**Budgeting for Results Commission Meeting**

**Springfield: Room 205 State House/Chicago: Room 16-100 James R. Thompson Center**

**March 16, 2012**

**Meeting Attendees:**

Lt Gov Sheila Simon

Roger Myerson

Steve Schnorf

Lyle Logan

Alex Rorke

Carole Brown

Sen Pam Altoff

Cristal Thomas

John Kamis

Chairman Kotowski

Jim Lewis

Larry Joseph

Maria Prado

Jose Sanchez

Chairman Senator Kotowski called the meeting to order and provided an update on the General Assembly’s FY 13 revenue estimate and the Senate appropriation hearings. Introductions followed.

1. **Approval of Minutes**

Commissioners approved the February 17th minutes without changes.

Commissioners briefly discussed four questions:

* Whether the House and the Senate may appropriate different amount below the agreed revenue estimate;
* Whether agreement existed between the House and the Senate on what should be deducted before appropriations are allocated;
* Whether the House and the Senate are considering statutory transfers and fixed costs; and
* In terms of State Insurance, whether the House and the Senate will deduct projected liability or the Governor’s recommendation.

It was established that the House and Senate may appropriate different amounts below the agreed revenue estimate. Discussions are looking at various scenarios of what should be deducted before appropriations are allocated. Under the Budgeting for Results law, legislators must start out with a real revenue number and then deduct fixed costs (such as pensions, group health, debt service, and Medicaid). The legislature has also examined the option of not reducing Medicaid by $2 billion.

Additionally, the House and Senate are considering statutory transfers as fixed costs. Statutory transfers have been separated out from the rest of the budget and represent almost $918 million. The legislature has been using the Governor’s recommendation for State Insurance. The House and Senate have also discussed how to pay for the backlog of bills and whether to deduct money from the top of the budget to pay for these bills.

1. **Governor’s Introduced Budget**

Deputy Governor Cristal Thomas presented an overview of the Governor’s FY 13 Budget. She outlined the Governor’s formula to move Illinois forward: reductions + pension and Medicaid stability + jobs and economic growth. The Governor’s six priorities for FY 13 include: (1) jobs and economic growth; (2) investment in education; (3) stabilizing and strengthening the pension systems; (4) restructuring the Medicaid system; (5) rebalancing institutional and community care; and (6) streamlining agency reductions and efficiencies. The Governor requested that agencies reduce their budgets by 9%. The following agencies are scheduled to have facility closures or consolidations: Department of Corrections, Department of Human Services, Department of Juvenile Justice, Department of Agriculture, Department of Children and Family Services, Illinois State Police, and Central Management Services. The Governor’s Introduced Budget had a revenue estimate of $33.94 billion which included $163 million in savings for debt reduction. The $163 million balance was consumed by the General Assembly when they reduced the Governor’s revenue estimate to $33.7 billion.

Discussion:

*Rating Agencies:*

* Commissioners discussed whether bond rating agencies view Budgeting for Results positively. Rating agencies view Budgeting for Results positively, but other aspects negatively impact the State’s fiscal health and its bond rating. Rating agencies are most concerned about political gridlock and the State’s capacity to govern over a long period of time. Rating agencies want to know what Illinois will do about pensions and its backlog of unpaid bills. They are searching for the “results” in Budgeting for Results. Simply putting Budgeting for Results into place is not enough. Commissioners agreed that producing results will take many years.
* The idea of inviting a representative from a rating agency to speak to the Commission was discussed. Due to regulations, rating agency analysts will not inform the Commission about anything that they have not previously read in a publication. S&P reports are good guidelines for what different agencies think about state credit. Rating agencies are thorough and focused on numbers. Their most revealing question to Illinois is about its capacity to govern over a long-term period of time. All rating agencies publish their criteria. The capacity to govern is one of the most subjective areas of their criteria, and the political analysis from rating agencies has become more extreme over time.

*Medicaid and a Multi-Year Plan:*

* Commissioners also debated Medicaid underfunding. The $2.7 billion in unfunded liability for FY 13 does not include the $1.8 billion backlog for FY 12. It also does not include program cuts from the backlog. Commissioners stressed that it was important to understand that the backlog came from the idea that the State could save money by cutting appropriations. Program costs are not the same as spending. Policy changes need to be made in cutting the budget because under-appropriation does not equate to real cost savings.
* They discussed how Illinois can pay down the old backlog in Medicaid bills. The Governor’s FY 13 budget does not bring Medicaid bills below the anticipated number in FY 12. It keeps the number of unpaid Medicaid bills level with FY 12. The legislature is focusing on transfers out for revenue and Other State Funds in order to find a way to pay down the Medicaid backlog. (Last year, the General Assembly spent $16 billion of the $25 billion appropriation for OSF.) Some Commissioners argued that there is no way that the legislature can find $2.7 billion in program costs to pay for Medicaid. Other meeting attendees countered that the Department of Healthcare and Family Services has provided $3 billion worth of cuts to the Governor’s Medicaid Working Group.
* The Commissioners collectively agreed that the backlog of Medicaid bills will not be resolved during this fiscal year. They wondered whether a multi-year plan existed to fix the problem. Some meeting participants stressed that Illinois is in the second year of a plan that under-appropriated Medicaid and that extending this plan for a third year would not constitute a good plan. Commissioners argued that under-appropriating Medicaid produced compounding effects. As a result, the backlog of unpaid bills and the baseline for Medicaid funding are artificially low. Illinois’ inability to show the pay down of bills reflects poorly on its capacity to govern. It was stressed that if Illinois does not have a plan by summer 2012, it could undergo a double-downgrade rating. Commissioners agreed that a BBB rating would make state costs drastically increase. If no multi-year plan exists and the state drops to a BBB rating, then the lack of access to capital would be devastating.
* Commissioners discussed the possibility of creating a multi-year plan to pay down the Medicaid bill backlog. Some commissioners wondered if an entity needs to issue a plan for paying bills with a different tax assumption (such as the temporary tax increase being made permanent). If Illinois leaves its tax rates at the current levels, then all of the unpaid bills (except Medicaid) will be paid off by 2017. Other commissioners stressed that when the Governor lays out the next 3-year plan, it will include the loss of a tax increase. This plan will neither be feasible nor credible because taking $8 billion out of state government (due to the phasing out of the temporary tax increase) will not be possible. The Commission agreed that budgets should not be based on hypothetical revenue estimates. Any plan will have to: maintain current tax rates, enact painful budget cuts, and engage in debt, pension, and Medicaid restructuring. However, these items have to be presented in a certain way in order to become a reality. John Kamis will send alternative budget scenarios to the Commission for informational purposes.

*Spending Pressures:*

* Commissioners discussed the importance of understanding spending pressures when crafting the state budget. They believe that Illinois should subtract fixed costs and then allocate the remaining revenue based on program performance.
1. **BFR Implementation**

John Kamis updated the Commission on Budgeting for Results Implementation. He showed the Commission the new look of the FY 13 Budget Book, which identifies state programs, attaches them to goals, and links them to the Governor’s seven results. The program identification was completed mostly by state agencies, but the Governor’s Office of Management and Budget made program determinations in some cases. The Governor’s Office wants providers and stakeholders to guide them in reallocating programs to goals and results.

Additionally, the Governor’s Office is close to finishing the strategic plan. The strategic plan has been shaped by the Commission. It includes logic modeling, performance metrics, and performance management. The Governor’s Office will present this plan to the Commission upon completion.

1. **Stakeholder Engagement**

The Governor’s Office understands the most immediate needs and wants to cooperate with the foundation community on capacity, training, and IT infrastructure. It is working with the Government Finance Officers Association on logic modeling (which needs to be completed before strategy mapping). Logic modeling examines each program to determine how it achieves goals. In contrast, strategy mapping looks locally at what needs to be accomplished and what goes into achieving those accomplishments. Strategy mapping involves six to ten people in working groups surrounding each of the seven results. Each group will use research and best practices to help the Governor’s Office refine goals.

Chairman Kotowski and John Kamis will listen to feedback from approximately 35-40 stakeholders on performance metrics. This will help to ensure that the measurements are useful.

Discussion:

Commissioners asked a member of the foundation community how the Administration could improve stakeholder engagement. The member from the foundation community cited the lack of managerial control as a problem. Foundations need information in order to make grants. No single manager is accountable for Budgeting for Results. Although the process is slowly coming together, the Administration needs a main point person for Budgeting for Results and its implementation timeline. The Governor’s Office confronts several capacity issues in implementing Budgeting for Results, as the Governor’s Office cannot devote a single person to Budgeting for Results, and Budgeting for Results crosses multiple levels of state government.

1. **Next Steps**

John Kamis will provide the Commission with a weekly report every Friday. Commissioners would like to discuss the following themes at future meetings: more provider perspectives, Medicaid (with DHFS’ menu of options), OSF and Federal matches, and how to better communicate budget tradeoffs with the legislature. The Commission will maintain its flexibility during session, and in June, it will work towards producing the next report.

Commissioners stated that they want to monitor the implementation of their report recommendations and ensure that they comply with the recommendations and goals outlined in the Budgeting for Results report(s).

The Human Services Commission working group recommendation is a message to the General Assembly. A copy was provided to meeting attendees.