the problems.

But regardless of how we got here, the first step to recovery is making sure we don't make the problem worse. If the last five years have proved anything, it's that uncontrolled spending growth on un-reviewed and unreformed government programs make problems worse, not better.




Therefore, responsible legislators must insist on stopping the growth of spending; and insist on a comprehensive review of all state government program expenditures, while rolling back the over-reaches of past administrations.

Companies, organizations, families, and individuals are all re-evaluating their own spending; Illinois citizens deserve and expect no less. It is not credible that multi-million dollar school districts cannot reduce their spending in this financial crisis. It is indefensible that the medical community argues that cost growth at twice the rate of inflation for the last 10 years is not interruptible. It is unacceptable for legislative leaders not to permit, encourage and in fact require a comprehensive evaluation of state program spending. And it is manifestly irresponsible for state legislators not to act to reform Illinois' unsustainable pension system.

The following pages contain a series of reforms the Illinois General Assembly should consider as it contemplates the budget.

# SUGGESTED REFORMS

## PROCEDURE

During the last five years many of the designed checks and balances have failed to prevent several unconstitutionally unbalanced budgets in succession. Legislators should insist that there be legislative procedural/process changes to correct these problems and help prevent their reoccurrence.

Consideration of these reforms is critical to empower individual legislators in budget deliberations and begin the process of restoring public trust. Procedural reforms to consider are:

1) Introduction and passage of a binding budget resolution before consideration of appropriation bills. This resolution would establish the state revenue plan separate from the spending plan and prevent last minute "revenue enhancements" that have resulted in legislators being misled about whether the budget is balanced or not. Such a resolution would establish an upper limit to the total spending of appropriation bills and thereby prevent budget abuses.

2) Separation of the final budget into a minimum of five separate legislative bills covering the major areas of state spending, (i.e. Education, Medicaid, Transportation, Human Services, Corrections, and General Government). The use of omnibus spending bills has proven to be a dismal failure over the last five years, and has prevented individual legislators from affecting spending policy.

3) Reestablishment by the legislature of comprehensive public hearings on major program spending. The recent practice of treating appropriations hearings in regular two hour hearing blocks has handicapped the public and rank-and-file member's influence over the budget process. Regardless of the time necessary, legislative leadership needs to organize and support a reformed hearing process to restore public trust.

4) Swearing in of administrative agency and executive branch witnesses, before appropriations testimony. The current fiscal crisis could perhaps have been mitigated or prevented if testimony offered about the budget were subject to perjury charges. Misleading information and half-truths have already cost Illinois taxpayers billions of dollars. This must end.

5) Establishment, by legislators, of reasonable rules for debate of state budget appropriations bills. Turning off microphones, cutting off legislators in mid-debate, limiting chamber consideration to a couple of hours, and limiting the number of constitutionally elected legislators permitted to speak, has undermined both the public's and elected member's trust in the process.

6) Elimination of the pay differential between assistant leaders and committee chairs/spokesmen needs to be considered. For more than 20 years public money has been used to enforce legislative leader's discipline. There is no significant difference in duties and the differential in pay should end.

7) Reform of the statutes governing the Senate President and Speaker of the House should be debated. These legislative officers have a complex and crucial role to play in providing checks and balances on the executive branch. Illinois should consider the practices of other states and at a minimum consider:

    - Requiring exclusive employment for both Presiding Officers, and paying them on par with an Illinois Supreme Court Justice.
    - Separating the roles of partisan caucus leadership from the Presiding Officer.

- Requiring the Senate President and Speaker of the House to certify that the state budget appropriations bills constitute a balanced budget.

## STATE EMPLOYMENT

Although state employee headcount is down over the last five years, Illinois is in a crisis and the legislature needs to act immediately to avoid any growth in salary costs when Illinois is effectively bankrupt.

State employment reforms to consider are:

1) Implementation of an immediate statewide hiring freeze by statute, to be waived only by the Governor's signature.

2) Implementation of an immediate promotion freeze by statute, again to be waived only by signature of the Governor.

Opponents of hiring and promotion freezes will argue that Illinois' state employment has already been cut to the bone. The well-worn argument is that Illinois has one of the lowest proportions of state workers to residents in the country – ergo Illinois is already efficient.

However, most large states like Illinois (e.g. Texas, California, Florida, and New York) have a lower proportion of state employees to residents. While smaller states have a greater proportion. In fact, the state with the highest proportion of state workers to citizens is Connecticut. Thus the argument is one of population size, not proportionality or efficiency.

Fact is the present economic crisis presents an opportunity to review programs, focus on core competencies, and determine how to do more with less. A hiring and promotion freeze would be a start.

## STATE PENSIONS

After years of discussion and stonewalling by affected employee groups the time to act on state pensions is now. For the last 15 years efforts to put the current pension system on a sustainable financial footing have been undercut, suppressed, and manipulated. From failed pension bonding schemes to ignored statutory funding laws to benefit enhancements to insufficient annual appropriations, Illinois' record on pension stewardship has been an embarrassment.

It's no secret that state pensioners receive more generous benefits than their peers in the private sector. Traditionally, the argument on behalf of this state of affairs has been that state employees make less than their private sector peers and in competition for talent the state needed more generous benefits to attract workers. Last year, however, the administration negotiated a 15.2 percent pay raise with no adjustment to health benefits for retirees or any other concessions to taxpayers. Public employees tend to be better paid with greater access to more lucrative benefit packages than their counterparts in the private sector. This undermines the argument of the poor underfunded public servant.

Legislators must insist that pension reform and pension funding is a part of this year's budget. The current market crisis should put every legislator on clear notice that our pension problem is not going to go away by itself. Within the constraints of the Illinois Constitution's "non-diminishment" clause, the legislature needs to act.

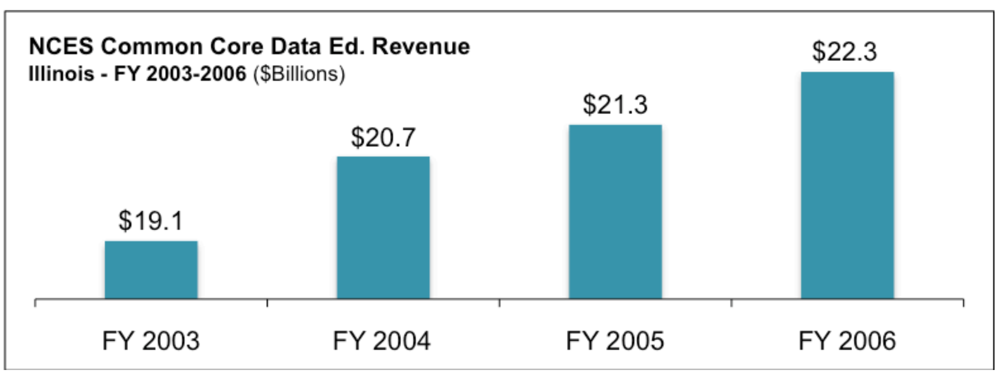
State pension reforms to consider are:

1) Pass a "pension cap". Choose a reasonable number, say $100,000.00 annual salary and cap all future pensions at that level with an inflation adjustment. Cap anyone currently above this cap at his or her current pay. This is not a diminishment.
2) Suspend the current pension accrual system (all five state systems), and replace it for all future employees with the equivalent of a 401K plan, or a bifurcated plan, ½ 401K and 1/2 base-line defined benefit with a lower cap, say $50,000.00 annual salary.
3) Increase employee contributions to the systems to the extent allowable.
4) Statutorily prohibit any pension benefit increase that is not fully funded when granted.
5) Raise the retirement age to 67, the same as social security.

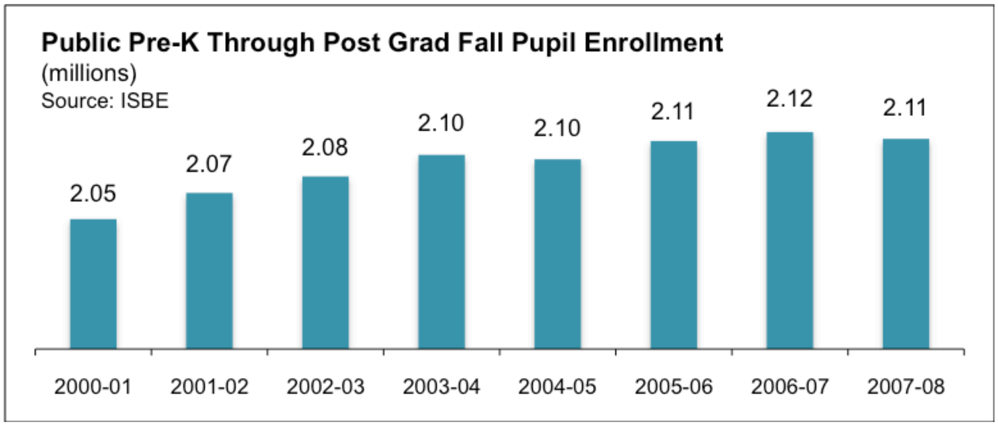
## K-12 EDUCATION

Illinois' primary and secondary education spending has been growing at nearly double the rate of inflation for the last decade – at a time when the student population is flattening. While resources have soared, (150% since 1990) classroom results have remained depressingly consistent (Illinois' ACT scores rank 41st in the US). Employers continue to voice frustration about the "job readiness" of our high school graduates and our system's focus on college for all as a goal at the expense of basic skills currently in demand in the job market.

More than 50% of K-12 funding comes from stressed local property taxpayers with the balance a mix of federal and state education aid. During recessions, private sector organizations work to reorganize and reinvent themselves. They embrace change. In fact most recoveries are, in large part, fueled by the increased productivity and reduced costs that reorganization delivers.




It is crucial for the success of the next generation of Illinoisans that we stop shielding public schools from fundamental change and reform. Honest legislators need to recognize that spending alone is not a reasoned measure of school success. Legislators need to free education leadership to reorganize our K-12 schools around the principle of the *student first*. Increased spending and a school code dedicated to the rights of adult educators, masks deep-rooted problems in our schools and prevents innovation and reform.




Americans expect General Motors and Chrysler to change what they build, and how they build it. Our children's future is even more important. We should be committed to the same insistence on fundamental change, management accountability, and progress in output improvement.

State K-12 education reforms to consider are:

1) Set a state-wide guideline per-pupil spending cap, regardless of the source of funding. Reduce state contributions, including categorical grants to limit school district spending, to the capped level.
2) Phase out the average daily attendance state aid funding model and replace it with funding based on enrolled students completing the school year at grade level.
3) Repeal state education mandates, rules, and procedures. Replace them with reasoned statements of goals.
4) Repeal the physical education mandate and replace it with a statement of goals for fitness.
5) Eliminate all State Board of Education grant programs for the next fiscal year.
6) Roll back all non-pension K-12 funding to FY 2007 level.

## HIGHER EDUCATION

No longer is American higher education primarily focused on the education of undergraduates. Colleges and universities across the US now seem to care more about professorial prerogatives than they do about educating students. Higher education promotes professors out of classrooms and values publication and research more highly than effective teaching.

These institutions have allowed the interests of the faculties and administrations to trump the interests of students and society as a whole. The Illinois Board of Higher Education admits that average teaching loads for full professors continues to decline and the time to graduation for students continues to rise.

Regardless of the general trend in America's colleges and universities, Illinois state legislators can insist that our state universities and community colleges refocus on their primary mission of delivering high quality, affordable undergraduate education. University leadership must be challenged to increase efficiencies in these difficult times. Professors should be relieved of administrative work, committee work, and publication requirements; and should be encouraged and rewarded for increasing teaching quality and time. Illinois families should not be subsidizing the cost of graduate education and "questionable" research with their tuition and tax dollars.

Illinois legislators and parents have the right to expect students to be encouraged to carry full academic loads and graduate in a four-year time span. State Universities must focus on graduating traditional students consistently in four years.

Additionally, Illinois legislators need to adopt metrics to reward our state schools for delivering and improving undergraduate education.

State higher education reforms to consider are:

1) Suspend all tuition waiver programs (legislative and university administration).
2) Suspend all sabbatical leaves for the next fiscal year.
3) Require all state universities to report on the average teaching load of faculty.
4) Require all state universities to report on average class load carried by traditional students.
5) Require state universities to present funding request for FY 2010 that account for average traditional student class loads of 15 hours and average professorial teaching loads of 15 hours per week for FY 2010.
6) Suspend the current campus funding formula, and replace it with one that rewards improved efficiencies.
7) Suspend all Board of Higher Education discretionary grant programs for FY 2010.
8) Roll back all non-pension, Higher Education appropriations to FY 2007.

## MEDICAID

Illinois' current Medicaid reimbursement program is based on a DRG (diagnosis related group) system originally developed by the federal government in the 1980s for its geriatric Medicare population. Since the Medicaid population is overwhelmingly young, the reimbursement rates have been overlaid by a series of adjustments that attempt to correct for 25 years of problems. This system of reimbursement continues to distort the shape and structure of the Illinois healthcare delivery system, and fails to provide adequate and appropriate healthcare services.

One only has to notice the number of new hospitals under construction – and the expansion of some specialized care (e.g. cardiac) facilities – to recognize that some hospitals are doing very well, while others that respond to the demand for OB/GYN services and outpatient treatment of chronic conditions (e.g. asthma), are struggling to stay open. Legislators need to ask frank and probing questions about the current rate structure.

In addition to the poorly designed systems and incentives that punish providers for providing the majority of Medicaid services, the budget has been strained by misguided attempts to expand the program without reforming its structures. From 2003 to 2005 Illinois' Medicaid enrollees have increased by 60% with concomitant increases of spending of 8% per year. Under the Blagojevich Administration most of the spending came from borrowing and not paying its bills. The previous Administration's focus on expanding state healthcare benefits to middle class families (FamilyCare) has done an injustice to the poor and disabled population that Medicaid was intended to serve. Inadequate reimbursement levels and outrageously slow payments to providers have created an access and quality of care crisis in our Medicaid program.

State Medicaid reforms to consider are:

1) Rollback eligibility to level prior to illegal actions taken by Governor Blagojevich.
2) Begin immediate re-qualification program for Medicaid participants requiring proof of income and reasonable asset test – to be completed in 12 months.
3) Convene immediate rate review with the participation of hospital leaders and private third party healthcare payers to reform the current rate structure.
4) Suspend as of 6/30/09 all disproportionate share funding (DISH payments) and special rate rules while requiring re-submittal by Medicaid director with justifications.
5) Suspend all discretionary grant programs related to hospitals and Medicaid.
6) Require a full accounting of the line items grouped as "Other Related Medicaid Services" (slush fund for department).
7) Fully implement the 2004 law regarding hospital cost and quality transparency (PA93-144). Posting of healthcare pricing and indicators of quality care helps consumers to be better purchasers of healthcare services and products and creates a more competitive marketplace.
8) Eliminate the Health Facilities Planning Board that hinders competition and protects vested interests at the expense of taxpayers and the consumers.

## COURTS

All branches of government need to review their use of public money and do what they can to lower their costs. In these extraordinary times, legislators need to ask the Supreme Court to review their budget and make suggestions that will help save money.

State court reforms to consider are:

1) A review of the need for two separate chambers for the Illinois Supreme Court. Historically there may have been a need for the court to sit in both Springfield and Chicago. However, with electronic communication and modern transportation that time is past. The reduction in security, office costs, staffing and supplies could be significant.
2) Another hold over from the past is the practice of providing food service and lodging at several of our Appellate Courthouses. This was in response to the long travel times and extended court sessions of the past. As a practical matter, much appellate work is done with electronically shared documents and conference calls. The savings might be substantial if lodging and food services were discontinued.
3) In a state that elects members to the judiciary, judges come to the court system with diverse skills and work habits. The legislature should request that the Supreme Court make recommendations for changes in judicial pay statutes to give presiding judges the

tools they need to motivate judicial productivity. There are currently almost no tools a presiding judge can use to either discipline or reward judicial behavior.

## STATE PROGRAM EFFICIENCY

In an audit released in November of 2007, Auditor General William Holland found that what Illinois state government "does" remains a mystery to Illinois state government. After finding approximately 1,750 different state programs, reported that, "*Our study concluded that the State does not have a comprehensive, consistent inventory of State programs*."

In fact, according to the report, "*The actual number of programs is likely higher given that some agencies reported programs to us at an aggregate level. In comparison, 69 agencies reported 252 broad* ***categories*** {emphasis his} *of programs (e.g., human services, education, public safety) for the comptroller's Public Accountability Report which is prepared for a different purpose*."

It's important to note that Holland's analysis only reported on duplicative programs in separate agencies and did not report on potential duplicative programs within state agencies.

The Auditor General also examined 50 programs that his office believed could be consolidated. In almost every case, officials insisted their program was special and could not be combined with any others.

Rationales cited for a lack of consolidation revolved around different roles and missions, technical assistance versus financial assistance, or consultative versus regulatory roles.

State program reforms to consider are:

1) The state legislature should engage in a comprehensive review of all state programs and determine what is duplicative, what does and doesn't work, and take action to trim these programs accordingly.
2) Make greater use of incentive programs for government employees. This can include enhanced suggestion programs, merit pay, and performance-based contracts. State employees who find ways to save taxpayer dollars should receive a financial reward for their efforts. Program funding should be tied to a program's success at meeting its intended needs. Programs that don't measure up should be cut or eliminated.
3) Consider a permanent legislative agency similar to the non-partisan Texas Performance Review (TRP) that focuses on program effectiveness and efficiencies. The TPR has saved Texas more than $13 billion dollar since its inception in 1991.

## CAPITAL CONTRACTING

Nationally, less than 20% of construction workers are unionized. Illinois' current practice of requiring project labor agreements (Blagojevich Executive Order 13) effectively means that workers and companies that choose not to sign a union contract are prohibited from bidding for state construction projects. For competitive bidding to deliver the best price and value in a corruption free process Illinois must open its construction bidding to all qualified bidders.

It is wrong to tax non-union construction workers and then prohibit them from publicly bidding to do state work. Limiting the number of companies permitted to bid on state work results in less competition, higher prices, and delays in completion when there is a large-scale capital program.

Nationally, prevailing wage laws have been estimated to add 25% to labor costs on a construction projects. Under Gov. Blagojevich the prevailing wage laws were expanded to include construction repairs – a labor-intensive process in which up to 70% of the cost is labor. At a time when local government and school districts are struggling, it seems reasonable for the state to allow locally elected officials to determine whether to bid construction free from prevailing wages rules or not.

State capital contracting reforms to consider are:

1) Immediately overturn the Blagojevich Executive Order 13 requiring project labor agreements for public construction projects.
2) Exempt school districts and local units of government from the Illinois Prevailing Wage Law.
3) End prevailing wage requirements for repair work.

# SETTING THE STATE FOR RECOVERY

A critical component to balancing the budget for the long term and sustaining growth for the future is creating an economic climate that attracts investment. When the economy turns the corner and returns to productivity, Illinois must be poised to take advantage of the improved environment by addressing the issues that lead to job creation. Sustained job growth means revenue growth for the state.

## JOB TRAINING

One of the best economic development tools the state of Illinois provides is the Department of Commerce and Economic Opportunity's Employer Training Investment Program (ETIP) grant. Unfortunately, this highly successful investment of taxpayer dollars has been slashed by nearly two-thirds in the last two years.

ETIP helps keep Illinois workers' skills on pace with new technologies and business practices, which, in turn, helps businesses increase productivity, reduce costs, improve quality, and boost competitiveness. In FY08, the ETIP program provided 69,000 industrial-sector workers job-training skills that allow them to compete in today's global economy. In the past four years, more than 310,000 workers have benefited from Illinois' job training program. Workers in nearly every county in Illinois have benefited from this program in the very recent past.

For FY 2008, the ETIP appropriation was $17,492,600. For FY 2009 the General Assembly approved $12,492,600, a $5 million reduction. Former Governor Blagojevich's item reduction veto reduced the FY 2009 appropriation by half to $6,246,300. A supplemental FY 2009 appropriation to increase ETIP funding to $12,492,600 and a FY 2010 budget of $25 million is needed.

## HEALTHCARE FOR ILLINOIS BUSINESSES

Health care costs are a prime concern to Illinois manufacturers. The private sector is better suited to provide health care than the public sector, both from a quality and cost standpoint. The ever-increasing number of uninsured Americans can be directly attributed to the number of legislative mandates that drive up costs. In fact, estimates have shown that Illinois Insurance Code mandates account for over 20 percent of the cost of health insurance. Health care mandates burden small and medium-sized companies in particular.

As medical providers and specific disease interest groups quest to have more of their products and services covered by health insurance, increased health benefit costs have forced employers to increase co-pays and deductibles or drop their employees' health care coverage altogether. During these difficult economic times, it is counterproductive for state government to add onto the cost of providing healthcare benefits for manufacturers. The General Assembly must hold the line on healthcare mandates by imposing a two-year moratorium on enacting any new mandates.

## WORKERS' COMPENSATION

Employers in general, and manufacturers in particular, are impacted by workers' compensation. With higher paid wages and higher rate classifications, workers' compensation takes a bigger bite out of a manufacturer's cost of doing business.

Illinois lags behind the rest of the nation in reducing workers' compensation costs to employers. The negotiations that led to the 2005 workers' compensation changes were intended to decrease costs for employers. However, the reality is that since 2006 a total average increase in Illinois workers' compensation rates of 16.4% has occurred. During the same period, average rates in 37 other states decreased 14.9%. In recent rate filings, 30 states saw average rate reductions while Illinois joined only seven other states that had an average recommended rate increase.

A 2008 analysis by Actuarial & Technical Solutions, Inc. indicated that Illinois had the highest jump in ranking of workers' compensation costs during the past year. The comparative costs in each of 45 states were ranked from 1 to 45 with "1" indicating the state with the lowest relative workers' compensation cost. In 2007, Illinois was ranked 31. In 2008, that ranking went to 38.

The Oregon Department of Commerce & Business Services provides a biannual "Premium Rate Ranking". In 2008, Illinois' index rate of 2.79 placed our state as 11$^{th}$ highest of 51 jurisdictions. The previous study in 2006 placed Illinois at 21$^{st}$ highest. That's a big jump in the wrong direction when trying to retain and create jobs in Illinois. To address this, we urge Governor Quinn to convene agreed bill discussions between businesses and labor as soon as possible.

## TAX POLICY FOR MANUFACTURERS

A healthy tax climate is a key ingredient in keeping Illinois manufacturers competitive and productive. It is our belief that lowering tax rates and expanding the base on which taxes are applied is the best way to finance government. In addition, it is our belief that the taxation of inputs into the manufacturing process and then taxing the final product is a form of double taxation that must stop. We recommend that Illinois make a commitment to manufacturers that current credits and exemptions are valuable incentives that contribute to job growth and retention. The two that are set to expire this year should therefore be renewed and other current tax incentives must be retained. To that end, lawmakers must pass this session:

1) HB23 (Turner-Flider-Leitch-Feigenholtz-Tryon and 17 co-sponsors) extends the sunset on the Manufacturing Purchase Credit (MPC) and the sales and use tax exemption for graphic arts machinery and equipment.
2) An expansion of the manufacturing machinery and equipment sales and use tax exemption to 100% for purchases of production related tangible personal property.

# CONCLUSION

The critical point of the preceding pages is that before any discussion of any tax increases, or any re-making of the tax structure, serious reforms need to be undertaken by the General Assembly.

A struggling economy has forced families throughout the state to tighten their belts and there is no reason to believe that state government cannot do the same. The state has tried spending its way out of its fiscal and economic problems only to have made matters worse. Clearly, it is time to stop digging.

A recent online poll by John Zogby found that 55 percent of Illinois' likely voters are against any tax increases. Given that questions surrounding tax increases and tax cuts underreport opposition to increases as well as support for tax cuts, elected officials should be on notice that tax increases are a non starter both as a matter of policy and politics.

Illinois legislators must insist, and the legislative leadership must endorse, a comprehensive review of state programs and provide the people of Illinois a responsible state-spending blueprint that finally reins in years of fiscal mismanagement.

Who needs income tax relief?

Families with growing needs & shrinking incomes

Testimony for the Senate Committee on Deficit Reduction

Tuesday 24 March 2009

Voices for Illinois Children is a multi-issue children's advocacy organization, championing the learning and healthy development of kids from their earliest years of life to adulthood, throughout our state.

Our state's massive fiscal and economic challenges threaten children's well-being by, in turn, threatening the many supports and services upon which their families depend – particularly at times of crisis. Thus, we appreciate this committee's work to better understand what's at stake and how best to deal with it, as well as your openness to recommendations.

Last week, Governor Quinn made a courageous recommendation that we strongly applaud: significant, overdue income tax relief in the context of an income tax increase that also can produce desperately needed revenues. By growing the standard exemption as the Governor proposes, we would provide low- and moderate-income families with tax cuts and improve the progressivity of our decidedly regressive tax system. As you've heard, under the Governor's plan, a four-person family earning less than about $60,000 would pay less in taxes; only families above that income level would begin to face tax bills that are gradually greater.

Some policymakers are wondering: Why should we provide such generous income tax cuts? Who needs income tax relief? Here are a few answers:

Families who struggle to buy groceries or new clothes for their kids.

Families who can't cover their rent or mortgage obligations.

Families who face growing health care costs.

Families who deal with high utility bills.

In short: Low- and moderate-income families who need a few extra dollars in their pockets to handle their day-to-day needs – the dollars represented by substantial relief in the tax that is most based on households' individual incomes. These same families are the ones most harmed by our currently regressive tax system.

Even before our national recession began to increase daily pressures on low- and moderate-income families, they were struggling harder and harder to cover life's basic necessities. According to the national Center on Budget and Policy Priorities, the poorest one-fifth of families saw their incomes drop by $1,588 (8 percent) from the 1990s to the midpoint of this decade – even as the earnings of the wealthiest 5 percent of households grew by $36,730 (nearly 19 percent).

Of course, in Illinois, we exacerbate those differences through a tax system that the Institute for Taxation and Economic Policy calls one of the nation's most unfair. Studies show low-income Illinois families pay a far greater percentage of their earnings in state and local taxes than do wealthier households. And our state's tax threshold – the earnings level at which families begin to pay income taxes – remains among the nation's lowest and harshest on working-poor households, according to the Center on Budget and Policy Priorities.

That's why the Governor's proposed, income-tax fairness reforms are so important – because they're so needed, by the low- and moderate-income families who are hit hardest by everything in life: taxes, the recession, a miserable housing market and bills and obligations of every kind. And these reforms are going to be even more necessary to help offset the effects of a proposed income-tax increase that we believe is crucially important to shore up state revenues.

Revenue adequacy remains a priority, too

Why increase taxes at all, if families are struggling so mightily? Because we also desperately need to protect a range of vital education, health and human services on which such families depend. Many of these programs already are eroding – and are threatened further by our state's inadequate revenue system as well as fiscal and economic crises. To reiterate a few points from previous testimony, we believe:

- Revenue increases are necessary to deal with a deficit as large as that we face in FY200910. Cuts alone cannot fill our $11.6 billion canyon of debt – and overreliance on cuts would cause incredible pain to vulnerable Illinois families already suffering from the gradual reduction or elimination of vital state services. Nationally renowned economists say that fairly crafted revenue increases are preferable to budget cuts in state services that directly benefit families, as the latter threatens far more harm to struggling economies than does the former. There simply seems no way to avoid dealing with the need for greater revenues this year. According to analysis by Voices' Budget & Tax Policy Initiative, even after accounting for Illinois' share of federal stimulus money, our state still faces a two-year deficit of more than $7.5 billion. It's important to note that harmful FY2010 cuts already have been proposed in a wide variety of programs that are critical to families' well-being, particularly in tough times. These range from child care and after-school services to children's mental health initiatives and "parent-coaching" programs for new parents of at-risk infants and toddlers. While all revenue-raising and –saving options must be on the table in times of fiscal crisis, Voices strongly believes that some cuts run more deeply and painfully than others – and should be avoided.

- Increasing the state income tax is the most adequate way to produce desperately needed revenues. Income tax revenues are Illinois' largest and most powerful revenue source, and come from a tax that has not been raised in 20 years. Thus, we strongly support this centerpiece of the Governor's revenue proposals for FY2010.

- Increasing the state income tax is the fairest way to generate badly needed resources, and can actually improve tax fairness for working families. This tax is based on people's ability to pay. And while a flat rate is not as fair to lower-income families as graduated rates would be, the wise use of credits and exemptions can greatly improve tax progressivity without having to go the constitutionally more difficult route of creating graduated rates. Thus, we support the Governor's call for raising the income tax's standard exemption while increasing the tax rate, producing greater revenues to stabilize important state services as well as greater fairness for families. Voices' plan for ideal fairness improvements The standard exemption shields a certain amount of every household's income from taxation, but its level has not been increased in nearly a decade. Raising it would provide help to taxpayers at all earnings levels, but have the greatest proportional effect on low- and moderate-income families. Increasing the exemption is just one component of a three-part package of fairness measures that Voices has long promoted in the context of an income tax increase. In addition to exemption growth, our "Fairness for Working Families" plan also calls for:

- Increasing the Illinois Earned Income Tax Credit, targeting more relief specifically to the state's lowest-income families – such as households of four, earning less than about $42,000. Our current state credit represents a maximum benefit of $241 per qualifying family, the second-smallest state EITC in the nation; other states' maximum credits exceed $1,400. We should double our EITC (as proposed in SB1562/HB2319), or even quadruple it, to provide working-poor families with more of the help they need.

- Creating a state-level Child Tax Credit, piggybacking on the federal CTC (the way that our state EITC is based on the federal EITC). This would create an extra layer of tax relief for families raising kids under age 17 and facing extra expenses of their own. The federal CTC is worth a maximum of $1,000. Families can qualify for it once they reach $3,000 in earnings (a temporarily lower threshold, under the American Recovery and Reinvestment Act), and the credit phases-out for families at greater income levels. The exact amount of these three fairness components – standard exemption, state EITC and state CTC – can be set at different levels to achieve different scenarios of tax relief for individual families and varying, net price tags to the state. We highly recommend grouping these three components together, as one package, to leverage the most powerful approach in fairness improvements. However, as the Governor has shown with an exemption-only proposal, there are ways to use just one component to achieve greater tax fairness at various income levels. If policymakers ultimately were to adopt only one aspect of Voices' three-part plan, we would suggest aggressive growth of the exemption in a way that echoes the Governor's approach. Other combinations to consider for greater fairness: Early reaction to the Governor's tax-fairness recommendation has revealed some concern about its price tag. Voices believes that any great advances in tax fairness are certainly going to come at a cost. However, drawing upon the strengths of our "three-part plan" approach, there are alternatives to examine that could lower the cost while still improving fairness. They include:

- Increasing the exemption to a smaller degree. Even at a cheaper cost than now proposed, exemption growth is highly desirable because it's the powerhouse of the three components of Voices' three-part fairness plan, representing the greatest potential for achieving true progressivity in taxation.

- Raising the exemption in multi-tiered fashion. For example, we could double the exemption to $4,000 for adults and triple it to $6,000 for children. This, too, would cost a bit less than the Governor's proposal, yet target an extra layer of relief to families raising children. (Elderly taxpayers already can claim a higher-than-normal exemption, establishing some precedent for this approach.)

- Combining moderate exemption growth with an EITC increase. This also would achieve greater fairness for many families, while targeting extra relief to working-poor households. The EITC is widely acknowledged as a highly effective policy tool for lifting families out of poverty, rewarding their hard work, cutting their taxes and helping to stimulate sluggish local economies by keeping more money in the hands of the families most likely to spend it at the local level. All these ideas deserve serious consideration.

What shouldn't we do?

At a time such as this, every option should be on the table for consideration. Only one option should be immediately ruled-out: inaction. It would be a grave mistake to avoid dealing honestly with our need for greater state revenues, and a travesty to avoid the courageous work of making taxes fairer for low- and moderate-income families.

Voices does believe that some options are far worse to others. We already have noted our firm opposition to budget cuts in education, health and human services that are of vital importance to kids, families and communities. It's unwise to pare-back child care, after-school, mental health and home-visiting services, among other significant examples of programs targeted for FY2010 budget cuts. These are prevention-oriented programs that help children to avoid problems that are far more expensive, fiscally and socially, in the long run. Children are young only once; today's wasted opportunities are tomorrow's wasted potential, appearing in statistics measuring high-school dropout and juvenile-detention rates, among other social woes.

Even some revenue-raising options are ill-advised, from our perspective and that of extensive research. Voices long has opposed expansion of state-sponsored gambling, for example. Studies show that gambling draws its revenues disproportionately from low-income households and from communities within a 50-mile radius of casinos – and not primarily from high-rolling, out-of-state visitors, as is commonly claimed. Plus, the gambling market appears maxed-out these days. Opening still more gambling halls would create as much competition for Illinois' existing casinos as it would for those of neighboring states.

What we shouldn't do is make things tougher for Illinois families than they already are.

What we should do is take up the tough but long-delayed work of stabilizing important supports for kids and communities – and of improving tax fairness for families.