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Tax hike won't be immediate windfall, state's creditors say

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Social service agencies, landlords and schools and colleges have been waiting for the state of Illinois to catch up on its financial obligations to them during the drawn-out financial crisis.

But even with the hefty income tax increase signed into law this week by Gov. Pat Quinn, they might have to wait some more.

"I think it will help," said Robert Egizii, who is involved in downtown partnerships that lease several downtown buildings to the state. "But I can't believe they left town without passing the borrowing part."

The personal income tax rate in Illinois is climbing to 5 percent, a two-thirds increase from the current 3 percent rate. Corporate taxes also will go up as part of the effort to close a budget deficit that could hit \$15 billion this year. The higher taxes are expected to generate about \$6.8 billion a year.

The tax increase is coupled with a new 2 percent limit on state government spending growth.

But other pieces of the legislative Democrats' budget plan, including borrowing \$8.7 billion to pay overdue bills, failed.

Lawmakers also rejected a \$1-a-pack increase in cigarette taxes to provide money for schools.

Timely payments?

At one time last year, the state owed \$2.8 million to Sparc, which provides services to about 500 people with disabilities.

"Until last month, they were caught up," said Carlissa Puckett, chief executive officer of Sparc. "We're now owed close to a half-million."

The state avoided severe cuts in social services in 2009 by borrowing \$3.4 billion and in early 2010 freed up about \$900 million with a state bond issue.

Puckett said the Sparc board passed a resolution 1½ years ago supporting an income tax increase, as long as some of the money would go to developmental disability agencies.

"We're not sure how the 2 percent cap is going to affect us," she said of the spending restrictions. "And originally, they were going to borrow to keep up payments, but that didn't pass.

"I hope this means they'll be timely on payments, but it's so new there isn't a lot of detail yet."

Headed for disaster

Two area school superintendents say the higher taxes should provide at least some immediate relief for school districts grappling with delayed payments from the state.

"We've received quite a bit of what was owed to us last (fiscal) year for categoricals, but we haven't begun to receive any this year," said Riverton School Superintendent Tom Mulligan.

The state's fiscal year began July 1.

"We were all hoping the money was going to be there, but in reality, it wasn't going to be there unless something like this happened," Mulligan said. "We were heading for a disaster, I really feel, and I think the income tax increase is going to allow us to get the money that was owed to us. I doubt we'll get all that's owed to us this fiscal year, but we'll get it."

As a result, Mulligan said Riverton won't have to consider layoffs for the upcoming fiscal year. The district might be able to consider adding positions or services that were scaled back due to the uncertainty of state funding.

Riverton depends on the state for 60 percent of its funding.

Mulligan said he has doubts, though, about the long-term impact of the tax increase.

"When you look at the whole picture of the state budget, that's not an easy hole to come out of," he said. "We still have to be cautious and move forward, and we have always been very fiscally conservative here in Riverton, and we'll continue to do that."

Fighting chance

Carlinville School Superintendent Mike Kelly agreed that while passage of the tax hike is no cause for celebration, "it is cause for some relief."

"I believe that we will have a fighting chance over the next two or three years, but I'm not naive enough to believe that this is going to be a period of growth in revenue for local school districts."

Aside from general state aid, Carlinville has received no state payments for programs such as pre-kindergarten and truancy prevention for fiscal 2011. Overall, Carlinville is owed more than \$400,000.

As a result, the school district has reined in spending by not replacing about four teachers who retired and cutting several cafeteria and custodial positions. The district also shut down an elementary school building.

"If they can meet their projected general state aid payments and categorical payments, it will improve our ability to provide services," Kelly said.

Need help now

The University of Illinois system began seeing slow payments from the state in fiscal 2009, and when the year ended on June 30, 2009, the U of I was owed \$126 million, said university spokesman Tom Hardy. It got that money in mid-September of '09.

This year, the university has billed \$477 million against its \$697 million appropriation and is still owed \$413 million

"We're in just slightly better shape than we were a year ago," Hardy said.

The state paid off all it owed to the university system in fiscal 2010 only last month, about halfway through the next fiscal year.

In July, the state owed the U of I about \$279 million, \$9 million of which was due to the University of Illinois Springfield, said UIS spokesman Derek Schnapp.

"It's too early to know the impact of the recent action in Springfield," Hardy said. "I think it will start to come into focus within the next month when the budget is presented.

"I hope public higher education is restored to a priority befitting its vital importance to the state."

Egizii says landlords need help now.

"Five percent doesn't mean anything if you're five months behind in your rent," he said. "You put \$13 billion back into the economy, and that floats down to the people and to the retailers," he said. "Why wait?"

Egizii said government leasing is "the strength of downtown Springfield."

"I hope they come back to the buildings that are empty," he said.

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