www.chicagotribune.com/news/chi-state-of-denial-02-nov02,0,75896.story

chicagotribune.com

Illinois' borrowing bonanza

State leaders' increasing use of loans merely delaying inevitable, critics say

By Rick Pearson

Tribune reporter

November 2, 2009

Facing both an election and the politically unpalatable prospects of raising taxes or cutting social programs, Gov. Pat Quinn and lawmakers increasingly have turned to borrowing as a quick fix and are on track to rack up more than $6.5 billion in loans to keep the state afloat.

For critics, borrowing has become a form of financial denial for politicians, a game of kick the can in which state leaders put off making tough decisions in hopes of better times ahead.

But the penchant for turning to the state's credit card -- plus one-time windfalls like federal stimulus funding -- to plug a vast budget deficit point to further difficulties ahead for a government and public reeling from recession as an election season dawns amid voters' anti-tax-hike fervor.

"You cannot borrow your way out of it and continue to think that things are going to be all right," said Rep. Art Turner of Chicago, a Democrat running for lieutenant governor. "I mean, it's costing us more money and so we're just further delaying, and each delay is costing us more."

Or, as University of Illinois at Springfield state budget expert Charles Wheeler asks: "How are they going to pay that money back?"

Quinn's latest plan, borrowing $900 million to fund college grants for needy students and pay overdue bills, comes on top of $1 billion in state loans in May and another $1.25 billion borrowed in August. All the borrowing would mean a record amount of more than $3 billion in short-term loans that have to be repaid within the next eight months.

State government has taken out short-term loans 20 times in 26 years. It's permitted by the state constitution, largely as a way to generate cash to pay bills during times when revenue is slow. Sometimes it has been used to generate additional federal dollars.

The two loans already taken out this year mark the first time that Illinois has borrowed because of outright "failures of revenue," according to the governor's budget office. That means there is a lack of money because of the inadequacy of the tax system to support the current level of spending during a recession, according to the governor's Office of Management and Budget. From July to September, income and sales tax receipts each were down more than 13 percent from last year, state records show.

There also has been $3.5 billion in mid-range borrowing that lawmakers authorized to pay public employee pensions. That freed up cash to fund social service programs this year, but left severe questions about paying for those programs next year. Such a move violates a governmental principle of using borrowed funds, to be repaid over many years, to pay for one year's worth of operating costs. It's akin to using a credit card to pay for daily living expenses.

Beyond that, toss onto the heap another $3 billion in backlogged bills to providers of services to the state. That practice often amounts to a way for the state to borrow money and time from its creditors.

There's also the state public employee pension system, which had an estimated $79 billion unfunded liability as of July. That money eventually will come due.

Borrowing has become such a routine solution that Quinn suggested it to Chicago's debt-plagued regional public transit agencies as a way to forestall potential fare hikes and service cuts.

And the borrowing may not be over. Quinn has examined borrowing another $100 million from the state's road construction fund to pay interest on a $1 billion long-term transportation loan to jump-start transit construction projects. That's part of a $31 billion public works program paid for in part by legalized video gambling -- a revenue source that has become dubious because of delays in getting it started and because a number of communities are opting out.

"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," the Civic Committee of the Commercial Club of Chicago said in a report early this year. "This cannot go on forever, either economically or legally."

Quinn, seeking election to the office he gained when disgraced Gov. Rod Blagojevich was booted from office, has been unsuccessful in pushing for an income-tax increase with an election year looming. The governor has indicated he will resume the tax-hike push after the Feb. 2 primary, when lawmakers can gauge the strength of their fall opponents and measure the risk of voting for an income-tax increase.

Gone are the years when Democratic and Republican leaders could craft a financial solution lasting more than a year. The political stakes next year are higher than ever. Democrats are seeking to retain control of government after the Blagojevich debacle and Republicans are looking to rebound after years of being punished by voters over their own scandal-tarred former governor, George Ryan.

Given what's on the line, it's little surprise that lawmakers left the Capitol for the year on Friday without addressing the budget woes despite frustration at state government's inability to do so.

"Folks, the day of reckoning is very near. We really are on the brink of a manmade fiscal disaster," Rep. Jack Franks, D-Marengo, told colleagues. "We need to be prepared when we come back here in January to tackle these problems immediately.

"That's what expected of us, that's what we should have been doing these last two weeks."

Tribune reporters Monique Garcia and Bob Secter contributed. rap30@aol.com