

# The Illinois and EIU Legislative Budget Process

Theory and Reality



# Theory and Constitutional Law

- *“The Governor shall prepare and submit to the General Assembly, at a time prescribed by law, a State budget for the ensuing fiscal year ... The General Assembly by law shall make appropriations for all expenditures of public funds by the State. Appropriations for a fiscal year shall not exceed funds estimated by the General Assembly to be available during that year.”*
- In spite of a constitutional requirement to do so, the General Assembly has not passed a balanced budget since 2001.

# Reality: Legislative Budget Process



More Reality Later...

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# How Did EIU's Current FY15-16 Budget Evolve?

## FY15-16 STARTS WITH AN ENROLLMENT AND REVENUE FORECAST

- **Nov 2014 thru March 2015 (approximately)** New Tuition and Fees were adopted by BOT based upon forecasted data.
- **January 2015:** after 10<sup>th</sup> Day enrollments – a “preliminary final ” **enrollment forecast** was developed for FY15-16 and FY16-17 for President's Council (PC) adoption.
- **January 2015:** Tuition and Fee **revenue forecast** was developed for FY15-16 and FY16-17 budget models and PC ratification.

## Feb-May, 2015: Legislative Hearings, Analysis, Veto

- **February, 2015: EIU's FY15-16 ISL (Illinois State Legislative) Budget Document** was submitted to House and Senate analysts within 48 hours of Governor's Budget Address as stipulated by statute.
- **February thru May, 2015:** President Perry delivered FY15-16 Budget presentations via live appearance before the House and Senate.
- **January through May, 2015:** Numerous requests for supporting data from legislators and their analysts were fielded with immediate response time.
- **June, 2015: Legislature passes budget for FY15-16. Governor vetoes the budget. The impasse starts.**



# Regardless: In June , 2015 EIU's Board Approved a Tentative FY15-16 Budget; Statutory July 1 Requirement.

- **June, 2015:** BOT approved FY15-16 (preliminary) and FY16-17 (tentative) Budgets based upon forecasted data.
- **June, 2015:** Broad budget constraints were delivered to each VP by order of the new President. Essentially a “budget shell’ for each VP.
- **June-Nov 2015: BYOB for FY15-16 ensued.**
- That is: **Build Your Own Budget:** Each VP was provided a budget spreadsheet template to construct their appropriated budget from the ground up using historical trend data, forecasted changes and requirements, and known or assumed position budgets.

# This brings us up to date: FY15-16 BOT Tentative Budget was Loaded on Friday, November 13

- Process:
- **June-Nov 2015:** Joint Budget Office and VP/Financial Manager analyses occurred.
- **Friday, November 13** Appropriated Budget Loaded. Reason for delays: sweeping budget reductions, extensive analyses predicated furloughs, layoffs, and programmatic shifts. Some anticipation early on of pending appropriation that didn't materialize.
- **These analysis efforts are essential – to state the obvious:** they feed a resource allocation decision process that impacts the future of the university, its mission, the community and the lives and careers of students, faculty and staff. So, better to slow the process and act with deliberation and prudence.



# What Happens When the REAL FY15-16 Appropriation is Passed?

- When: Jan-March, 2016?
- President Glassman possibly returns to the BOT with a final FY15-16 Budget. For a fiscal year that will nearly be over?
- The year will be so far along that meaningful changes will not be practical: For example, a 10% annual reduction becomes 20% at mid year, and 40% at April 1 to have the same fiscal impact.
- Budget Office will present to VPBA the FY16-17 and FY17-18 forecast for the June, 2016 BOT meeting that is now grounded in a known appropriation.

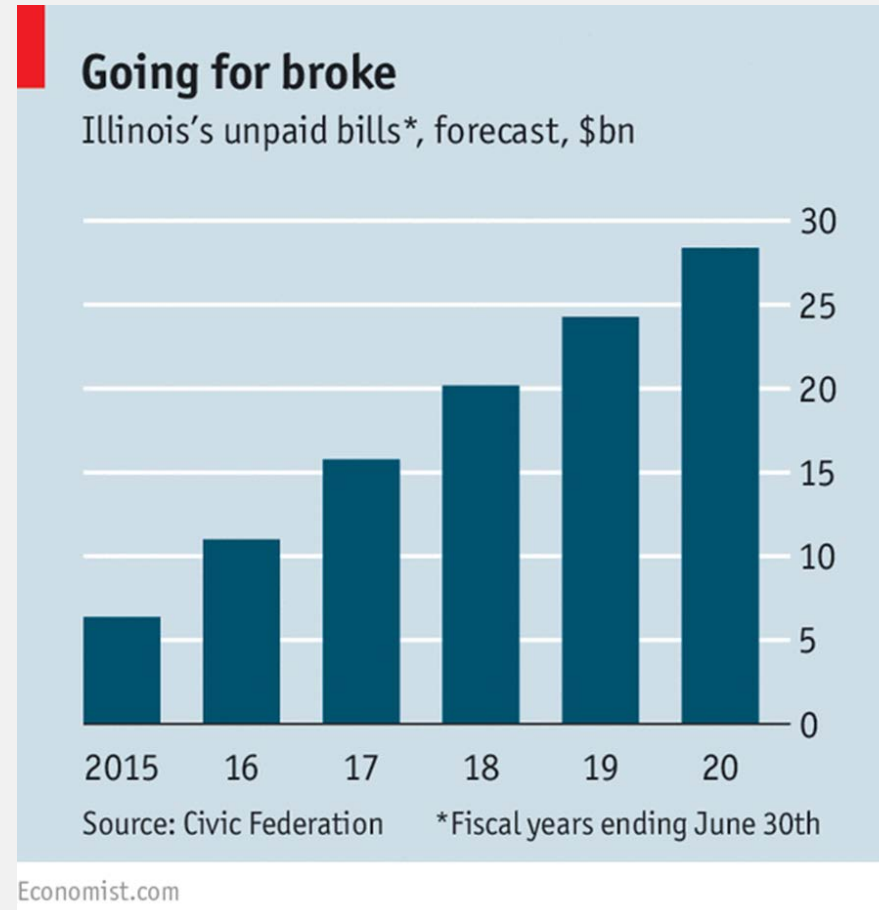
# Will FY16-17 Be “Normal”? I doubt it.

- This is a normal chronology:
- June 2016: BOT approves FY16-17 budget based upon known or hopefully more predictable state appropriations.
- June 2016: BOT approves tentative FY17-18 budget.
- July-September – FY16-17 budgets are loaded.
- August-October: all FY17-18 RAMP documents to IBHE for FY17-18 Budget.
- December 2016: FY17-18 GOMB budget document to Governor’s Office.
- February 2017: FY17-18 ISL document submitted within 48 hours after Governor’s address.
- May-June 2017 : Legislature approves FY17-18 funding; Governor signs.

# The Timelines Can Be Confusing to the Casual Observer

- It simplifies to remember that in mid June, the Board approves the budget for the fiscal year that starts July 1. Not much time there.
- At the same time, at the same meeting, the Board approves a tentative budget for the NEXT fiscal thereafter so that Budget Office can render the required documentation to the governor and legislature to secure funding for the following fiscal year.
- Admittedly, this year with the delays, .....FY15-16 still unsettled, FY16-17 in the process of legislative transmittal, and FY17-18 to be developed. And Budget Office staff reductions..
- We're ready. For the guys with the white coats.

# How Bad, Really, is the Illinois Budget Problem? Let's Start with Unpaid Bills



Illinois net out-migration: over 94 k in 2014; A diminishing tax base, less students, fewer workers.



# \$131 Billion Unfunded Pension Liability



# Unfunded Pension Liability – Catastrophic

- Between fiscal years 2008 and 2012, the funded ratio of Illinois's state-administered pension plans decreased from 54.3 percent to 40.4 percent.
- 80% funding is healthy.
- The five retirement systems for which state government is responsible will need roughly \$131 billion to cover benefits already earned by public workers, with only \$46 billion in expected assets to cover the costs, or about 35 cents on the dollar. The other \$85 billion represents the unfunded liability, an obligation the state must meet but for which no funding source exists.



# Perspectives: State Comparative % by Function

State spending by function as a percent of total expenditures, FY 2013							
State	K-12 education	Higher education	Public assistance	Medicaid	Corrections	Transportation	Other
<b>Illinois</b>	13.3%	3.7%	0.3%	<b>23.8%</b>	2.1%	8.4%	48.4%
<a href="#">Indiana</a>	30.8%	6.1%	1.4%	31.2%	2.7%	8.3%	19.6%
<a href="#">Michigan</a>	27.2%	4.2%	0.7%	26.4%	4.6%	7.8%	29%
<a href="#">Ohio</a>	17%	4.3%	1.5%	29.2%	3.2%	5.1%	39.8%
<a href="#">Wisconsin</a>	16.2%	14.3%	0.3%	17.2%	2.9%	6.9%	42.1%

**Source:** [National Association of State Budget Officers](#)  
**Note:** "Other" expenditures include "Children's Health Insurance Program (CHIP), institutional and community care for the mentally ill and developmentally disabled, public health programs, employer contributions to pensions and health benefits, economic development, environmental projects, state police, parks and recreation, housing and general aid to local governments."<sup>[3]</sup>

# Note Higher Education Decline since 2009

Spending by function from 2009 to 2013 (as percentages)							
Year	K-12 education	Higher education	Public assistance	Medicaid	Corrections	Transportation	Other
2013	13.3%	3.7%	0.3%	23.8%	2.1%	8.4%	48.4%
2012	15.8%	5.5%	0.1%	19.7%	2.2%	8.5%	48.1%
2011	18.9%	5.6%	1.0%	32.9%	2.9%	11.4%	27.4%
2010	18.2%	4.5%	0.2%	23.6%	2.0%	8.1%	43.3%
2009	23.9%	6.3%	0.3%	30.9%	3.0%	9.0%	26.6%

**Source:** [National Association of State Budget Officers](#)

**Note:** "Other" expenditures include "Children's Health Insurance Program (CHIP), institutional and community care for the mentally ill and developmentally disabled, public health programs, employer contributions to pensions and health benefits, economic development, environmental projects, state police, parks and recreation, housing and general aid to local governments."<sup>[3]</sup>

# State Debt--But Does Not Include Unfunded Pension Liability

Total 2012 state debt			
State	Total state debt	State debt per capita	Per capita debt ranking
Illinois	\$321,354,115,000	\$24,959	5
<u>Indiana</u>	\$46,377,635,000	\$7,094	48
<u>Michigan</u>	\$142,668,026,000	\$14,435	25
<u>Ohio</u>	\$321,340,764,000	\$27,836	4
<u>Wisconsin</u>	\$45,026,643,000	\$7,863	47
<b>Sources:</b> <u>State Budget Solutions, "State Budget Solutions' Fourth Annual State Debt Report," January 8, 2014</u>			

# The Budget Impasse

- House and Senate Democrats in May approved a 2016 budget that spent about \$4 billion more than the \$33 billion in revenue the state was expected to collect. Rauner vetoed the budget on constitutional grounds, citing the state Constitution's balanced budget requirement that state lawmakers have long ignored. He approved only the education budget to ensure funding for public schools.
- Rauner developed his own budget plan, which imploded because it relied on \$2 Billion in savings from pension reform the Illinois Supreme Court ruled was unconstitutional.

# The Budget Impasse

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- The main reason is the conflict between Rauner and Democratic leaders who control both houses with three-fifths supermajorities.
- Democratic leaders want to raise taxes to balance the budget and talk changes later. Rauner, elected last year on a campaign to revitalize Illinois' economy and fix its deep fiscal woes, has said he will only entertain a tax increase if it is coupled with significant reforms.

# The Budget Impasse

- What does Rauner want? Mostly non-financial reforms?
- Rauner's changes take aim at the economy, the state's taxpayer and business climate, and reforming the state's infamous political reputation.
- He wants lawmakers to put constitutional amendments on the 2016 ballot that would impose term limits on state lawmakers, and take the task of drawing legislative boundaries after every U.S. Census away from them. Rauner also wants a two-year freeze imposed on property taxes statewide, and reform to workers compensation and tort laws.
- He has, for now, set aside other proposed changes Democratic lawmakers find more odious, such as encouraging local governments to opt out of collective bargaining with public employee unions by allowing them via voter referendum to set up "right-to-work" zones.

# How does all of this Impact EIU?

## 31.5% Appropriation Cut if Governor's Budget is Implemented

- The FY15-16 EIU Preliminary Appropriated Budget was built using 6.5% in anticipated cuts as proposed by the legislature.
- We fervently disbelieve that a 31.5% cut will happen.
- Expect something in the 10-15% range.
- Even that “middle ground” is life altering, in my view, for the university.



# Solution: Hope, Pray, and Focus on Mission

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- An injection of state funds will be passed to EIU.
- A solution for the pension debacle will be formulated.
- Hunker down for a protracted struggle.
- Stay positive.