

The politics of Quinn's budget

By Jim Nowlan

Gov. Pat Quinn proposed an incomplete budget this past week. He punts the tough issues of Medicaid and pension spending to the legislators, who were none too eager to accept the challenge. Expect a grand agreement after the November election that makes some cuts and adds some revenue, maybe from more gaming and higher cigarette taxes.

What about the recent big tax increase, you ask, which generates about \$7 billion a year? That is about the difference between what the state had been spending and obligating and the revenue it had been taking in. So the new tax simply brought the state up to a balance between spending and revenue. Yet Medicaid and pensions keep going up faster than revenues.

Medicaid is the federal-state program of health care for the low income as well as for many middle class persons in nursing homes who have spent all their savings on care. Almost three million Illinois residents (nearing 25 percent of the total population) are on Medicaid. The state pays about 45 percent of the bill and the feds pick up the rest.

Quinn proposes to cut \$2.7 billion from the \$16 billion-plus Medicaid program, but he doesn't know how to do it, nor does he really want to do so. If he can't do so, further deficits pile up beyond the \$8 billion in present unpaid state bills. Here are the politics of the situation.

There are three ways to cut Medicaid costs: reduce enrollment of participants; reduce the services covered, like dental care, for example, and reduce payments to providers of services such as hospitals, doctors and nursing homes. Quinn is a liberal. He and Democrats don't want to cut enrollment and services to relatively poor people. Further, the federal government has declared that "maintenance of effort" (MOE) by the states is required to keep federal funding, without which the program would collapse. This MOE means that it is hard to reduce enrollment and services.

Quinn tried last year to reduce reimbursement rates for providers, but that was defeated by the legislators, who have been spoon fed big contributions over the years by the Illinois Hospital Association, the doctors' society and the nursing homes. Anyway, reimbursement rates in Illinois are already among the lowest in the country, and rare is the dentist who will provide care to Medicaid patients.

Pension obligations to state employees, teachers and university faculty and staff have gone underfunded for decades. The five systems will run out of money unless the state catches up with its required contributions. That means for next year pension payments will be \$5.2 billion, or 15 percent of all general funds spending, up from just a couple billion dollars a few years ago.

The state has always paid the pension benefits for teachers and universities, which is different from most states, where the schools and universities pay for their own pensions. Since the state has been paying, many local school districts have gamed the system by boosting superintendent pay dramatically in their last three years so as to boost their lifelong pensions similarly. In addition, since school districts have no responsibility

to pay their share, the schools have generally absorbed the teachers' own required payments.

On pensions, the governor and lawmakers have some options for cutting the state's exposure. The state will almost certainly shift the responsibility for teacher and university pensions to these groups, which will reduce school programs, increase property taxes or shift to teachers the responsibility for paying for their pensions. None of these consequences is attractive, but count on it happening.

The state may also reduce pension benefits for present employees going forward, although this will be contested in the courts. The state constitution says that "Membership in any pension or retirement system. . .shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

Quinn does propose to close several state prisons, mental health and developmental disabilities institutions, which would save about \$90 million, but this is chump change when more than a billion must be cut to balance the budget.

Rather than address the tough issues during a re-election year, I predict the governor and legislature this spring or summer will pass a budget balanced only on paper. Then they will come back in late November and make the changes I have suggested in this column.