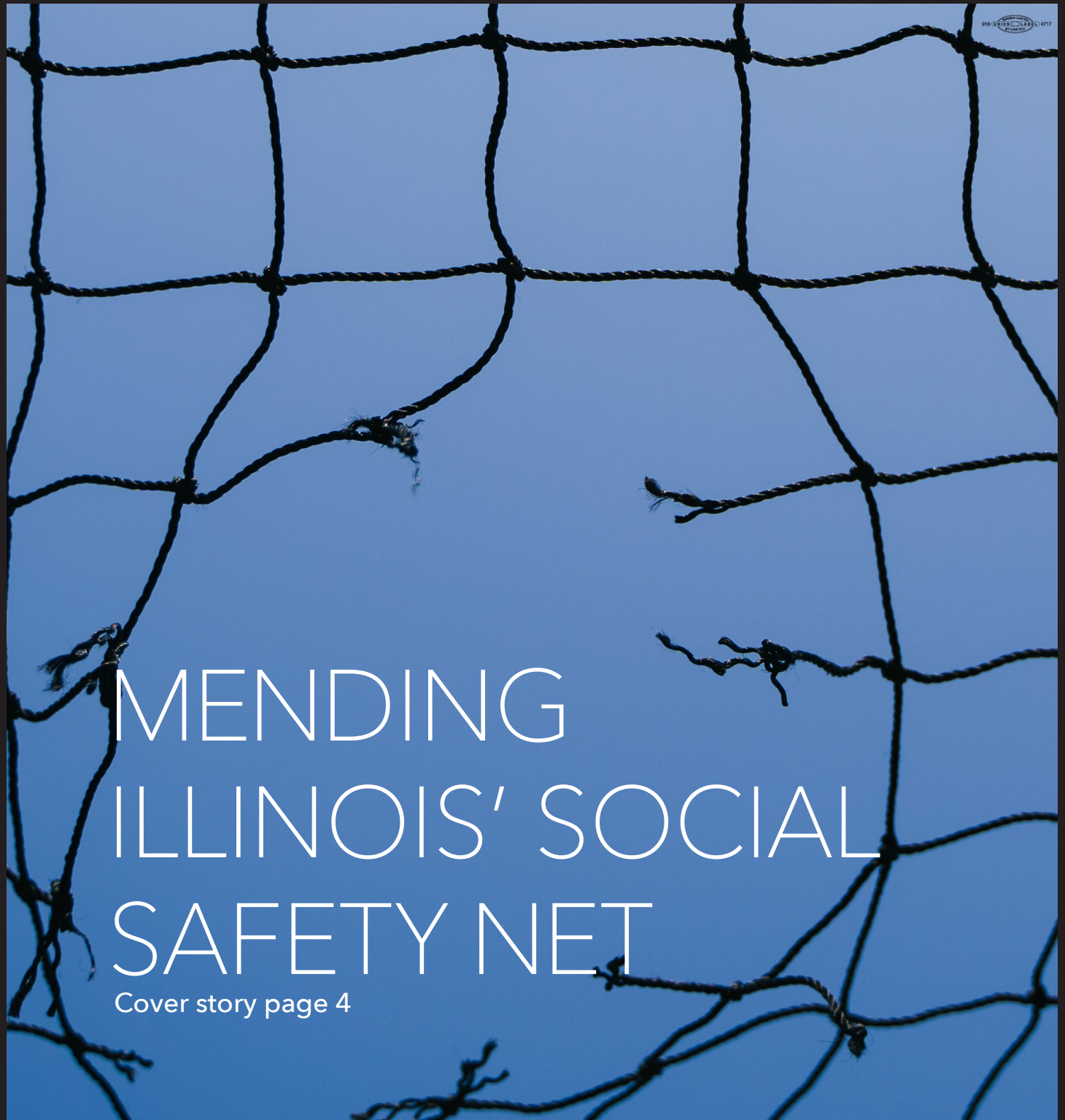




SUSANA A. MENDOZA
ILLINOIS STATE COMPTROLLER

Fiscal Focus

September 2019



MENDING ILLINOIS' SOCIAL SAFETY NET

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FROM THE COMPTROLLER

Dear reader,

Everywhere I go in Illinois, I hear about how social service agencies are struggling to recover from the 736-day budget stalemate. The impasse between lawmakers and Gov. Bruce Rauner brought state government to a halt and devastated many of the organizations that work on behalf of the state to offer a hand up to Illinois' most vulnerable senior citizens, children, and families.

The effects of the impasse reverberate today. Some social service agencies, facing lapsed state payments, reluctantly closed their doors, leaving gaps in vital services throughout Illinois, including domestic violence shelters, drug treatment programs, meals for senior citizens, after-school programs for youth, and health screenings for adults. Others drastically cut programs and staff to make ends meet. It likely will take them years to recover.

In this issue of Fiscal Focus, we will introduce you to some of these service providers, who talked candidly about what went wrong and what state government can do better to support the mission of social service organizations as Illinois slowly recovers from the impasse ("Mending Illinois' social safety net," page 4).

Also in this issue, you'll read about efforts to bring attention to homelessness during Covenant House Illinois' Sleep Out: Women Unite (page 1), as well as my visit to Arden Shore Child and Family Services in Waukegan (page 20).

We'll update you on the spring legislative session and two of my successful legislative initiatives, which will add transparency to the state's managed care program and establish a program to encourage more Illinoisans to use affordable, traditional banking services (page 2).

Finally, you'll read about my office's latest efforts to monitor compliance with Illinois' prevailing wage law (page 14), and you'll find an update on the state's backlog of unpaid bills (page 12).

I hope you find Fiscal Focus useful and informative. Your comments about this and other publications from this office are always welcome. You can contact us at 800-877-8078 or info@illinoiscomptroller.gov.

You also can provide feedback through social media. The Illinois Office of Comptroller can be found on Facebook, Twitter, and Instagram @ILcomptroller.

Thanks for reading.



Susana A. Mendoza
Illinois State Comptroller



SLEEP OUT BRINGS AWARENESS TO THE COST OF HOMELESSNESS

In June, Comptroller Susana Mendoza participated in Covenant House Illinois' Sleep Out: Women Unite to raise awareness and funding for homelessness programs in our state. She spent the night sleeping in a cardboard box at St. James Commons in Chicago alongside several other women.

Covenant House Illinois provides homeless youth with safe shelter and wrap-around services, including education and job training, so they can move forward to an adulthood free of poverty and the threat of homelessness.

During the Sleep Out, the Comptroller met teenagers staying at Covenant House and talked with them about their stories of homelessness, the turbulent journeys that led them to Covenant House, and their future aspirations. The Comptroller also met graduates of the program who are finding success and stability either in college or in the workforce.

An estimated 4.2 million U.S. children will face homelessness this year. In Illinois, more than 10,000 people experience homelessness on any given day. That includes people in both urban and rural areas.

Many people, through no fault of their own - job loss, prolonged illness, family issues - find themselves homeless. And it's not always obvious to their friends or colleagues. It comes in many forms and has many causes.

The chronically homeless often end up in emergency rooms, jail, or extended hospital stays that cost taxpayers more than programs that help the homeless get back on their feet. According to the U.S. Interagency Council on Homelessness, housing just one homeless individual saves a community at least \$10,000 annually.



Comptroller Susana Mendoza poses with other women who participated in Covenant House Illinois' Sleep Out: Women Unite event to raise awareness of homelessness on Thursday, June 13, 2019.

"I HAVE LEARNED THAT THE MORALLY CORRECT THING TO DO OFTEN IS THE FISCALLY SOUND COURSE OF ACTION. PREVENTING HOMELESSNESS SAVES TAXPAYERS MONEY."

— Comptroller Mendoza

"Homelessness is a problem we cannot ignore," Comptroller Mendoza said. "I have learned that the morally correct thing to do often is the fiscally sound course of action. Preventing homelessness saves taxpayers money." The Comptroller noted that everyone has the opportunity to make a difference by volunteering at a local homeless shelter, donating money or supplies, or working to raise awareness.

"Homelessness is a real issue, but it has a solution. We can fix it," Comptroller Mendoza said. ■

FROM THE STATEHOUSE

COMPTROLLER'S INITIATIVES WIN APPROVAL

Two measures to benefit Illinois taxpayers and consumers that were championed by Comptroller Susana Mendoza in the spring are now law.

The first addresses transparency shortfalls within the state's managed care program. The second establishes a statewide program to encourage consumers to use traditional banking services rather than rely on expensive short-term loan companies and pawnshops for financial assistance.

MCO TRANSPARENCY

Illinois spending on managed care organizations (MCOs) rose from \$251 million in fiscal year 2010 to \$10.8 billion in fiscal year 2019. Much of this increase was because of a \$63 billion expansion of managed care in fiscal year 2018 - the largest procurement in Illinois history.

This substantial shift in spending has implications for transparency, care for some of Illinois' most vulnerable residents, and the state's overall health care system.

Comptroller Mendoza introduced legislation to address this lack of transparency during the 2019 spring legislative session. Her bill, along with others addressing issues with the state's Medicaid system, was discussed in a legislative working group led by Illinois House Majority Leader Greg Harris, D-Chicago, and State Sen. Heather Steans, D-Chicago. Ultimately, the omnibus legislation that emerged from the working group and became law addressed the issues with transparency that the Comptroller's office had raised.

Public Act 101-0209 creates a clearinghouse that will allow the Illinois Department of Healthcare and Family Services (DHFS) to view and save every claims-related interaction between a health care provider and an MCO. This window to the process will

allow the agency to gather the type of information the Comptroller sought in her initial legislative proposal. Claim submission; responses, including full and partial denials; and submission and payment dates would be captured by the agency through the clearinghouse in real time.

DHFS also will create a portal where providers can submit claims disputes with MCOs for a final ruling from the agency. The portal includes specific instructions and timelines that all three parties - the MCOs, the providers, and the agency - will follow. The goal is to avoid the prolonged disputes that force providers with limited capital reserves to settle for significantly less - a common complaint of providers.

Additionally, the new law requires DHFS to report MCO administrative costs and operations to the public. In the past, the agency was unable to track this data. To learn more about Illinois' shift to managed care, refer to the May 2019 edition of Fiscal Focus at <http://bit.ly/May2019FF>.

BANK ON ILLINOIS

Lack of access to traditional banking is a problem in both rural and urban areas of Illinois. Families without bank accounts pay tens of thousands of dollars in fees over their working lives, often relying on predatory lenders, payday loans, and pawn shops for loans and financial transactions.

Public Act 101-0427 will expand access to banking in Illinois by using Bank On, a proven, national model that aims to connect consumers with reliable, affordable, and equitable financial products. The measure will create a Bank On Illinois program in the Comptroller's office. Under this program, the Comptroller will partner with governmental entities, representatives of the community, and financial institutions to certify financial products for low-income customers and promote the program throughout Illinois.

Bank On programs certify products that provide fair financial service options such as no maintenance fees, low minimum deposits, low or no overdraft fees, and alternative IDs. They also provide secured personal loans - low-risk lending that enables consumers with low credit scores to begin rebuilding their credit.

Comptroller Mendoza; State Sen. Cristina Castro, D-Elgin; and State Rep. Debbie Meyers-Martin, D-Olympia Fields are joined in their efforts by

banking organizations, community advocates, and local government officials who supported Public Act 101-0427.

Over the coming months, the Comptroller's office will work with the sponsors and supporters of the new law to develop a commission and establish criteria for the program. Look for updates on the Comptroller's website about how to participate. ■

9 TO KNOW

The state budget and how it will affect your wallet

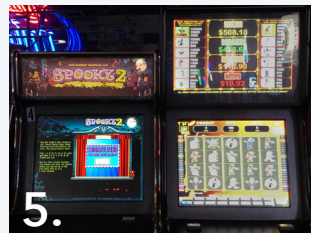


1. The \$40 billion budget increases spending for schools, universities, social services, and vital programs, while offering certainty to Illinois businesses. This economic stability will help Illinois grow and thrive.

2. The state will invest an additional \$375 million in K-12 schools to further improve long-underfunded school districts and help ease the property tax burden on local homeowners over time.

3. Business owners will enjoy a five-year phase-out of the state's franchise tax, an annual tax paid for operating in Illinois. Some business leaders say the tax is antiquated and difficult to understand.

4. Colleges and universities will benefit from increased funding, and the state will dedicate \$50 million more to MAP grants. Investing in higher education will curb student outmigration and boost the economy.



5. Gambling expansion in Illinois will include legalized sports wagering, additional casinos, and more video gaming terminals. The estimated \$350 million in additional revenue will help fund the statewide construction program.

6. To fund a \$45 billion statewide construction plan, drivers will pay 19 cents more per gallon at the pump - the first state gas tax increase since 1990. A special lockbox will protect the money so it can only be spent on road and bridge repairs.

7. The budget gives the Comptroller authority to refinance part of Illinois' debt at a lower interest rate to save taxpayers money and help pay down the state's bill backlog.

8. Cannabis will be legal in Illinois beginning Jan. 1, 2020. Some revenue will be used to build up the state's rainy day fund, which is vital for weathering future economic downturns.



9. The statewide construction plan will create an estimated 540,000 jobs and will put people to work repairing roads and bridges, upgrading mass transit, building schools and university buildings, and more.



MENDING ILLINOIS' SOCIAL SAFETY NET

HOW HUMAN SERVICE PROVIDERS ARE MANAGING THE DAMAGE OF A HISTORIC STATE BUDGET IMPASSE

Two years removed from Illinois' historic budget impasse, state human service providers are still in recovery mode, facing challenges old and new in an effort to repair the social safety net for people in need.

It's well established that the impact of the impasse itself was devastating, causing providers to restrict offerings, cut staff, and, in many instances, close completely while directly affecting an estimated 1 million Illinoisans.

The term "human services" encompasses a range of occupations and functions that support the well-being of individuals beyond primary health care. Providers give assistance to the disabled and care for seniors. They support people struggling with substance abuse and those in need of food and shelter. Mental health, after-school programming, food delivery, and care for the developmentally disabled fall under the purview of the state's providers.

Beyond offering aid, providers are an economic engine found in nearly every community across Illinois.

Their sector employs 169,000 people, or about 3.5% of the state's workforce, and has an estimated annual economic impact of \$4.5 billion.

The state's remaining providers are looking for a sustainable path into the future while facing historically low funding levels for the work they perform. While the state's fiscal year 2020 budget offered small increases, funding for human services as a percentage of the state's General Revenue Fund is at a 20-year low, dropping from 26% in 1997 to less than 16% in 2017.

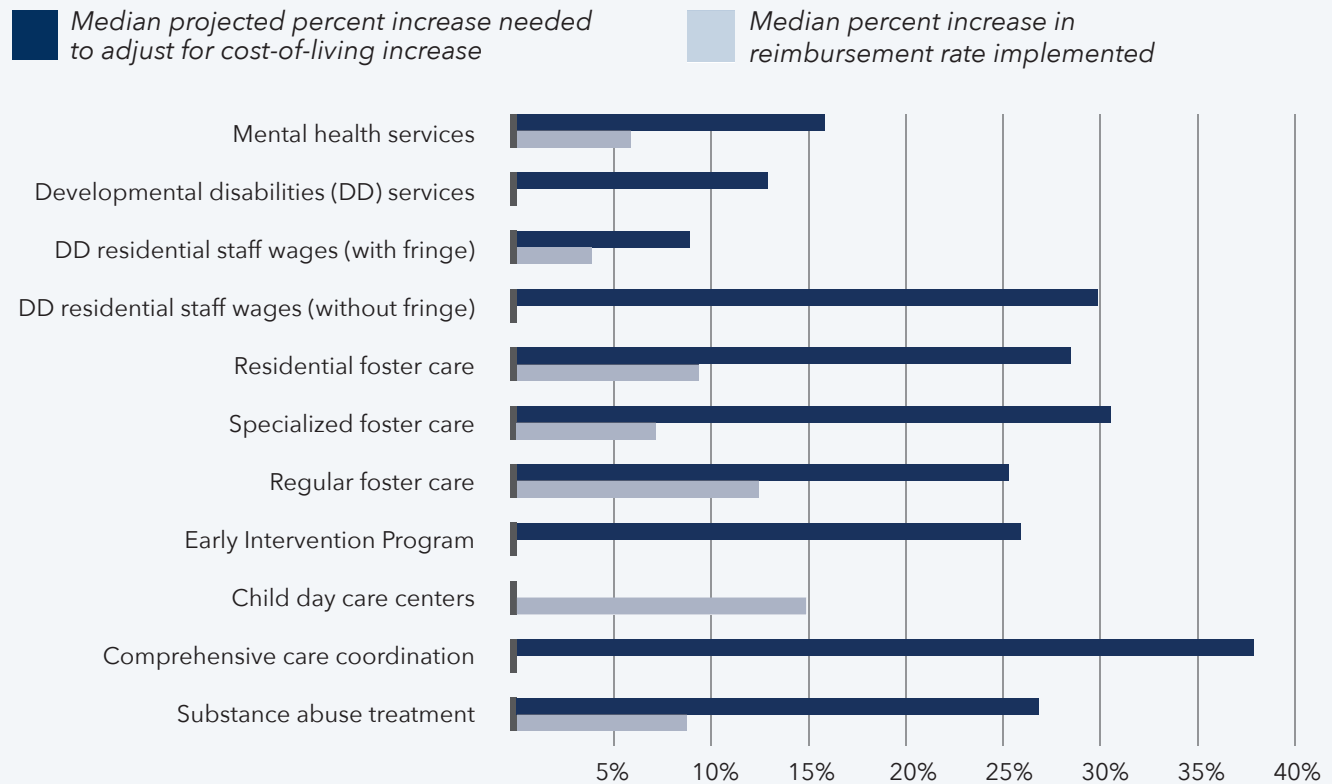
Changing state contracting rules, funding shortfalls, unpredictable revenue streams, and other challenges make for an uneven road forward.

PARTNERS IN CAREGIVING

For decades, the work of helping people in the United States was performed largely by religious entities or government, including state institutions.

COST-OF-LIVING INCREASES vs. RATE INCREASES

Human resource program funding



Source: Illinois Partners for Human Service

In the 1960s and 1970s, government started taking another look at the best ways to deliver care and determined the work could be done more effectively by community-based not-for-profit organizations, said Judith Gethner, former executive director of Illinois Partners for Human Service in Chicago.

“Over the course of the last 50 years, you will look at why these not-for-profits started, and it’s because government said, ‘Would you take this agreement and have this person with, for example, cerebral palsy, be able to stay in their family’s home, but we’ll deliver service and help you as parents while you help take care of your child?’” Gethner said.

“There was an interest in finding a more humane way to take care of people who were aging, to allow them to stay at home and provide services for them.”

Over time, government funding for the now-outsourced service functions failed to keep pace with costs for not-for-profits. The shift forced service providers to move toward grant-based funding and charitable fundraising to supplement revenue.

DEADBEAT ILLINOIS

In 2016, Illinois Partners for Human Service – a coalition of more than 800 Illinois human service providers – reported that between 2000 and 2015, the state’s reimbursement rates in nearly every field of service had fallen far behind the cost of living. In addition to difficulty covering basic operational and administrative costs, stagnant reimbursement rates drove employee turnover as high as 25% and prevented providers from meeting a growing demand for their services.

Just to meet the increased cost of living between 2000 and 2015, reimbursement rates for a wide range of services would need to ramp up. These rates are set by the state and codified in contracts between state agencies and service providers.

After adjusting for inflation and population growth, state funding for human services fell by \$4.4 billion between 2002 and 2010. Between fiscal years 2009 and 2014, Illinois cut funding for the largest human service categories by 23%.

Gethner said the numbers validated what people in the human services sector have long known – that government wasn't keeping up with its end of the bargain.

While diminishing funding levels or small delays in payment were factors that service providers incorporated into their business model, going unpaid for services rendered and indefinite delays in payment were not considerations they took into account. A growing bill backlog under Democratic Gov. Pat Quinn that reached \$9 billion served as a sobering preview of a bill backlog that ballooned to nearly \$17 billion under Republican Gov. Bruce Rauner, causing an unprecedented fiscal calamity that affected nearly every sector in the state.

A HISTORIC IMPASSE

Between July 1, 2015, and Aug. 31, 2017, Illinois went without a state budget. A stalemate between Gov. Rauner and legislators in the General Assembly resulted in a virtual government shutdown that lasted 736 days. Bills went unpaid as Illinois became a deadbeat to the tune of \$16.7 billion. Credit agencies threatened the state with junk bond status.

The state's social safety net was cut to ribbons as payments seized. Service providers sought relief from the courts as vendors sued the state with the

goal of being paid via judicial order. With their share of unpaid bills at \$161 million, Pay Now Illinois, a coalition of 100 service providers, sued Gov. Rauner to force the state to issue payments.

As it dragged on, the impasse claimed many victims among service providers. According to United Way of Illinois, 91% of the 429 service providers surveyed cut services to clients. Other entities reported spending through rainy day funds and opening lines of credit, collectively taking on \$37 million in debt to stay afloat. Thirty-six percent of them said they expected to close within six months. Nearly 1 million Illinoisans were left without critical services.

For those already struggling, it got worse. The Chicago Coalition for the Homeless found that 90% of service providers to the homeless were forced to limit their intake of new clients, reduce services for current clients, lay off staff, eliminate programs, or close work sites because of the impasse.

The number of women receiving preventative health screenings via state-funded programming dropped 34%. Access to nutrition programs for seniors was reduced as providers like Meals on Wheels cut staff and food deliveries from seven to three days a week. Across the state, few providers were spared, including shelters, soup kitchens, job-training facilities, nursery schools, senior centers, and more.



Members of the Chicago Coalition for the Homeless ask state lawmakers to protect funding for programs that help the homeless during a rally and advocacy day at the Capitol in Springfield in March 2017. (Photo credit: Chicago Coalition for the Homeless/Jaime Michelle Schmitz)

BRAIN DRAIN WEAKENS THE SAFETY NET

Social service providers say the painful austerity imposed by the budget impasse created instability that drove talented and experienced people out of human services entirely, causing what is often referred to in the private sector as brain drain.

Providers reduced staffing, and many talented, experienced people did not return to the human services sector, instead finding jobs in health care, education, or the corporate world.

Founded in 1978, the non-profit Illinois Coalition Against Sexual Assault, or ICASA, comprises 29 certified rape crisis centers and one program development grantee. ICASA has administered state and federal funding to support rape crisis centers since 1984. It also subcontracts with local rape crisis centers with 76 offices throughout Illinois, serving 12,000 victims and providing outreach to 663,000 people annually.

To manage the impasse, ICASA borrowed money and cut staff. It secured lines of credit and loans against office buildings, said Executive Director Carrie Ward. A hiring freeze was implemented, open positions were not filled, employees were laid off, and full-time staff were shifted to part-time status.

Ward said managing staff turnover is a constant challenge for rape crisis center directors, and the budget stalemate resulted in the loss of long-term staff who had substantial institutional knowledge.

Andrea Durbin, CEO of the Illinois Coalition on Youth, said staffing reductions are acutely difficult for providers that serve clients in crisis or those who have experienced violence.

"You're dealing with clients who are going through possibly the worst experience of their lives..." she said. "You can't just put out an ad and say help wanted and get people."

To help avoid the kind of damage experienced by providers during the budget stalemate, Ward said the state should consider such steps as establishing a rainy day fund that providers could tap if funding shortages reoccur as a result of a government impasse or economic downturn.

"It's difficult, however, to envision a safety net large enough to sustain current levels of service during a long-term recession," she said.

EXTREME MEASURES

Andrea Durbin, who led the Pay Now Illinois coalition and today serves as CEO of the Illinois Coalition on Youth, said that, starved of funds, many service providers fell apart.

"It wasn't just *when* I will be paid, it was *if* I will be paid," she said. "What not being paid did to the infrastructure was devastating, and organizations are not fully recovered from that. Organizations exist to advance their mission and so a lot of places began shedding anything they could to maintain a core piece of their mission."

Pay Now documented thousands of jobs lost in addition to the job losses reported by the United Way. The most talented members of the service provider workforce shifted to jobs in health care or education, Durbin said.

"PEOPLE ACTUALLY RISKED THEIR FUTURE FREEDOM TO TRY TO KEEP THEIR DOORS OPEN BECAUSE THEY FIGURED, 'OH, IT WON'T GO THIS LONG.'"

– Andrea Durbin

Providers took extreme measures to keep their doors open, she recalled. Administrators at a senior service provider cashed out retirement funds to pay staff in an effort to continue providing services to clients. When that money was spent, they skirted the law and skipped federal payroll taxes – a situation they later resolved on favorable terms with the Internal Revenue Service.

"People actually risked their future freedom to try to keep their doors open because they figured, 'Oh, it won't go this long,'" she said.

Durbin described a domestic violence shelter that began hosting bake sales to raise money.

"I told them there are not enough Rice Krispies treats in the world to keep a domestic violence shelter operational," Durbin said. "The director looked at me and said, 'I have women in my shelter right now who have been strangled or throttled, and I know that the research shows if I send them home, they are 700 times more likely to be killed. And I can't have that on my conscience.'"

FROM SURVIVING TO THRIVING

After surviving the state budget impasse, Thresholds CEO Mark Ishaug said his organization is ready to thrive thanks in large part to leadership changes in Springfield.

Chicago-based Thresholds is one of Illinois' oldest and largest human service providers. Primarily offering recovery services for individuals managing substance abuse or mental illness, Thresholds serves veterans, the homeless, young adults, and others in need. In 2018, it provided services to more than 16,000 people in Illinois.

Ishaug said he is ecstatic about Gov. JB Pritzker's commitment to a partnership between the state and human service providers, something he has never experienced in 30 years in the non-profit sector in Chicago.

"We're in the very early stages of a recovery period," he said. "We think the new leadership at the Department of Healthcare and Family Services and Department of Human Services is going to be a game changer for us. I think it's going to help ensure that ... our money flows better and that the rates and investment in our sector is better."

Ishaug said there is an unprecedented level of communication and responsiveness at the agency level. For example, he's seeing long-running technical challenges that resulted in significant funding delays being managed instead of ignored.

"Having a strong partner in the state allows us to do other stuff - to innovate, to look at other ways of funding programs, to secure federal funding dollars, to secure private sector resources, to partner with the private sector, and create public-private partnerships," he said.

Looking forward, top priorities for Thresholds include doubling down on a commitment to integrated care and expanding the services they provide with partner organizations.

"We can breathe again. We can vision again. When you're not fighting to survive, you're creating to thrive," he said. "This idea that we can thrive, that's what gives me goosebumps, and my board feels it and our staff feels it. This is a thrive moment, and we're going to seize it."

ON THE BRINK

The damage from the loss of talented personnel and human infrastructure was paired with a lack of resources to address physical infrastructure needs, as well.

Advocates for providers describe entities that put off crucial repairs such as fixing leaky roofs or replacing outdated computers.

For example, a suburban Chicago program for expecting mothers couldn't afford to fill the gaping holes in its parking lot, resulting in closing half the lot and having pregnant women park far away from the building, Durbin said.

"It was one of those 'for the want of the nail, the kingdom is lost' kind of things," she said. "So maybe the woman who is pregnant and has to navigate a toddler in a stroller says, 'It's too much hassle, I'm going to skip the appointment. I'm not going to get the prenatal care because I can't get into the parking lot and I have to walk down the street or take the bus.'"

Service providers said investments in technology or new service models were halted, and they couldn't address the changing or growing needs of clients.

"WE FELT LIKE WE WERE ON THE BRINK. AND WE'RE THE LARGEST AND ONE OF THE MOST IMPORTANT COMMUNITY BEHAVIORAL HEALTH PROVIDERS, SO WE CAN'T OPERATE ON THE BRINK."

– Mark Ishaug

Mark Ishaug, CEO of Thresholds, one of Illinois' largest substance abuse and mental health service providers, said that during the impasse – after his organization extended its line of credit to \$6 million – it was nearly impossible to innovate or expand.

"We felt like we were on the brink. And we're the largest and one of the most important community behavioral health providers, so we can't operate on the brink," he said. "Operating on the brink means you can't invest in new programs, and you can't give staff raises or bonuses because to do that would come out of the line of credit."



A member of the Illinois Partners for Human Service, Thresholds in Chicago provides health care, housing, and support services for individuals with mental illnesses and substance use disorders.

INHERENTLY INEQUITABLE

While service providers seek to manage the lasting impact of the fiscal impasse, among their most fundamental concerns moving forward is their relationship with state government – specifically the contracting and reimbursement processes they must engage in with state agencies on an ongoing basis.

Across the board, service providers want smart, sustainable solutions to what they describe as a complicated and unfair procurement process. Gethner said service providers view their arrangements with the state as inherently inequitable.

“If you went to the for-profit world and you sat in on a meeting and looked at one of the contracts we are issued, they would look at it and say, ‘You got to be kidding. That is not a real contract. That just benefits the state,’” Gethner said. “So there has been a conversation for a long time about why isn’t it more equitable and fair, and why are we on the hook?”

Providers take issue with the timing and methods used as they contract with the state for services.

Niya Kelly, state legislative director for the Chicago Coalition for the Homeless, said providers are expected to sign contracts within a narrow timeframe with little opportunity for discussions about clauses that outline year-to-year changes, new mandates, or other statutory requirements.

“Every year the last few years it’s come up where there is not a transparent communication that says, ‘Here are the contracts and let us flag a few things that are new this year,’ which I think would be a fair thing to do,” Kelly said.

“Instead, the way it comes to us is someone on our side is reading them ... and then we have to unpack it. You could have a more transparent conversation with vendors when the state wants to make changes to a contract rather than change it and see if anyone notices.”

BREAKING THE CYCLE

Not only do last-minute changes put service providers in a bind when it comes to the pressure of coming to an agreement, they also draw on resources that are already in short supply, requiring attorneys or policy advisors to carefully review the documents. Kelly said one option to break this annual cycle would be for the state to agree to multi-year contracts with service providers; however, in the past that concept has been met with “push back.”

When faced with changes, service providers typically sign on to contracts regardless of their content, said Ireta Gasner, vice president of Illinois policy for the Ounce of Prevention Fund, which focuses on early childhood development both as a care provider and resource for educators. Gasner said concerns about continuity of services and a commitment to staff typically outweigh all other considerations.

“A lot of providers are just going to sign the contracts regardless because they want to provide the service and they figure they have no option,” she said.

Providers also have found fault with the content of state contracts and they argue that they are treated differently than for-profit, private-sector state vendors. For example, some agreements require providers to cap the benefits they offer their employees.

LOOKING FORWARD

What is needed for sustained recovery, success, and growth among Illinois’ service providers? Service providers and advocates who spoke with the Illinois Office of Comptroller suggest the following solutions.

ANNUAL STATE BUDGETS

Fiscal stability is critical for service providers. The foundation of that stability is the timely passage of comprehensive annual budgets by the legislative and executive branches.

ADDITIONAL FUNDING

In their fiscal year 2020 budget, the General Assembly and Gov. JB Pritzker approved between \$70 million and \$80 million in additional funding for human services. Over time, additional funds will be needed to make up for historic funding shortfalls and other factors affecting service providers, such as increased demand and legislation to increase the minimum wage.



Gov. JB Pritzker signs the fiscal year 2020 budget during a ceremony in Chicago on June 5, 2019, surrounded by Lt. Gov. Juliana Stratton, Illinois State Comptroller Susana Mendoza, and state lawmakers.

CONTRACT REFORM

The contract framework used to direct funds to the provider community could benefit from reforms such as multi-year contracts. Not only would long-term agreements give service providers additional stability and allow them to better manage program goals, they also would serve to reduce the resources committed to administrative costs. Service providers also believe they could benefit from a procurement calendar that provides them with ample time to review contracts and allow for clarification and negotiation on rule changes.

CONTRACT EQUITY

Overall, service providers largely say they don't believe they are equitable partners in their relationship with state government. Agencies, stakeholders, service providers, and other partners should seek common ground to make the contracting process more just and fair.

IMPROVEMENTS IN BILLING & IT SYSTEMS

The integration of new systems and critical services must be carefully managed; allow time for pilot initiatives, testing, and remedial adjustment; include contingency plans with a temporary workaround if problems arise; and support legacy systems until they can be safely taken offline, while backing up, protecting, and preserving existing data to prevent loss.



Staff from the Lincoln Prairie Behavioral Health Center in Springfield meet with Comptroller Susana Mendoza on Aug. 13, 2019. The center provides critical psychiatric treatment to children between ages 3 and 17 who experience emotional and behavioral health crises.

MONITORING MANAGED CARE

Increasingly, funding for mental health, substance abuse, and senior care is funneled through managed care organizations before it is received by service providers. Backlogs in determinations and other challenges have resulted in delayed payments for health care providers, and care should be taken to ensure service providers receive prompt payment. Like hospitals and other medical providers, service providers need a managed care system that is transparent, responsive, and accountable.

ACTIVATE THE HUMAN SERVICES CONTRACTING TASK FORCE

Approved in 2018, the Task Force on Human Services Contracting Act asks stakeholders to study the challenges faced by service providers. Specifically, it calls for a review of data sharing, contract negotiation, reimbursement rates, business processes, and timely payment. However, task force membership has not been assigned,

and it has yet to convene. Activating the task force would provide a venue to address a variety of issues and chart a sustainable course for state service providers through collaboration. ■



Comptroller Mendoza tours the workforce development facility at Safer Foundation in Chicago on July 6, 2018. The non-profit provides services that help people with criminal records find stable employment and gain tools needed to re-enter their communities.

DEBT TRANSPARENCY

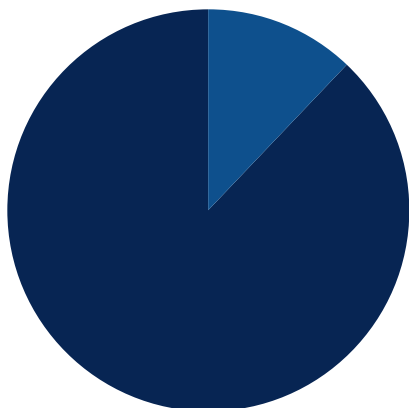
JULY BILL BACKLOG STANDS AT NEARLY \$6.8 BILLION

For the reporting period ending July 31, 2019, state agencies reported nearly \$566 million in General Funds liabilities and late payment interest penalties. This amount reflects liabilities that have not yet been sent to the Illinois Office of Comptroller but are eligible to be sent because the agency has an approved invoice or pending interest payments.

Reporting agencies' total liabilities, based on their General Funds and Health Insurance Reserve Fund (HIRF) liabilities, including late payment

interest penalties owed on bills released for payment by the Illinois Office of Comptroller, was \$821 million for the July 2019 period, representing a decrease of \$36 million compared to agencies' June 2019 liabilities and a decrease of \$245 million compared to agencies' March 2019 liabilities. This \$821 million has been incorporated into the estimated amount of bills pending reported daily on the Comptroller's website and will remain as static input to this calculation until the next DTA monthly report.

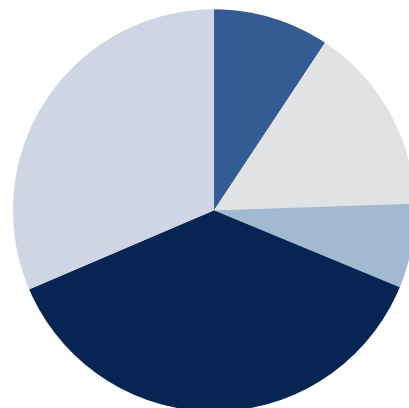
ESTIMATED GENERAL FUNDS BILLS PENDING As of July 31, 2019 | TOTALING \$6.778 BILLION



- Bills Reported at State Agencies**
 \$821 million
 12.1%
- Bills at Illinois Office of Comptroller**
 \$5.957 billion
 87.9%

The estimated General Funds bills pending total is comprised of pending vouchers, transfers and interest payments from the General Funds and the Health Insurance Reserve Fund.

AGENCY GENERAL FUNDS/HIRF LIABILITIES BREAKOUT As of July 31, 2019 | TOTALING \$821 MILLION



- Human Services**
 \$55.7 million
 6.8%
- Healthcare and Family Services**
 \$306.4 million
 37.3%
- Corrections**
 \$124.5 million
 15.2%
- Remaining Agencies**
 \$76.4 million
 9.3%
- Central Management Services (includes General Funds and HIRF liabilities)**
 \$258.1 million
 31.4%

After combining this \$821 million with the \$5.957 billion in payables at the Illinois Office of Comptroller, the total estimated amount of General Funds and HIRF bills pending for July 31, 2019 was \$6.778 billion, a decrease of \$500 million from the end of June 2019 and a decrease of \$1.875 billion compared to the March 2019 period.

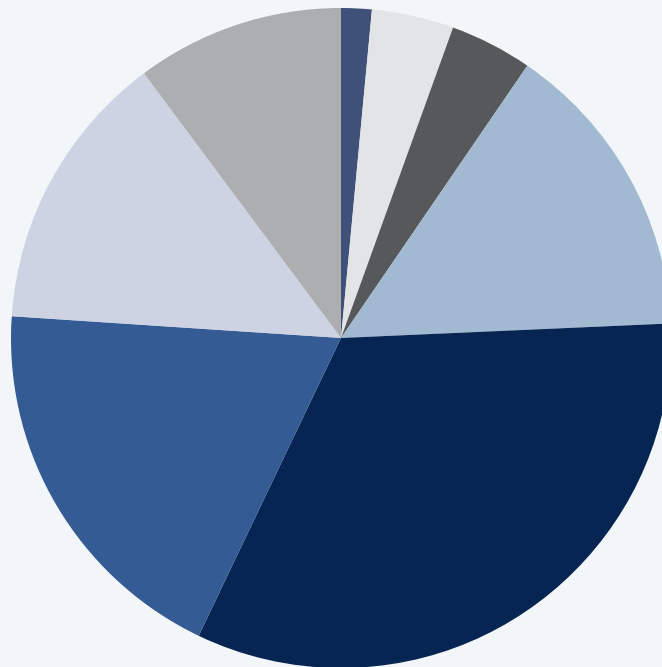
Assisted by nearly \$1.5 billion in additional state General Funds revenues in April, the Illinois Office

of Comptroller has worked with the Department of Central Management Services (CMS) to cut the amount of CMS's HIRF liabilities and late payment interest penalties by almost \$512 million since the April 2019 reporting period.

For information on the state's monthly estimated bill backlog, please review monthly Debt Transparency Act reports at illinoiscomptroller.gov. ■

COMPOSITION OF BILLS AT THE ILLINOIS OFFICE OF COMPTROLLER

As of July 31, 2019 | TOTAL = \$5.957 BILLION



Higher Education
\$89.8 million
1.5%

Other State Government
\$239.7 million
4.0%

Elementary and Secondary Education
\$240.1 million
4.0%

Pensions
\$878.7 million
14.8%

Transfers to Other State Funds
\$1.953 billion
32.8%

Health Insurance Reserve Fund
\$1.129 billion
19.0%

Medical
\$820.0 million
13.8%

Social Service Agencies
\$607.3 million
10.2%

COMPTROLLER SPOTLIGHTS PREVAILING WAGE RULES

EXECUTIVE ORDER OUTLINES STEPS TO ENSURE COMPLIANCE



Construction projects are set to begin all over the state next year as Illinois rolls out a \$45 billion capital plan - the first of its kind in more than a decade. Contractors who do business with the state must comply with the Illinois Prevailing Wage Act, and those who do not are subject to penalties.

As Illinois prepares to roll out a new \$45 billion statewide construction program - the state's first major capital investment in more than a decade - Comptroller Susana Mendoza is reminding workers and contractors that prevailing wage compliance is a priority for her office.

The Comptroller signed an executive order in August committing her office to monitor state contracts for compliance with the Illinois Prevailing Wage Act, provide support to the Illinois Department of Labor, and make more information available for the public online.

Prevailing wage is the hourly rate of pay that contractors and vendors must offer their employees when they do business with the government on construction, printing, and other projects. Prevailing wage rates are trade-specific and vary by county. In Illinois, contractors that fail to comply with prevailing wage rules could face penalties and be barred from future public works projects.

"The working men and women of Illinois fought for and secured a promise that they will be paid a prevailing wage on worksites across the state, and I will do my part to make sure that promise is honored," Comptroller Mendoza said.

EXECUTIVE ORDER 19-01 OUTLINES STEPS THE COMPTROLLER'S OFFICE WILL TAKE TO ENSURE CONTRACTORS COMPLY WITH PREVAILING WAGE:

- Monitor grants awarded for Rebuild Illinois and other public works programs
- Direct the Comptroller's prevailing wage enforcement officer to address queries from labor about these contracts
- Maintain a prevailing wage inquiry form on the comptroller's website
- Provide support to the Illinois Department of Labor, which has responsibility for investigating and enforcing compliance with the act

"Rebuild Illinois has the potential to change the landscape of Illinois," Comptroller Mendoza said. "My office will do everything it can to lend support to the Department of Labor, bring more transparency to the construction program, and hold state contractors accountable for paying fair wages."

In less than a month since signing the executive order, the Comptroller's office received five inquiries about whether particular contractors are paying prevailing wages. The Comptroller's prevailing wage compliance officer is reviewing the inquiries.

A decade ago, former Comptroller Dan Hynes issued a similar executive order but in the interim, it had gone largely unenforced. Hynes is now deputy governor. Comptroller Mendoza's office expands on and reinforces Hynes' effort.

Gov. JB Pritzker and the General Assembly fashioned the \$45 billion Rebuild Illinois statewide construction plan to bring long-overdue public works projects to every corner of the state. The program is expected to support an estimated 540,000 direct, indirect, and an estimated 540,000 direct and indirect jobs over six years, according to the governor's office.

The Comptroller's office is a repository for all contractor and vendor information, such as contracts, payments, and payroll, which makes the office a natural partner in helping the Illinois Department of Labor monitor prevailing wage compliance.

Before checks are issued from the state to pay for public works projects, the Illinois Office of Comptroller will ensure that documents are on file showing contractors are in compliance with the state's Prevailing Wage Act (820 ILCS 130).

Joining Comptroller Mendoza for the executive order signing were several labor officials who reaffirmed their organization's commitment to prevailing wage compliance, including Julie Vahling with the Illinois Department of Labor; Michael Carrigan, president of the Illinois AFL-CIO; and Michael Macellaio, president of the Illinois Prevailing Wage Council.

"This is so important to the men and women around Illinois who get up early every day to carefully build roads and new schools and operate heavy machinery, and who expect a fair wage to take care of their families," Carrigan said. ■



Workers expect a fair wage so they can take care of their families, said Michael Carrigan, president of the Illinois AFL-CIO, during a news conference about prevailing wage compliance with Comptroller Susana Mendoza (left) on Aug. 13, 2019.

RESOURCES

To complete a prevailing wage inquiry with the comptroller:

<http://bit.ly/PWinquiry>

To view current prevailing wage rates:

<http://bit.ly/PWrates>

To search for state contracts:

<http://bit.ly/ContractSearch>

To view the comptroller's prevailing wage executive order:

<http://bit.ly/ComptrollerEO>

CREDIT RATINGS

WHY THEY MATTER FOR ILLINOIS TAXPAYERS

Almost 20 years later, the year 2000 remains memorable for some special events. The world survived the Y2K scare, the first crew to live on the International Space Station arrived in space, and George W. Bush was declared the winner of the presidential election following a close vote that led to a U.S. Supreme Court case.

What people may not remember is that 2000 was the last year Illinois' General Obligation (GO) bonds received an upgrade from any of the three major credit ratings agencies.

In June 2000, Fitch Ratings bumped its rating for Illinois' GO bonds to AA+, just one notch below the highest investment-grade rating. Less than 17 years later, following seven consecutive prior downgrades from the agency, including one downgrade action that dropped Illinois' rating two notches, Fitch downgraded Illinois' GO bond rating for an eighth time, from BBB+ to BBB, just two notches above speculative, or junk, grade.

Between 2003 and 2017, Illinois' GO bond ratings from Fitch, S&P Global, and Moody's Investors Service consistently declined. Among the three agencies, Illinois received 24 total downgrades: eight from Fitch, seven from S&P, and nine from Moody's.

As of Sept. 1, 2019, Fitch rates Illinois' GO bonds two notches above speculative grade, and S&P and Moody's rate Illinois just one notch above speculative grade. These ratings are the lowest for Illinois' GO bonds in the state's 46-year history of bond ratings.

WHAT HAPPENED?

Several factors contributed to the state's financial difficulties, including the recession and subsequent budget deficit that followed the Sept. 11, 2001, terrorist attacks, from which Illinois struggled to recover.

In addition, growing obligations to the state's five public pension funds were worsened by actuarially insufficient contributions by the state and overly rosy pension investment returns. These factors and others resulted in the funds' estimated unfunded liability increasing from \$14.3 billion at the end of fiscal year 1999 to an estimated \$133.7 billion at the end of fiscal year 2018.

A 736-day state budget impasse between July 2015 and July 2017 led to a lack of appropriation authority that matched state revenues to expenditures, resulting in overspending via court orders and consent decrees. It also helped cause a surge in the state's backlog of unpaid bills from an estimated \$5 billion to a staggering \$16.7 billion. The toxic political environment and gridlock between former Republican Gov. Bruce Rauner and Democratic majorities in the General Assembly left dim the prospects for resolving the impasse and addressing inadequate revenues to match the state's obligations.

The most recent downgrades came from S&P Global and Moody's Investors Service on June 1, 2017, the day after the traditional May 31 end of the legislative session, but still a month before the new fiscal year would begin. Both agencies downgraded Illinois by one notch, leaving the state just one downgrade away from junk status.

In its downgrade rating action, Moody's cited a "prolonged political impasse" and "legislative gridlock" and stated "fundamental credit challenges have intensified enough" to justify the downgrade even if a budget agreement were reached in the legislative overtime session.

S&P stated its "actions largely reflect severe deterioration of Illinois' fiscal condition" and that "Illinois (is) now at risk of entering (a) negative credit spiral, where downgraded credit ratings would trigger contingent demands on state liquidity."

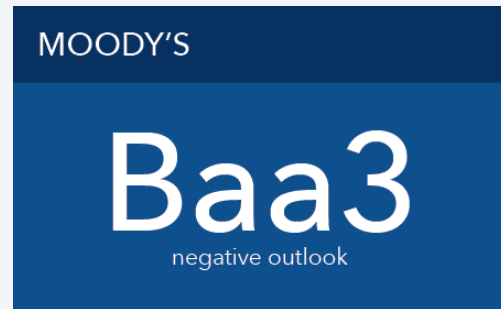
ILLINOIS' CURRENT BOND RATINGS

This table shows the most recent bond ratings for the two major State of Illinois bond programs.

GENERAL OBLIGATION



SPECIAL OBLIGATION



WHY TAXPAYERS SHOULD CARE

Illinois' credit ratings are important because they determine how much interest state taxpayers will pay on bonds issued for borrowing.

In general, the higher a state's credit rating, the less interest it will pay to borrow money needed, for example, for improvements to roads, bridges, and other infrastructure needs. The lower the rating, the higher the interest costs to pay off those bonds. More taxpayer dollars for interest payments means fewer dollars for critical state services, such as breast cancer screenings, programs to assist senior citizens, police and fire services, and schools, colleges, and universities.

The Illinois Office of Comptroller, in coordination with the State Treasurer's Office, has worked to save state interest costs by utilizing a tool approved by the General Assembly and the governor in 2018. Under Public Act 100-1107, the treasurer can invest a portion of the state's investment portfolio into the state's pending unpaid bills, many of which accrue interest at a rate of 12% a year.

In 2018, Illinois State Comptroller Susana Mendoza and State Treasurer Michael Frerichs invested \$700 million at an interest rate of approximately 3.7%, saving the state at least \$26 million in interest costs. Despite these efforts to save taxpayer dollars, the state will continue to pay more in interest costs on bonds if it has a near-junk credit rating.

PROSPECTS FOR AN UPGRADE

The three major ratings agencies have provided actions they believe will improve Illinois' financial condition and warrant improvements to the its credit rating – and factors that could result in more downgrades.

In its June 2017 rating action, Moody's stated factors that could lead to an upgrade included the "implementation of a realistic plan to provide long-term funding for pension obligations," "progress in reducing payment backlog and adoption of legal framework to prevent renewed build-up of unpaid bills," and "enactment of recurring fiscal measures that support expectation of sustainable, structural balance."

MOODY'S FURTHER STATED THAT ACTIONS THAT COULD LEAD TO AN UPGRADE INCLUDE:

- Adoption of a comprehensive plan to address pension liabilities
- Progress in lowering the state's backlog of unpaid bills that does not rely on long-term borrowing
- Enactment of recurring financial measures that support sustainable balanced budgets

HOWEVER, FACTORS THAT COULD LEAD TO A DOWNGRADE, ACCORDING TO MOODY'S, INCLUDE:

- Renewed growth in the state's payment backlog that reverses progress attributable to long-term debt issuance
- Reduction in pension contributions to provide fiscal relief
- Substantial assumption of debt or pension liabilities incurred by local governments

During the spring 2019 legislative session, the General Assembly and Gov. JB Pritzker approved a fiscal year 2020 budget and the first major capital infrastructure plan in 10 years. Despite the successes, Comptroller Mendoza urged the state to remain grounded, with a focus on paying down the state's pending bills. In affirming its Baa3 rating in June 2019, Moody's sounded similar caution. It pointed to Illinois' strengths, such as its "diverse, large and comparatively wealthy economic base," but also to negative factors, including unfunded pension liabilities and "mounting fixed costs."

As pointed out by Moody's in its rating action, Illinois' law provides that GO bonds are backed by the full faith and credit of the state and provides an irrevocable and continuing appropriation for payment (30 ILCS 330/17).

Following approval of the fiscal year 2020 budget, Carol Spain of S&P Global stated, "the fiscal year 2020 budget signals near-term credit stability" and "the state will need further progress toward sustainable structural balance, paying down its bill backlog, and addressing its pension liabilities to maintain an investment-grade rating." As reported by The Bond Buyer, Eric Kim of Fitch Ratings stated a downgrade could occur if the state does anything to exacerbate its imbalance.

On July 31, Fitch Ratings responded to the fiscal year 2020 budget with a revised outlook, from the negative outlook it assigned in July 2017 to stable. Fitch cited the nearly \$1.5 billion in additional revenue realized by the state in April 2019, which led to the closing of the fiscal year 2019 budget gap and the enactment of an on-time and "plausible and achievable" fiscal year 2020 budget, "leaving the state better positioned from a fiscal perspective." The agency warned of a downgrade if "the state exacerbates its structural budget challenges through measures such as materially" increasing the bill backlog or "proposals to defer or similarly alter pension obligations."

As for the constitutional amendment language adopted by the General Assembly in May calling for graduated income tax rates, which will be approved or rejected by Illinois voters in the November 2020 general election, Ted Hampton from Moody's cited the potential for the change to be a positive for Illinois' credit.

Graduated rates would give the state "increased revenue raising flexibility to tackle a growing pension burden," but a "positive outcome" would be dependent on "substantial net new revenue, without material damage to the economy, and the new revenue be largely allocated to addressing the state's retirement benefits liabilities on a recurring basis," Hampton said, according to The (Springfield) State Journal-Register.

The Bond Buyer reported that Hampton also stated the rates could be "credit neutral" if any new revenues were not largely devoted to addressing the state's pension issues. "Unless (pensions and fixed costs are) improved it would be hard for us to see the state with a higher rating." ■

ILLINOIS' GENERAL OBLIGATION BONDS RATINGS HISTORY

| Date of Rating Action | Fitch Ratings | S&P Global | Moody's Investors Service |
|-----------------------|---------------------|--------------------|---------------------------|
| | Rating Up/Down | Rating Up/Down | Rating Up/Down |
| 1973 | -- | -- | AAA Initial Rating |
| Feb 1979 | -- | AAA Initial Rating | -- |
| Mar 1983 | -- | AA+ ▼1x | -- |
| Aug-Sep 1991 | -- | AA ▼1x | Aa1 ▼1x |
| Aug 1992 | -- | AA- ▼1x | Aa* ▼1x |
| Feb 1995 | -- | -- | A1 ▼1x |
| Sep 1996 | AA Initial Rating | -- | -- |
| Feb 1997 | -- | -- | Aa3 ▲1x |
| Jul 1997 | -- | AA ▲1x | -- |
| Jun 1998 | -- | -- | Aa2 ▲1x |
| Jun 2000 | AA+ ▲1x | -- | -- |
| May 2003 | AA ▼1x | -- | Aa3 ▼1x |
| Dec 2008 | AA- ▼1x | -- | -- |
| Mar 2009 | -- | AA- ▼1x | -- |
| Apr 2009 | -- | -- | A1 ▼1x |
| Jul 2009 | A ▼2x | -- | -- |
| Dec 2009 | -- | A+ ▼1x | A2 ▼1x |
| Mar 2010 | A-/A+ recal ▼1x/▲2x | -- | -- |
| Apr 2010 | -- | -- | Aa3 recal ▲2x |
| Jun 2010 | A ▼1x | -- | A1 ▼1x |
| Jan 2012 | -- | -- | A2 ▼1x |
| Aug 2012 | -- | A ▼1x | -- |
| Jan 2013 | -- | A- ▼1x | -- |
| Jun 2013 | A- ▼1x | -- | A3 ▼1x |
| Oct 2015 | BBB+ ▼1x | -- | Baa1 ▼1x |
| Jun 2016 | -- | BBB+ ▼1x | Baa2 ▼1x |
| Sep 2016 | -- | BBB ▼1x | -- |
| Feb 2017 | BBB ▼1x | -- | -- |
| Jun 2017 | -- | BBB- ▼1x | Baa3 ▼1x |

| Agency Rating Comparison | |
|--------------------------|---------|
| Fitch/S&P | Moody's |
| Investment Grade | |
| AAA | Aaa |
| AA+ | AA+ |
| AA | Aa2 |
| AA- | Aa3 |
| A+ | A1 |
| A | A2 |
| A- | A3 |
| BBB+ | Baa1 |
| BBB | Baa2 |
| BBB- | Baa3 |
| Speculative Grade | |
| BB+ | Ba1 |
| BB | Ba2 |
| BB- | Ba3 |
| B+ | B1 |
| B | B2 |
| B- | B3 |
| CCC+ | Caa1 |
| CCC | Caa2 |
| CCC- | Caa3 |
| CC | Ca |
| C | C |

Sources: Illinois Commission on Government Forecasting and Accountability, Fitch Ratings, S&P Global, and Moody's Investors Service

Note: "Recal" means recalibration, when Fitch and Moody's revised their ratings on municipal bonds to match global/corporate ratings. These were not considered upgrades.

*Moody's rating of Aa was before that level had modifiers of Aa2 and Aa3, so it was considered one level between AA1 and A1.

FEATURED VENDOR

ARDEN SHORE: HELPING CHILDREN REACH THEIR FULL POTENTIAL



Comptroller Susana Mendoza and Waukegan Mayor Sam Cunningham speak with staff, volunteers, and interns at Arden Shore Child and Family Services in Waukegan on July 3, 2019. They were accompanied by Arden Shore President and CEO Dora Maya (right).

What began in 1898 as a summer respite camp overlooking Lake Michigan for mothers and children has grown into a vital non-profit agency that today provides foster care, behavioral health care, and other services so that Illinois children and families have the opportunity to reach their full potential.

Comptroller Susana Mendoza visited Arden Shore Child and Family Services in Waukegan to tour the agency's operations, discuss her role in state government, and learn more about how the state's bill backlog and managed care program have affected the organization.

"For more than 120 years Arden Shore has been on the front lines of helping Lake County children and families find stability, make connections, and rebuild their lives so they can have a better future," Comptroller Mendoza said. "I am pleased that the Comptroller's office can help ensure Arden Shore receives the state support it was promised

and that it deserves for the work its employees and volunteers undertake."

Arden Shore provided services for more than 1,400 people in 2018. It offers foster care services, a group home for boys between 10 and 18 years old who have emotional and behavioral disorders, intact family preservation services to help at-risk children remain with their families when appropriate for their well-being, and behavioral health and support services. The organization works closely with the Illinois Department of Children and Family Services.

In 2018, Arden Shore employed 50 people locally and had about 100 volunteers, according to its annual report.

During her visit, Comptroller Mendoza met with Dora Maya, president and CEO of Arden Shore; Mark Dybas, vice president of human resources; and other staff members. Waukegan Mayor Sam Cunningham accompanied the Comptroller on the tour. ■

BACK TO SCHOOL

BY THE NUMBERS

\$634

What an average U.S. family will spend this year to send students back to school

Number of school districts in Illinois

852

3,888

Number of schools in Illinois

Percentage of Illinoisans who are high school graduates or higher

88.6%

Number of days in the school year

175

2.1M

Number of Illinois students served

Number of teachers employed full-time in Illinois public schools

127,238

Sources: illinoisreportcard.com, publicschoolreview.com, U.S. Census Bureau American Fact Finder

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.

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