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Speaker Redmond: "The House will come to order, the Members please be in their seats. We'll be led in prayer by the Reverend Father Krueger, the House Chaplain."

Reverend Krueger: "In the name of the Father, the Son and the Holy Ghost, Amen. O Lord, bless this House to Thy service this day. Amen. Lord Gilbert K. Chesterson once said, 'The Bible charges us to love our neighbors and our enemies probably because they are the same people'. Let us pray. O Lord, our Heavenly Father, who has safely brought us to the beginning of this day, grant that whatsoever we may do here may be done to Thy glory alone. As we face the special needs of legislation, let us be mindful of our calling to care for the needs of our neighbors, especially for the development of the youth of this state, to helpful laws and meaningful education. May Thy divine wisdom be instilled within our hearts and minds that we may competently meet the challenges of this day in true harmony and justifiable cooperation. We ask this direction in the name of Thy dear Son, Jesus Christ, our Lord. Amen."

Speaker Redmond: "Representative Washburn, do you seek recognition?"

Washburn: "No, I don't think so."

Speaker Redmond: "Representative Shea. Why not?"

Shea: "Mr. Speaker, I move that the Sixth Special Session of the Seventy-ninth General Assembly now stand in recess until the hour of 1:50."

Speaker Redmond: "You've heard the motion. Those in favor indicate by saying 'aye', 'aye', opposed 'no'; the 'ayes' have it. We'll take the attendance Roll Call a little later on at which time Representative Washburn will ask for a Conference . . ."

Doorkeeper (Paul Caveny): "All persons not entitled to the House floor, please, retire to the gallery."

Speaker Redmond: "The House will come to order. The Members please be in their seats. Roll Call for attendance. Messages from the Senate."

Clerk O'Brien: "A message from the Senate by Mr. Wright, Secretary. Mr. Speaker, I'm directed to inform the House of Representatives



that the Senate has concurred with the House in the adoption of the following Joint Resolution to wit', House Joint Resolution #1, concurred in by the Senate December 10, 1976, at the Sixth Special Session; Kenneth Wright, Secretary."

Speaker Redmond: "Reading of the Journal."

Clerk O'Brien: "Sixth Special Session Journal of the House of Representatives of the State of Illinois, Wednesday, September 8, 1976, 2 o'clock p.m. A Special Session of the Seventy-ninth General Assembly of the State of Illinois began and held in the halls of the House of Representatives, in the City of Springfield, on Wednesday, September 8, 1976, at the hour of 2 o'clock p.m. The Honorable William A. Redmond, Speaker, called the House to order in pursuant to the following proclamation of the Governor, which together with the following letter of transmittal accompanied same was read by the Clerk. The Speaker in the Chair, prayer by Father William Krueger, the House Chaplain."

Speaker Redmond: "Representative Bradley. Did I hear you move the approval of the Journal?"

Bradley, G.: "I so move, Sir."

Speaker Redmond: "The Gentleman has moved the Journal be approved.

All in favor indicate by saying 'aye'. 'aye', opposed 'no'; the 'ayes' have it. The Journal is approved. Representative Richmond, do you seek recognition for an announcement? Maybe you can solve the mystery of the apples."

Richmond: "Oh, yes, I know what you're talking about now. Thank you, Mr. Speaker, Ladies and Gentlemen of the House. I am pleased to present to you with the . . . a 25th edition of the Apple Festival . . . Murphysboro Apple Festival Book and a nice red apple, compliments of the Committee. Also that's coming off this weekend, and I trust that you're going to allow me to go home and take part in it."

Speaker Redmond: "Do I hear a motion that Representative Richmond's report be accepted? So ordered. Representative Bradley."

Bradley, G.: "Mr. Speaker, and Ladies and Gentlemen of the House, I now move that the House stand in recess until the time that the Committee of the Whole rises."



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Speaker Redmond: "You've heard the Gentleman's motion. All in favor indicate by saying 'aye', 'aye', opposed 'no'; the 'ayes' have it. The Regular Session . . . the Special Session is adjourned until the . . . recessed until the Committee of the Whole rises. Representative Bradley will preside at the Committee of the Whole."

Speaker Bradley, G.: "Any witnesses that are here that wish to appear before the Committee, will they please come up to the . . . Mrs. 'Sposki' . . . and fill out a witness slip."

Clerk O'Brien: ". . . Tom Miller . . . quorum Roll Call."

Speaker Bradley, G.: "The hour of 2 having arrived, the Committee of the Whole will please come to order. For what purpose does the Gentleman from Grundy, Mr. Washburn, arise?"

Washburn: "Well, thank you, Mr. Speaker, and Ladies and Gentlemen of the House. Before we proceed with the Committee as a Whole, I would just like to thank the Membership of this House for the good judgment that they used last Wednesday in scheduling this hearing for today. We've had the proper postings and followed the usual procedure, and we've had copies of the Bills now so that we know what is contained in them. And that those directly interested in the five Bills have had the opportunity to come to Springfield and appear before us today. I would ask that the Members of this House answer . . . participate and ask direct and concise questions; and, certainly, I would ask the witnesses to do likewise. We anticipate a good, thorough hearing. We're all concerned with the fiscal situation of this state, of course; and we're all concerned with adequately funding of the schools; and, of course, we're all concerned on both sides of the aisle in preventing a tax increase for the State of Illinois. So, again, I compliment the Members for scheduling this hearing for today when everyone could be amply prepared for it and we expect a thorough hearing. Thank you very much."

Speaker Bradley, G.: "The first witness will be the . . . for what purpose does the Gentleman from Union, Mr. Choate, arise?"

Choate: "To ask the Chief Sponsor, Representative Jaffe, one very brief question if I might."



Speaker Bradley, G.: "Well, we're going to hear from Mr. Jaffe; but if it's a brief question, I think he will respond. And then we'll get on with the . . ."

Choate: "We're talking about House Bill 0001?"

Jaffe: "That is correct."

Choate: "After, Mr. Jaffe, after the input of various Members of the House as far as attempting to be meaningful at all times as far as this legislation is concerned and the drafting thereof, I just wondered how you arrived at the Membership that was allowed to be Sponsors of this Bill."

Jaffe: "Well, Representative Choate, Representative Lucco has always been a Sponsor of this Bill, Representative Bradley desired to go on, and Leadership decided to go on, and that's how it was put in."

Choate: "If I recall correctly, under your other program, where various other Members had input, they were also Members as Cosponsors also; and were not given the opportunity of being a Sponsor of this Bill."

Jaffe: "Well, when it was put in, quite truthfully, Clyde, I didn't know . . . I didn't know when it was being put in. I think that those Members should go on; and I would certainly welcome them aboard."

Speaker Bradley, G.: "I think that can be done over back in Regular Session. Anybody who wishes to be recorded as the Sponsor of the Bill, I think we can get leave of the House or I would hope that we might at that time. Without further due . . . the Gentleman from Cook, the first proponent, for House Bills 0001, ---2, ---3, ---4 and ---5, the Gentleman from Cook, Mr. Jaffe. And could he please have some order?"

Jaffe: "Basically, basically, House Bill 0001, as Representative Choate indicated, is really House Bill 3518 amended to include those things which are included in the Governor's veto. And, basically, the only thing that has been taken out has been the seniority provision, which we've had in 3518. And quickly to sum up what is in House Bill 0001 in this Special Session, is, number one, the use of the three years weighted-average daily attendance to help



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those school districts with declining enrollment; two, a .10 cent reduction in the unit district maximum qualifying rate; three, a .05 cent reduction in the elementary district maximum qualifying rate; four, inclusion of transportation tax rate and the operating tax rate; and five, in the elimination of the local property tax roll-back provision. This Bill does contain a hold-harmless provision, which assures that no district will lose general state aid in 1966 and 1967 as a result of these changes. This also changes the penalty provision for those schools that closed early; and I might say that there were three different school districts that did close early. That, basically, is what is in House Bill 0001; and with that down, I would like to call my first witness, who would be Superintendent Cronin."

Speaker Bradley, G.: "Is Mr. Cronin . . . Joe Cronin, State Board of Education, will be the first proponent. Mr. Cronin."

Cronin, Joseph: "Thank you. First of all, let me express to the House the thanks of the State Board of Education and of our local school districts for the fair and generous appropriation for elementary and secondary schools that you enacted into law."

Speaker Bradley, G.: "Mr. Cronin, pardon me, Sir. Could we give Mr. Cronin some order so that he might be heard. We're here in this Special Session to decide a very acute question, and Mr. Cronin is a witness and certainly can shed some light on this problem. And I think we should at least allow those Members to be able to hear him that came here to do that. Proceed, Mr. Cronin."

Cronin, Joseph: "Thank you. Your appropriation this spring, unfortunately, did not prevail. And this now puts local school districts in an extremely difficult situation. They know what's in what was called the Jaffe Bill; but they do not know whether or not they will receive those sums of money in this fiscal year. They are unable to plan. They're left dangling in terms of what the impact of the Jaffe Bill will be on local school district finances this year. Some 100 school districts have not yet concluded their contract negotiations with teachers. Many of them do not know to what extent they must to into the banks and borrow money to get through this very difficult



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fiscal year, a year which coincides with great difficulty and uncertainty in terms of knowing what the assessed valuation is for schools and other purposes. Let me give the Members of this House some vivid example of what the impact is. Rockford, for example, has already cut out \$6,000,000 from a \$55,000,000 budget. A more than 10 percent cutback in programs and services, the addition of class size, a reduction of some 300 teachers, the abolition of all extracurricular activities, including interscholastic sports. No unit district outside of Cook County is harder hit than Rockford. In Springfield, the school district was unable even to give the normal step increases. So the employees of that school district, in accord, had to intervene, as it did a week ago, in that particular case. Send them back to the bargaining table for 60 days. Peoria, \$600 . . . \$600,000,000 short in terms of their state aid this year. Decatur, a well-managed school district, that had almost \$1,000,000 surplus a few years ago, now faces \$1,000,000 deficit because of the combination of factors in enrollment trends, in assessment practice changes and the shortages in the state aid formula in that school system. Even our favored school districts, the ones which in the past were considered well-to-do because of the roll-back provision; Evanston has been letting teachers go, Rich Township is in the hole financially. Chicago, a school district with \$150,000,000 deficit. Some have said that's because of the settlement they made. That is not the full story. The full story is that the City of Chicago has been \$30,000,000 behind from state-aid payments that weren't sent to them last year, that were cut out beginning of June of 1975 by the Governor. They couldn't finish the school year; and a penalty, which was just as recently as three or four years ago, now is excessive and punitive. And so the State Board of Education had recommended the change from one percent to 'one, one, seventy six' to help, not only school districts like Chicago, but the other two school districts which fail to meet the minimum number of school days because of a work stoppage and also any school district in the future that could be subject to a strike. And the Illinois



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Association of School Boards knows full well that has agreed that any other school board might have been in that same situation this year and might be in the future. The proposal before you, under House Bill 0001, provides for relief to downstate unit elementary districts. It helps some 70 school districts that are afflicted by the rollback. It helps those districts which are facing enrollment decline. And it makes for a more equitable penalty for those school districts who have withstood work stoppages. Others will testify on the availability of tax money; but all of you know that money is in the pipeline now. That proposal originally made by Governor Ogilvie, more recently by Governor Walker, is truly a bipartisan proposal with bipartisan support to make the revenue money available to school districts this year so that school districts do not have to go to the bank and borrow more than they need to in this fiscal year. I think the essential point for this House to consider is the need for local units of school governments to be able to plan and to be able to avoid unnecessary debts by your prompt and timely action at this Special Session of the Legislature. Thank you."

Speaker Bradley, G.: "Thank you, Mr. Cronin. Are there any questions of the witness? The Gentleman from Rock Island, Mr Polk. I think we'll . . . as each witness testifies, we'll have him respond for questions at that time, instead of keeping him here until we're finished. If that's all right with the Members, we'll do it in this order. So go ahead, Mr. Polk."

Polk: "Doctor Cronin, I understand that there is a court case going on in relation to the three year's spread. What . . . where does that stand at the present time?"

Cronin, J.: "The briefs on that particular court case were filed with the judge last week. He heard oral arguments this morning. The decision might come out as early as this afternoon or it may come out in the next 48 hours, we're not sure; but the case is well along in terms of the advancement of arguments, and that the judge is fully aware that we need a prompt decision to make the payment for this month's state aid to schools."



Polk: "Well, what affect has the spreading of the Chicago penalty over three years had to the . . . what we consider the present funding?"

Cronin, J.: "It has meant that the affect on local school districts is if they received approximately 2 percent less than they otherwise would've received."

Polk: "2 percent less?"

Cronin, J.: "Yes. Because the Governor reduced the total amount of money available by \$56,000,000, then that money came out of a total 'pot'. So that meant local districts elsewhere in the state received less."

Polk: "If we pass this Bill just the way it stands now with the section taken out in regard to seniority, will the penalty then be spread over three years or will it . . . will it all be paid the one year?"

Cronin, J.: "What's critical there is the court decision as to whether or not we have the authority to spread the penalty. We will obey the law and the judge's decree. At that time, we will reconsider on the basis of our criteria, which includes the total amount of penalty and the financial condition of the school district."

Polk: "Well, if you lose the court case as the Jaffe Bill stands now, then Chicago will pay its entire claim in ~~one~~ year, is that correct?"

Cronin, J.: "That's correct. That will be \$53,000,000."

Polk: "Why don't we wait until after November to change the penalty provision, thus, leaving the court decision . . . so then we know what's going to happen. Wouldn't you think it'd be best if we wait, since you are in litigation at the present time?"

Cronin, J.: "No, I don't, because I think that litigation, first of all, will be cleared up very, very quickly; and, secondly, the local school districts will receive more money earlier in the year, be able to avoid debt and will be able to adjust their for the October payment. So we think it would be most appropriate to do it right now. Plus, the fact that with several big school districts, like Springfield, under court order to conclude their negotiations under court supervision within the next 60 days. So



November would be late."

Polk: "Well, if my figures are correct, and the figures that I'm getting from your office, the way it stands now we're paying downstate about 90 . . . we will be paying about 93.4 percent, is that correct?"

Cronin, J.: "Yes, that's correct."

Polk: "And if we do nothing on the Jaffe Bill, the . . . we'll be paying around 96 percent? . . . if the one-year penalty is assessed?"

Cronin, J.: "If I lose the court case, then it will be 96 percent, yes."

Polk: "If you lose the court case? Well, if you can spread the penalty and make it less of a handicap to the school districts, why do we include the penalty provision at all? Why are we doing it?"

Cronin, J.: "Well, I have absolutely no objection to having a penalty. I think there should be a . . . some kind of sanction to prevent school districts from arbitrarily, on their own initiative, deciding to hold school less than 176 days a year. The question before you is whether or not the current penalty is too severe. Back about five years ago when state aid was about 30 percent, a 1 percent deduction in state aid was roughly equivalent to what a school district allegedly would save. Now, in some cases, that penalty is twice the amount of money saved by a local school district. So I think it's harsh and unreasonable at this point, even though it was just as recently as five years ago."

Polk: "How much money are we talking about in the hold-harmless?"

Cronin, J.: "We're talking about 23.6 million dollars."

Polk: "Well, based on the restraints that are ahead of us, doesn't this really put full funding then further and further away?"

Cronin, J.: "Yes, it does in terms of the authorization; but we do know that you are entering the fourth year of what the commitment was three years ago for a package, a four-year program. And what we think is urgent is that you make sufficient number of temporary repairs to solve the problems of equity in the formula right now, the problems that discriminate against downstate elementary, and unit and the rollback. Those kinds of repairs can be made right



now. And then late on during the winter, before the next Session, the State Board of Education, and the Citizens' Commission and working with the School Problems' Commission, we will come in with a four- or five-year plan, we will tie it to revenue projections. And that will be the next stage of your decision-making, that would probably be in the next Session. So we'll help revise the notion of what is realistic for schools for the next four years. But we've got to get through this most critical year first."

Polk: "Do you think that will assist the school districts really having a better idea of what their funding level is going to be? At the present time, they've been cajoled, they've been lied to. I find that their enthusiasm on this has really, has diminished somewhat because they're just not sure, no matter what we do, they still don't get the money."

Cronin, J.: "Well, that's in part because of last minute cuts, it's in part because of litigation that's changed the way the State Board of Education, myself, were going to pay out the money last year, which was the way they always have been able to predict it on the basis of entitlement, that's because there've been changes in the assessment ratios that have flown off their planning and projections. So there's at least three reasons why local school districts have felt that State Government isn't as creditable as believable as it was in previous more predictable years. But I think your action at this Session of the Legislature can improve the credibility of the Legislature and of State Government by saying, 'This is what you can count on for general aid in this school year and this is it'. Right now, they don't know."

Polk: "Do you see that the Governor is actually using the school children, once again, to put money in other areas, rather than into education?"

Cronin, J.: "I can't make that determination. I think you will have a witness from the Bureau of the Budget in a few minutes who could comment on that."

Polk: "It seems unlikely that we would pass this particular Jaffe Bill if we aren't going . . . if we haven't had an opportunity to



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discuss how we're going to raise the money if we are, in fact, going to do the speed up. Don't you think it would be better if we were addressing ourselves to the other Bill first; then if we have the money available, then let's talk about putting it into the schools?"

Cronin, J.: "I would agree that a key to this . . . to making this work is the availability of \$50,000,000. I would also quickly agree that that money is there. You, and I and everyone else had paid that money. It's in the pipeline. Now, it's a question of speeding it up, getting it into the State Treasury and out to school districts so they don't have to borrow. But I think either sequence will work; and if you will in the next two or three days vote for both of them, it does make an agreeable package."

Polk: "Don't you see that we . . . \$50,000,000 is what we need. You don't need any more than that, is that correct? Or could you live with \$30,000,000?"

Cronin, J.: "In the best of our world, we would live . . . we would want to have a higher figure; but we are accepting for the moment the limitations the Governor has put on this Special Session. And that \$50,000,000 will go a good distance on helping some of these beleaguered school districts balance their budgets or at least prevent further debt beyond which they might have to incur anyway."

Polk: "So then you see no reason to pass a \$95,000,000 revenue Bill?"

Cronin, J.: "Well, I'm, again, if I were able to waive a wand or something that said, 'What do you think that the number is?', it might have been \$95, it might have been \$105 . . . \$50,000,000 will make a very positive difference for the districts and a great percentage of it will go to downstate districts who really need it this year."

Polk: "Doctor Cronin, thank you."

Bradley, G.: "The Gentleman from Cook, Mr. Lechowicz; do you have questions of the witness, Mr. Lechowicz?"

Lechowicz: "My questions were answered. Thank you, Mr. Speaker."



Speaker Bradley, G.: "Thank you very much. The Gentleman from Will, Mr. Leinenweber; do you have questions of the witness?"

Leinenweber: "Yes. Doctor Cronin, in 1972, when I was running for the Legislature for the first time, there was considerable ferment in the educational community over whether or not the then existing method of paying for public education was constitutional in that it varies all across the board from... some districts in this United States had a great deal of money spent on each child and some had very little. As a response to that concern, the Resource Equalizer Formula was adopted by the State of Illinois. And I voted for it. And as I understood the philosophy behind it was that regardless of the assessed valuation in a specific school district, the State of Illinois would see that the same amount of money was spent on the education of the child, no matter whether he was in New Trier School District or say in Joliet Grade School District 86. How, in your opinion, does House Bill 0001 jive with that philosophy?"

Cronin, J.: "There were some problems in the Resource Equalizer Bill at that time, some of them were visible, some of them were not predictable four years ago. I don't think anyone saw declining enrollment as the serious problem it is for districts such as Representative Jaffe's or, frankly, ~~for~~ 80 out of the 102 counties, declining enrollment now is much more severe and the problem of having a cushion. We're really saying, basically, the formula has many strong features, but some adjustments need to be made to produce equity for the units for a number of downstate elementary districts. We're saying the formula, which was not changed . . . the penalty, which was not changed in '72 needs revision. These I would call adjustments in a basic formula that is sound."

Leinenweber: "But as I understand it, for example, the provision in House Bill 0001 eliminating the rollback provisions. Now, I think you indicated in your opening remarks that this would enable school districts, and I believe you mentioned New Trier, to continue to maintain the qualify program that they had before. But by doing so,



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you are saying that people in New Trier ought to spend more money on the education of their children than in some areas of the state, is that not so, and isn't that contrary to the philosophy behind the Resource Equalizer Formula?"

Cronin, J.: "Back in 1972, a . . . several cases were on their way to the U.S. Supreme Court in terms of what is fair play, what is equity, what is . . . what is the law of the land, how does the U.S. Constitution read? And the U.S. Supreme Court decided this is up to each state to decide, that they were not going to, in this particular instance, tell us how we could . . ."

Leinenweber: "I understand the constitutional result that it was felt that it was not unconstitutional; but I . . . what I'm asking is, how does that jive with the philosophy, which I understood the Resource Equalizer Formula be based upon, which was equal educational opportunity based upon equal amount of money spent on each child?"

Cronin, J.: "First of all, our formula in the Illinois State program has been very successful at bringing up those school districts who were unable to spend enough money, districts from Cairo, to East St. Louis, up to the northern portion of the state, were able to increase the amount of programs and money for students. Well, what happened to Evanston, to Dearfield, Highland Park, a dozen other suburban communities, is the rollback placed a lid on their expenditures. So that Evanston, for example, which lost 17 students last year, also had to fire 17 teachers. Now, I don't think the Legislature ever intended that that lid be so regressive and punitive to some of our excellent school districts. And inflation has wiped out the value of having that particular constraint. No, none of us saw four years ago 30 percent inflation over a period of four years. And that really has made the rollback unfair for those school districts."

Leinenweber: "All right, the next area, the change in House Bill 0001, which goes from one year average daily attendance to a three year weighted average daily attendance. Now, I have, in the district that I represent, a number of school districts which have rapidly



increasing enrollments, Valley View, for a specific example, Creek Monee. Now, the change from one year to three years will hurt those school districts, will it not?"

Cronin, J.: "No, because they can still pick the most recent year. Right now, they can pick the best six-month's average daily attendance of the immediate past year or the year before that. So we're changing it from your best six months out of two years, or you're best six months out of three years."

Leinenweber: "Well, obviously, . . ."

Cronin, J.: "Valley View, Creek Monee, the other growth areas and north Will County will be able to pick the most favorable six months for their state claim purposes . . ."

Leinenweber: ". . . which is obviously the last six months. Now . . ."

Cronin, J.: ". . . yes . . ."

Leinenweber: ". . . assuming the fine item amount of money to be . . . and not full funding of the formula, which I believe even if this entire program is adopted, there's no question in my mind that a district that has rapidly increasing enrollment, including the fine item amount of money because of the fact that this will help those districts with decreasing enrollments, it has to hurt those districts with increasing enrollments. Isn't that . . . is this an absolute mathematical certainty?"

Cronin, J.: "Representative, that particular feature of the Bill does not take affect in this fiscal year. So there'll be absolutely no problem at the current time; and then it has to do with their filing of claims for the next fiscal year."

Leinenweber: "Well, it will hurt them the next fiscal year? It seems to me it has to assuming failure to fund fully; and I don't think anybody assumes that we're going to be able to fund the formula fully next year. It would seem to me it would have to hurt those districts that have rapidly increasing enrollment; and it seems to me that's an absolute economic absurdity."

Cronin, J.: "Actually, the hold-harmless provision also helps . . . but let me explain how a school district cannot close down a building at the . . . when they lose 20, 30 or 40 students because



those students are distributed unequally among the grades. So there's no way for those school districts to achieve the cost savings as rapidly as one would hope. They'll lose maybe 100 or 200 students before they consolidate the schools. So we've got to provide for some cushion; and I dare say that you'll have some in your district that will face some declining enrollment, perhaps some of the older school districts or some of the other school districts."

Leinenweber: "My . . . my final question, you mentioned the hold-harmless provision; however, that is only for this fiscal year and not next year. Is that correct?"

Cronin, J.: "Yes, it is."

Leinenweber: "So that there's no guarantee that there will be a hold-harmless provision in . . . for the appropriation the next fiscal year, is there?"

Cronin, J.: "That's correct, but it's also true that there will be no harm to any of your school districts this year."

Leinenweber: "But there may be next year. Thank you, Sir."

Speaker Bradley, G.: "The Gentleman from Cook, Mr. Kosinski, questions of the witness; and if you're questions have already been asked, then we'd . . . the Chair would appreciate ~~for~~ the saving of a little bit of time; but any questions that haven't been answered, you're certainly entitled to ask."

Kosinski: "Mr. Speaker, I'll make this very short; but I don't think they have been answered, and we'll have to backtrack a little bit. Doctor Cronin, did I understand you to say that school districts have already geared to cut out certain services?"

Cronin, J.: "Yes, we've had hundreds of school districts that have had to cut out certain programs of instruction . . . direct instruction to children. We have others, such as Rockford, but many other school districts which may have to cut out more services during this year or for next year because they face indebtedness out of which they must climb."

Kosinski: "In other words, they've already determined the course of action and have geared for it."



Cronin, J.: "Many of them have and many of them are awaiting your decision to see whether they . . . have to make further cuts in programs."

Kosinski: "I see. Now, if so, any action by this House, by the Legislature as a whole, wouldn't it be a little late to incorporate into the program?"

Cronin, J.: "No, it wouldn't because, although some cuts have been made, they don't know how far they're going to have to cut further because right now they've got two figures in front of them, how much they would get with Jaffe reaffirmed by the House versus how much they would get without it. So they're trying to get you to make that decision so that they will know this year."

Kosinski: "Well, what are they doing for personnel? Having them hanged by their thumbs until when they get determination?"

Cronin, J.: "In some cases, they either giving them a notice or they have told students for the second semester that course may not be available at the high school level."

Kosinski: "All right, so much for that. Now, there seems to be a concern, Doctor Cronin, about using only a portion of the monies of the \$95,000,000 accelerated program for education as a balance for an unknown cause. Should Amendments come up in this House to ascribe the entire \$95,000,000 to education, how would you react to that?"

Cronin, J.: "If the money was appropriated, we would send it out to the school district."

Kosinski: "And you would be in a position to use that money immediately for the necessary functions?"

Cronin, J.: "It would show up in the October payments to school districts."

Kosinski: "Would you support such an Amendment?"

Cronin, J.: "The . . . actually, I'm testifying today in support of the Bill as it it's written. I don't know if there are any other claims on the other \$45,000,000. That would be for the budget director; but I would support . . ."

Kosinski: "But you could use the full \$95,000,000?"

Cronin, J.: "The State Board of Education and I have repeatedly said we



favor full funding and that the \$50,000,000 isn't enough to do the job completely."

Kosinski: "Thank you, Doctor Cronin."

Speaker Bradley, G.: "The Lady from Lake, Mrs. Geo-Karis, do you have questions of the witness?"

Geo-Karis: "Doctor Cronin, if I understand correctly, and it's been so noisy here so it's quite possible you may have already covered it; but I, frankly, didn't hear it if you did, if I understand correctly, these Bills, the package of them, involve a total commitment of about \$50,000,000, is that not correct, Sir?"

Cronin, J.: "That's the appropriation amount, Representative."

Geo-Karis: "So if these Bills were to pass, then the other \$42,000,000 or \$40 or \$42,000,000 that is requested by the Governor with the accelerated tax payments have nothing to do with education, am I correct?"

Cronin, J.: "That's up to the next witness, he can answer the questions on what would be done . . ."

Geo-Karis: "All right."

Cronin, J.: ". . . For all I know, that would remain for you to deal with in your November Session, the . . . which could handle a larger number of topics, including some special education overrides, which we might . . ."

Geo-Karis: "But this \$50,000,000, does it . . . doesn't that also include some help for special education, Sir, this \$50,000,000?"

Cronin, J.: "No."

Geo-Karis: "I'm not through yet, but . . ."

Speaker Bradley, G.: "Mr. Jaffe is going . . ."

Jaffe: "No, if I might . . . if I might, I would like to make one announcement, and we don't know exactly what . . . I have not seen the decision yet, but I understand that Judge O'Brien just declared that the penalty clause of our present Act is unconstitutional and he issued an injunction against Superintendent Cronin and Comptroller Lindberg from levying anything with regards to the . . . to that particular penalty clause. He also said that it was an unlawful delegation or through the legislature of powers to



the Superintendent of Schools. So I think that's something that we ought to know, and that decision has just come out."

Geo-Karis: ". . . this is a lower court decision, I take it?"

Jaffe: "This is Judge O'Brien's decision; and I understand that he's requested that it go straight to the Supreme Court for a . . ."

Geo-Karis: ". . . Well, all right . . ."

Jaffe: ". . . So that has just been handed down, and I think we ought to take note of it."

Geo-Karis: ". . . I understand from the prior statement you made here today, Doctor Cronin, that if these Bills were to pass as a package and signed into law, does the funding formula that we have had on the books since 1971 would be eroded, is that correct?"

Cronin, J.: "Would be?"

Geo-Karis: "Eroded, e-r-o-d-e-d."

Cronin, J.: "No, it would be improved, it would be modified. It would remain in . . ."

Geo-Karis: "But it will . . ."

Cronin, J.: ". . . it would remain intact, except for the adjustments made for downstate elementary units and some of the other . . ."

Geo-Karis: "Perhaps you can tell me, I come from Lake County, Illinois, and I'm not sure whether it's called downstate or not. However, when you say it will be improved, Doctor Cronin, just how do you mean it? Will these Bills improve the Resource Equalizer Formula that was passed in 1971 and signed into law by the Governor?"

Cronin, J.: "Well, it would improve the immediate situation for a number of school districts in your legislative district, Representative, by the two and . . . more than a quarter of a million dollars. So they would see some immediate improvement in terms of their access to state aid under the formula."

Geo-Karis: "Under this new . . . these new Bills, I understand then, there is a referendum provision in the event that they don't have enough money coming in from the state, the local school districts can file for referendum and see if the people want to give them any more money locally, am I correct?"

Cronin, J.: "Yes, and this is especially attractive to school districts



in the southern portion of Lake County, who said they want to have that freedom to go back to the voters. They don't have it right now."

Geo-Karis: "All right, now, do you feel that based on your past judgment, experience in education and training in the field of education, do you feel that these Bills are a much better improvement than the existing Bills . . . the existing laws that we have relative to funding this school?"

Cronin, J.: "I say that . . . I say that the current law is about 90 percent just and correct, and this constitutes about a 5 percent improvement in the equity in this law. So it is an improvement on an already good set of . . ."

Geo-Karis: "Well, can you tell me why you say 5 percent? That still leaves out 5 percent. We have 95 percent. What is the other 5 percent that's bad? That's what I'd like to know. In other words, you're improving by these Bills, you say, the present laws . . ."

Cronin, J.: "I've got about 30 people in a study group that's going to come up with the suggestions on how to make it as close to 100 percent perfect as it . . . as possible; but this measure goes, as I say, a good distance so it's making a good law improve."

Geo-Karis: "Thank you."

Speaker Bradley, G.: "The Lady from St. Clair, Mrs. Younge, do you have some questions for the witness?"

Younge: "Just one. Doctor Cronin, what affects will this Bill have on School District 189?"

Cronin, J.: "How much is the Bill, Representative? We can get you that number for the St. Clair County School District, but it would make available . . . more available some funds for East St. Louis. \$540,000."

Speaker Bradley, G.: "Are you finished, Mrs. Younge? Thank you. The Lady from Adams, Mrs. Kent, do you have questions of the witness?"

Kent: "Thank you, Mr. Chairman. I would like to know if . . . since you did not project the loss of students, the cutback in students decline of attendance, you know how many are born, you know that five years



later they're going to school, and you know sort of what the trend is as far as movability is concerned, are you at this point projecting ahead so that in five years you know how many students are going to be there?"

Cronin, J.: "Yes, Representative, we have 5- and 10-year projections right now; and you're absolutely right about how many children are born, and how many that are . . . go into first grade five or six years later. The problem is we've had more students apply and get into vocational programs, more get into special education programs and more students stay in high school. Now, this is a very positive development; but that does influence the total number. But, yes, we do have projections going right up to about 1985."

Kent: "Don't you adjust when we do change, like to the more vocational schools and things of this nature; don't you adjust your projections at that time?"

Cronin, J.: "Yes, we do. Many school districts every year update their projections; but I must say this, that even the U.S. Bureau of the Census in their . . . with expert demographers working full time, made a series of mistakes no one had estimated the fact that the decline in birth rates, that the average family size would actually fall to 2 children per family, and now it's down to about 1.8 children per family. None of the experts, the sociologists, the census makers, saw that coming."

Kent: "Also, you say that this figure is not enough. Could you give me the figure that is enough? Because I want to know where I stop because every time they keep nickel and diming until it's always a higher figure. They're never quite there. Where is enough?"

Cronin, J.: "The State Board of Education last January before they . . . before the Governor prepared his budget said, '\$325,000,000 of new money would be needed to fund all the existing statutes and formulas'. Now, when the Governor said that wasn't enough, we, in education, had to make some tough decisions. For example, to cut out summer school, which was about a \$30,000,000 program, to cut back in certain other programs, to close schools at the local levels.



Some tough decisions were made this spring so that we weren't just asking for more, and more and more. We had to cut back on some programs. It was painful, it was difficult; but local schools did. The State Board of Education assisted in that process."

Kent: "And yet you were a proponent of free textbooks."

Cronin, J.: "That Bill was passed. It was enacted by the Legislature some 18 months ago. And what we've come up with is a plan to do that over a period of four years, rather than do it all at once."

Kent: "It was voted on just last year. At the same time, we didn't have enough money, we were still being urged to vote for new programs. Why is this? Why don't we try and find out the programs that are needed? Why don't we try to find out the things that really are educating our students for life?"

Cronin, J.: "I happen to believe that textbooks ought to be a part of what's generally called, 'free public education'. They are the tools by which the students are supposed to do their job, which is learning."

Kent: "Yes, but we cut back on library funds so that libraries do not have the books necessary. I don't think the logic is right. I think that they have been paying for books, I mean, for years and years I've never known a free textbook. But then at the same time that we are not able to fill out the same program, that we have mandated already, we bring in a new one. Now, do you know how many millions and millions of dollars that's going to add to your \$365,000,000 you need? Why are you not at this time looking at programs that are absolutely vital and cutting out those programs that are not?"

Cronin, J.: "Yes, we've cut out a number of programs which were optional or included fund programs or optional electives in the summertime. That was very, very painful so we can have money for the essentials, the special education, the regular education and that which we need."

Kent: "But don't you agree that the name 'education' is something that is like motherhood? Everybody is for. So I think you're taking the people that are going to pay for this, with just the word of



education, I think you are hurting them. They have finally come to the end of it. Education won't mean much if we keep this up. We want to educate our children, and we want to educate them to the best that we can; but let's don't be silly about this. There are those people who have to pay for it. And I don't know that we are looking at the things they need versus the things they don't need; and trying to get those things paid for. So I would urge your department, the department that's in charge of this, to look at the things our children need to be educated, and not the things that are just going to make somebody look good."

Speaker Bradley, G.: "Is that . . . is that a question or a statement?"

The Gentleman from DeKalb, Mr. Ebbesen."

Ebbesen: "Yes, I'd like to . . . I think in your opening remarks, the thrust, I guess, of what you were saying in pointing out this annual fall difficulty we have with finances in education is pretty . . . it's a fall thing based on the fact that the local school districts at the time they're negotiating in the spring of the year the finalized contracts. And am I right in saying that in the average school district, 80 to 85 percent out of every tax dollar that operates those schools goes for personnel, staff, roughly?"

Cronin, J.: "Yes. Yes."

Ebbesen: "Well, it appears to me that the problem is an annual one and as long as we're down here in this Special Session, I don't know if you would agree or disagree; but it would seem to me that the legislation we should be looking at as opposed to legislation of this type, would be something that addresses itself to the so-called concept of forward funding. Now, we come down here and spend the taxpayers dollars in Veto Sessions and Special Sessions; and every year it's a question of how much. And I think it's time, and this is an observation and a feeling that I have, that it's time that the General Assembly comes down in the fall of the year with a concept of forward funding so that we know exactly how much money in appropriations we're going to send back to these local districts; so when it comes to negotiation time in the spring of the year, and they finalize the contract, we eliminate this problem once and



for all. My question to you is this, would you be willing to grab the baton in your position as the focus of education in this state through the State Board of Education to lead the parade to accomplish this task? Change whatever laws are necessary, it would mean this Assembly belonged down here prior to the time that they entered into these negotiations at the local level so that they know exactly what they're dealing with from the local level and the state level. Would you be willing to provide that leadership?"

Cronin, J.: "I would certainly be willing to investigate some of the solutions that would bring and also some of the problems it might have. The State Board of Education has already indicated to me very strongly that they feel, rather than always be reimbursing school districts for last year's expenditures, that the funding should at least be current funding. So we can make some intelligent decisions and not always be trying to catch up."

Ebbesen: "All right, well, that is my question; but my question is . . . I don't know whether you answered it . . . you said the State Board of Education is in support of changing and leading the parade in getting that legislation changed such that if this General Assembly has to operate in the fall of the year to accomplish that task you're willing to support that concept, is that correct?"

Cronin, J.: "Representative, that suggestion is not in the list of Bills before us. I'm not prepared to give a final . . ."

Ebbesen: "Well, if you'll answer my question 'yes' or 'no'."

Cronin, J.: ". . . I like the direction it moves in . . ."

Ebbesen: "Thank you."

Cronin, J.: ". . . towards current funding."

Speaker Bradley, G.: "I understand they're having some difficulty hearing the testimony in the rear of the Chamber, so if we could have some order so that they could be heard. The Gentleman from Lawrence, Mr. Cunningham, do you have questions of the witness?"

Cunningham: "Mr. Superintendent, I gathered from your comments that the emergency that is the reason for our being here, the primary



emergency is the fact that there are a hundred school districts that are having teachers' contracts, is that accurate, did I hear you correctly?"

Cronin, J.: "Actually, the crisis is that school districts don't know how much money to plan on. The fact that some of them have been unable to conclude their contracts is directly related to the fact that the Jaffe Bill and the exact amount of state aid has been hanging. So that has complicated the situation."

Cunningham: "Well, if that isn't the primary emergency, what other emergency aspect is there that justifies the Session?"

Cronin, J.: "The negative affect of the rollback on some 70 communities, the fact that so many of our unit elementary districts don't get a full measure justice, that is the real . . . that's the major issue before you and the major reason for decisive action now."

Cunningham: "Could those problems be as well addressed in November as now? And if not, why not?"

Cronin, J.: "Actually, they were rather well-addressed and solved by the Legislature in this May and June; and the question now is to speedily reaffirm with the minor changes made by the Governor . . ."

Speaker Bradley, G.: "Mr. Cunningham, I don't think that Mr. Cronin had anything to do with calling this Special Session and . . ."

Cunningham: "No, I know that, I was just trying to educate myself with your indulgence. Now, I wanted to ask two more questions, Mr. Superintendent. Would it be feasible for a school district to draw a contract in which they say, 'We'll give you an extra amount of money if the Legislature makes it available', and thereby gives the teachers an incentive to squeeze the Legislators running for reelection to come up with the dough."

Cronin, J.: "A few school districts, to my knowledge, have done that, some in southern Illinois."

Cunningham: "Then it's quite practical that it would obviate any label of emergency at this time in that regard, would it not?"

Cronin, J.: "As a matter of fact, just the calling of this Special Session has seemed to put an end temporarily to some of the work



stopages. So just your coming together has had the beginning of a very salutary influence on those negotiations."

Cunningham: "I'm going to tell our disgruntled taxpayers that that was a suspicious justification; but I want to ask one final question, would you not agree that this proposed speedup is no solution to the long-term responsibility of government in financing education? That it is purely stopgap, a postponing of the inevitable, a delay in the facing of the responsibility."

Cronin, J.: "Well, I do think that since we've had two Governors, one Republican, one Democratic, support a tax speedup, a plan used by several dozen other states, that it's a responsible step to take right now to solve this year's problems. There may have to be . . ."

Cunningham: "Would you . . ."

Cronin, J.: ". . . there may have to be other long-range solutions; but that would be up to the Legislature and the next Governor."

Cunningham: ". . . well, what is your judgment? Is it a solution or is it a temporary stopgap arrangement. That's my question, that's . . ."

Cronin, J.: "Well, once you act on the speedup of tax collections, that becomes a permanent solution. It's a ~~good~~ management technique, which Republicans should be proud to say they had a hand in enacting it."

Cunningham: ". . . Well, if those Republicans do that, will that solve the problem? We will hear no more from you in future Sessions; would you anticipate as to financial needs?"

Cronin, J.: "Each year I'll fulfill my responsibility, which is to display the needs of education and the price tag in terms of what it costs."

Cunningham: "There are many of us who feel this is just a stopgap gesture and for that reason, we think that it would be more statesmanlike to consider the problem on an overall basis for a general plan, rather than just this temporary solution. Thank you."

Speaker Bradley, G.: "The Gentleman from Lake, Mr. Griesheimer, do you have a question for the witness?"



Griesheimer: "Yes, Mr, Chairman. Doctor Cronin, I have just four or five questions here; and I think I've got them outlined so we can make them quite short. First of all, do you agree that this is a one-time effort, and once this is done, it will never be available to you or any other department of government that's short of money to use again?"

Cronin, J.: "No, the tax speedup money will from now on always come to State Government faster than it would've otherwise."

Griesheimer: "But as a practical matter, there will be no way of injecting any fast cash into any system after this is used this one time?"

Cronin, J.: "I am confident that future budget directors will find other creative solutions."

Griesheimer: "Do you . . ."

Cronin, J.: ". . . we had this one up, yes; but there will be others. That's why we have them in states."

Griesheimer: ". . . do you have available today to tell us what the percentage of increase has been in the education budget totally, not just state funds, but local funds as well over the last 10 years so that we can say it's gone up 20 percent in 1965, 20 percent in 1966, et cetera?"

Cronin, J.: "What I can tell you is that the state's share of all of the school costs have gone from approximately 35 percent up to about 48 percent since 1972. I can also say the . . . I know that the increase in many of the teacher contracts this year is substantially less than the cost of living; but I would have to go back and get you the figures if you wanted them, state and local together."

Griesheimer: "Really then we don't know how much the cost of education totally in the State of Illinois has increased each year?"

Cronin, J.: "I would say that it's gone up slightly more than the cost of inflation. So if inflation was 30 percent, I would say the total cost has gone up about 35 percent, mainly because of the expansion of needed special education programs. That's been the most rapidly . . . the single most rapidly increasing sort of cost."



Griesheimer: "All right, that was my question then. It would not be the case . . . the cost of special education would be going up at a faster rate than, let's say, the cost of educators?"

Cronin, J.: "Yes,"you mean the salaries?"

Griesheimer: "That's correct."

Cronin, J.: "Yes."

Griesheimer: "Would the overall affect of special education in the State of Illinois as an increased cost be going up faster than the total overall increase of all teachers salaries in the State of Illinois?"

Cronin, J.: "The total amount or the percentage?"

Griesheimer: "The thing I'm wondering is that there seems to be some sort of tie between the massive increase in costs of schools and the onset of the teachers union."

Cronin, J.: "Actually, the onset of teachers' unions has meant that teachers were able to keep pace with inflation; and in those years when they were able to get a percenatage or two more, it has been cancelled out by years such as this, where many, many teacher organizations were able to negotiate less than the cost of living increase. Over a period of about 10 years, and that's how long we've had strong teacher ogran!zations, it's come out just about the same as the cost of living."

Griesheimer: "Has your department already concluded that it will not impose the full penalty on the Cook County school system or, better yet, the Chicago school system in a single year?"

Cronin, J.: "Representative Jaffe announced a court decision. I will have to read that to find out what it means. But if the report is . . . has no penalty, then we will have to go back and recompute all of our aid payments."

Griesheimer: "All right, last week, maybe this was a slightly different question, but this was raised to me by one of our superintendents in the Zion school system, he advised me that when they cut back the frills in their educational system, by cutting out a lot of the costs of extras in the school system, that he noted that the childrens' national level test scores went up significantly in



the basic arts of reading, writing and arithmetic. Has your department checked into this?"

Cronin, J.: "I would have to ask Superintendent 'Sheppard' what were frills. One man's frills is another person's fundamentals. So I'd like to know what it is he cut out. Was it art and music, was it a chance to go to the library, was it macrame or something that we all would . . . might agree is nice but an extra. I'd want to look into it."

Griesheimer: "Well, since this entire exercise is with the idea in mind of providing a sound, good educational system, I would sort of hope that your department would look into this and possibly contact Doctor 'Sheppard' because if, in fact, we are paying for frills, but our students are not educationally benefitting by it, then maybe this is a very good time to cut back on the cost of education. Thank you."

Speaker Bradley, G.: "The Gentleman from Lake, Mr. Deuster. And could we confine our questions to the legislation before us. I think our posture should be that if we have a statement to make afterwards or something, well, we'd be glad to recognize you for that; but if you have questions of the witness, specifically to the Bills in front of us, the Chair would appreciate you confining yourself to those questions. Thank you."

Deuster: "Doctor Cronin, with respect to the legislation before us and the funding of our schools, it has been my understanding, and I assume it has been yours, all through our legislative deliberations this year that there was a valid provision in the Illinois School Code requiring that the children receive 176 days of education; and if they did not, that their school district, wherever it was, would suffer a penalty."

Cronin, J.: "Yes, I support that."

Deuster: "We both have that understanding; and that was the fundamental basis of much of our legislative work that we realize that due to the circumstances evolved last year the Chicago schools would suffer a penalty of approximately \$55,000,000 because of the . . . not providing the full school year. What . . . would you



describe, in the event this court decision delivered by the circuit court judge, I believe, O'Brien, in Cook County, in the event that held that . . . that penalty is invalid, what will happen to that \$55,000,000 with respect to the Chicago schools and the downstate schools? What's your understanding of where that \$55,000,000 will go now?"

Cronin, J.: "If we simply redistribute that \$55,000,000, that \$55,000,000 will go to the City of Chicago. That will make all the more urgent, Representative, the necessity of passing an additional \$50,000,000 as provided for under the Bills before you."

Deuster: "Well, Doctor Cronin, our . . . do you indicate that the \$55,000,000 will go to Chicago and that there will be shortage of \$55,000,000 for the downstate schools?"

Cronin, J.: "Actually, it's a question of about \$35,000,000 . . . \$35,000,000 would have to be taken away."

Deuster: "I appreciate you haven't read the decision or seen it; but if the decision invalidates a basic provision in the Illinois School Code, you expect that your State Board or your department would be appealing this decision or that someone will appeal it?"

Cronin, J.: "I think the notion that someone will appeal it is correct. I would have to check with the State Board before committing them."

Deuster: "And I ask you this question. I know that your principal suggestion to us as Legislators is that we want to make certain to the Illinois school administrators and the teachers who are negotiating contracts that they know exactly how much money they're going to have now in September, rather than two months later in November; but in view of this court decision, would you not agree that the entire situation is unsettled and uncertain? And that there is no way in the world we can legislate until this decision is considered by the Illinois Supreme Court because we don't know whether there's going to be \$55,000,000 Chicago has or \$55,000,000 they don't have."

Cronin, J.: "My strong preference would be for you to negotiate . . . to appropriate back into the formula the money the Governor took out. Remember that he deducted that money, some \$56,000,000,



because he thought that a penalty was. So I feel you ought to appropriate it as you did before. It's a question of reappropriating money that this Body has already appropriated. So I would urge you to restore it."

Deuster: "You would urge that we act on the assumption that the penalty is invalid? The other part of my question is, would you then recommend that we come back in Special Session a month later after we get a definitive decision on that penalty?"

Speaker Bradley, G.: "Mr. Deuster, in the opinion of the Chair, you're out of order on that question. You're not addressing yourself to the Bill that you have on your desk. Please, I wish you'd keep your remarks to that Bill so . . ."

Deuster: "Mr. Chairman, the Chicago penalty is part of House Bill 0001, and I think it is relevant."

Speaker Bradley, G.: "The decision, though, that was just rendered today was not, in the opinion of the Chair."

Deuster: "Your opinion is that the Chicago penalty has nothing to do with the . . ."

Speaker Bradley, G.: "The Gentleman has said he hasn't had a chance to read that and you admitted that you recognized that fact, I think, when you addressed him, that he had not seen the decision; but you were willing to continue to ask him about what he would be doing with the decision one way or the other."

Deuster: ". . . Well, I asked him for his opinion and I . . ."

Speaker Bradley, G.: "It's entirely unfair to the witness . . ."

Deuster: ". . . that's all right, I've asked the question. If he prefers not to answer . . . that is my last question. Thank you."

Speaker Bradley, G.: "All right. The Gentleman from LaSalle, Mr. Anderson, has a question for the witness."

Anderson: "Mr. Speaker, first of all, I would like to find out who passed this printout. There's no name on it or anything."

Speaker Bradley, G.: "I haven't seen it, Sir, we'll try to find out." While we're trying to find out, do you have any other questions of the witness?"

Anderson: "Oh, yes, I . . ."



Cronin, J.: "It is alleged to be the Bureau of the Budget."

Anderson: "It is alleged to be? The name is not on it, it's been blanked out. There's one column missing from it also, if it's the Bureau of the Budget's. Where does it say it? Well, then this is . . . this particular printout means nothing right now with the court decision, is that correct, Mr. Speaker?"

Speaker Bradley, G.: "Well, I just got the printout and you asked a question about the decision that was just rendered and none of us have read that decision. And I think that's premature to ask that question today."

Anderson: "Well, then do you think it might be wise to lay these hearings over until Doctor Cronin can look at the court decision and tell us what it means to him?"

Speaker Bradley, G.: "No, we're here as a Committee of the Whole on these six Bills, Mr. Anderson."

Anderson: "Yes, but . . ."

Speaker Bradley, G.: "Do you have questions of the Gentleman regarding the six pieces of legislation? Because we don't know what's going to happen with an appeal with that decision when it goes all the way to the Supreme Court, and there's no telling when we'll get that decision. So if you have questions of the witness regarding the six Bills in front of you, proceed."

Anderson: "All right."

Speaker Bradley, G.: "Well, just a minute. What purpose does Miss Geo-Karis arise?"

Geo-Karis: "I thought he was done, I'm sorry."

Speaker Bradley, G.: "No, he's not through yet, no. Mr. Anderson."

Anderson: "Yeah, Doctor Cronin, on the administration of your agency, how much have you cut it since it's been in existence?"

Cronin, J.: "From local school districts or our agency?"

Anderson: "No, no, your agency."

Cronin, J.: "Well, I was held by the Legislature and the Governor to a total amount in the vicinity of 3 percent this year in terms of an increase. So I had to . . ."

Anderson: "And what was . . ."



Cronin, J.: ". . . swallow . . . I had to swallow any kind of increases in equipment, or travel or anything else."

Anderson: ". . . what was your increase?" Are you making \$3,000 more than the Governor now?"

Cronin, J.: "Oh, you're asking about my own compensation, my own . . ."

Speaker Bradley, G.: "I don't think that's in . . . I'm going to have to rule you out order on that question, that's not . . . that doesn't have anything to do with these Bills in front of us, Mr. Anderson."

Anderson: "All right, the Resource Equalizer, Doctor Cronin, those school districts that do not bring themselves up to the maximum rate, and if I understand the Resource Equalizer, to give every child in the State of Illinois \$1,260, is this correct for his education?"

Cronin, J.: "That was a base figure that was appropriate in 1972 and on which has been used since."

Anderson: "All right. And the state's obligation at full funding is to give approximately \$631, is this correct?"

Cronin, J.: "That was to be the state-wide . . . the average, depending on the wealth of the local school district."

Anderson: "Right. Okay, now, if you don't get your rate up, if you don't get up to that \$3 or \$1.95, everybody is at \$1.05, instead of, you know, starting at \$12.60, if you're only half way there, you're starting at \$6.30, and the state is kicking maybe half of \$6.30 in, is this correct?"

Cronin, J.: "There are several other variables in the formula, assessed valuation and . . ."

Anderson: "Oh, sure."

Cronin, J.: ". . . we have to work all this out . . ."

Anderson: "I realize that; but if the rate isn't there, what we're doing by this Bill is rewarding those school districts that do not put the local input into the formula that it was originally designed for, is this correct?"

Cronin, J.: ". . . actually, you're making it a little bit easier for a unit and elementary districts to have the . . . to enjoy the



same kind of access that high school districts have. We're adjusting the numbers to make it more equitable."

Anderson: "Right. I think the whole thing is backwards anyway. I think the elementary schools should be the ones that have the easiest access to the formula, not the high schools, because sometimes you build your education on sand if you don't know your reading, writing and arithmetic, what good is high school. That's all of my questions."

Speaker Bradley, G.: "Thank you. The Lady from Lake, Mrs. Geo-Karis, I thought that you asked questions once."

Geo-Karis: "You know there's a number of Bills here and it's complicated. And I'm not an . . . I may be educated, but I . . ."

Speaker Bradley, G.: "But you . . . well, there are other people who haven't had a chance to ask any questions at all."

Geo-Karis: ". . . Well, well, can't I just ask one question?"

Speaker Bradley, G.: "Well, just . . . just . . . would you wait and I will . . ."

Geo-Karis: "All right, I'll wait."

Speaker Bradley, G.: ". . . I think you've already asked your questions."

Geo-Karis: "Yeah, I'll be happy to wait, I'll be happy to wait."

Speaker Bradley, G.: "Okay. The Gentleman from Cook, Mr. Walsh."

Walsh, W.: "On a point of order, Mr. Chairman. Representative Anderson addressed a question to Doctor Cronin relative to his salary. Now, his salary is a part of the cost of operating the Office of Education. I think that Doctor Cronin ought to respond to the question that Representative Anderson asked him and that you should not have ruled that out of order."

Speaker Bradley, G.: "In the opinion of the Chair, Mr. Walsh, that's a matter of public record what his salary is. And the reason I ruled the Gentleman out of order, I thought he was getting off base from the purpose of the Committee of the Whole to address ourselves to these six pieces of legislation or these five pieces of legislation. There's nothing in those five pieces of legislation that deals directly with Mr. Cronin's salary, but you and I know it's a matter of public record what his salary is anyway."



Walsh, W.: "Yes, we know that it has gone up about 10 percent in the last few months. We know that as a matter of public record. Mr. Chairman, there is a Bill that is a part of what we are considering here that appropriates money to the Office of Education. And I suggest to you that the Superintendent's salary is a valid issue in this discussion."

Speaker Bradley, G.: "I still think that my ruling is correct. I think that the appropriation here is an appropriation to fund the School Formula and not to fund the Office of Education. The Gentleman from McHenry, Mr. Skinner, do you have questions for Doctor Cronin?"

Skinner: "Yes, I have a question for the good Doctor. I have two suppositions I'd like you to plug into your head. Number one, that Chicago is forced to pay back the \$50 some million; and number two, the formula isn't altered at all. What percent of full funding out of the Resource Equalizer would we then have for every school district in the state?"

Cronin, J.: "I'll take those one at a time. The first one is if there . . . if the full penalty was assigned to Chicago at this time?"

Skinner: "Right."

Cronin, J.: "And no changes at all were enacted?"

Skinner: "That is correct."

Cronin, J.: "96 percent."

Skinner: "How come it's down from the 99 percent estimate that I had before?"

Cronin, J.: "Down from what percentage?"

Skinner: "It was very close to 100 percent. Everybody could get what we promised them in 1973, when we passed the Resource Equalizer."

Cronin, J.: "That was at 1256."

Skinner: "What is 1256 for those of us who don't serve on the Education Committee?"

Cronin, J.: "\$1,256,000,000."

Skinner: "Well, using the amount of money that the Governor requested, what percentage of full funding do you get? Isn't that close to 100 percent?"



Cronin, J.: "We were using . . . about 100 percent."

Skinner: "Now, I hope everybody in this room understands what he just said. He says if we don't do anything, if we don't change the formula one iota, and Chicago follows the law as it is enacted at this time, everybody in the entire state, including Chicago, gets full funding. And the educators are off our backs. And we can deliver on our promises two years ago, three years ago. Would you care to comment on Judge Dunn's decision that strikes down the penalty provision for Chicago? Do you think that's fair?"

Cronin, J.: "Not before I read it, Representative. I would prefer not to without, not only reading it, but having my legal advisor comment on what the implications are. But no matter what that makes that 1256 figure, \$1,256,000,000 more appropriate than the current \$1.2 million, \$1.2 billion."

Skinner: "Well, I've never found a Chicago judge that can't give a decision that's acceptable to the Chicago organization when called upon. I don't really think that that's necessarily . . . I don't think we assume it will necessarily be upheld. It's sort of one of those 'Covelli' decisions."

Speaker Bradley, G.: "Are there any further ~~questions~~ of Doctor Cronin? Mrs. Geo-Karis, did you have one more question for Doctor Cronin?"

Geo-Karis: "Doctor Cronin, in his ans . . . Judge O'Brien's decision is affirmed by the Supreme Court of Illinois about . . . on that penalty situation, about how much money or how much impact would you say it would have on the printout that we received today?"

Cronin, J.: "We're going to have to go back and do a new printout with that particular solution, which no one other than the Chicago Board had thought about; but it does put a distortion factor of about . . . up to \$35,000,000 in that . . . to the account printout."

Geo-Karis: "So if this decision should be affirmed by the Supreme Court of the United States, Illinois rather, Doctor Cronin, then we will have \$35,000,000 more available, is that right, because of the lack of the penalty cost?"



Cronin, J.: "\$35,000,000 less . . ."

Geo-Karis: "We would have it less, is that right, thank you."

Speaker Bradley, G.: "The Gentleman from DuPage . . ."

Cronin, J.: "We can . . . we can move immediately, Representative, to a new computer printout, and we'll do that."

Speaker Bradley, G.: "The last person that indicated he has some questions from Doctor . . . of Doctor Cronin will be the Gentleman from DuPage, Mr. Hoffman."

Hoffman, G.: "Mr. Speaker, Ladies and Gentlemen of the House, I would just like to comment on Representative Skinner's question in light of the answer given. My understanding is that if Chicago does not . . . does pay the penalty, and with the present appropriation, with the present appropriation of \$12.2 plus the \$55, we would not be at 100 percent of funding, but we would be somewhere in the neighborhood of 96 or 97 percent. That figure of . . . I'm just afraid that the idea we have on full funding is misleading, although I agree that we should not change the formula and that we should not appropriate the extra money. I didn't want anybody to make their decision on the basis that, at least as I understand it, that would be full funding. Now, if I'm wrong, please correct me, Superintendent."

Speaker Bradley, G.: "Any further questions? If not, Doctor Cronin, we certainly appreciate your being here today and answering questions, giving your expertise to the Members of the House so that we can make a decision sometime tomorrow. Thank you very much, Doctor. The next witness will be 'Mr. Len Schaeffer', from the Bureau . . . the Director of the Bureau of the Budget, Mr. Schaeffer. Mr. Schaeffer, here he is. Mr. Schaeffer, did you want to make some opening remarks?"

Schaeffer, L.: "Very brief."

Speaker Bradley, G.: "Proceed, Sir."

Schaeffer, L.: "Thank you, Mr. Speaker."

Speaker Bradley, G.: "Maybe we can give him some order, please, and proceed, Mr. Schaeffer."

Schaeffer, L.: "I've been asked to speak in regards to the three Bills



that would affect the tax collection procedures in this state. I have some brief opening remarks, and then will be very happy to answer your questions. The proposals to speed up tax collections are supported by the same policy considerations that brought an end to the practice of government funds being placed in interest-free accounts. Tax money collected from customers or withheld from employees, now is in the hands of large businesses and corporations for periods ranging up to 60 days. We want to move up the collection schedule. This would permit the state, not the corporations, to have the use of the taxpayers' money. The individual taxpayer is not affected. The proposals, in addition to their favorable impact on state balances, represent long overdue reforms. The proposals are needed to change the basic pattern of state receipts. It would not change or increase in any way existing tax structure. This program is not unique and in 1969's budget, Governor Ogilvie proposed similar legislation to speed up sales tax collection and insurance premium tax. The Legislature modified and improved . . . approved the proposal. There are three tax collection speed up proposals. The first one is to change the due date for personal income taxes withheld by large employers. The speed up of the collection of income taxes withheld would coincide with the federal schedules and put large businesses on a single withholding payment schedule rather than the two separate now required by the State and Federal Government. In other words, we'd be taking businesses off two separate and administratively difficult schedules and put them on to one. The Federal Government requires employers to pay taxes withheld from employees within three days of the specified accumulation date. The change in state law would affect businesses and corporations with a monthly payroll in excess of \$27,000 or businesses of roughly over 100 employees. The second change would be a change in the sales tax collection procedure. Retailers are currently not required to remit sales taxes to the state until the last day of the month following the month during which the taxes are collected from customers. That is, retailers hold



money owed to the state and collected from customers for up to 60 days. It is proposed that large retailers, those with sales over 1.2 million, make four weekly payments during the month in which the tax liability was incurred. Provisions under current law for a deposit mechanism have been eliminated at the request of the Illinois Retail Merchants' Association. This new payment would improve inter-month cash flow. There are 25 other states that have earlier sales tax collection dates in Illinois. Only retailers with sales in excess of \$100,000 per month would be affected. Small businesses, the ma and pa grocery stores, would not be affected. Between 3,000 and 4,000 retailers out of the state's 150,000 would be affected by this change. The third change would be to change the due date of Corporate Income Tax returns. The Federal Corporate Income Tax return is due March 15th. The State return is now due April 15th. The proposal would change the Illinois filing date to conform with the Federal filing date, and would, of course, improve inter-year cash flow. This proposal, obviously, would have no impact in the next . . . in the first half of the fiscal year. It would only impact in the next fiscal year and after the new Governor takes office. No hardships are imposed on business through these proposals. Since it is not their money to start with. It is taxpayers' money already paid in, but not in the possession of the state. Questions have been raised over the past few days concerning the expenditure of or the use to which the \$95,000,000 would be put if \$50,000,000 were to be immediately appropriated to education. The question specifically is how much . . . how much of the \$95,000,000 will be spent on matters other than education? Governor Walker responded today by saying, 'None'. How much of the \$95,000,000 not spent on schools will be left in the General Revenue Fund for the next Governor to spend? The answer is, all of it. The \$45,000,000 difference between the \$95,000,000 realized and the \$50,000,000 expended will remain in the General Revenue Fund and would increase the available balance on December 30th by that amount. There are no plans by the current administration to expend those funds."



Speaker Bradley, G.: "Questions of the witness? The Gentleman from Will, Mr. Kempiners."

Kempiners: "Thank you, Mr. Chairman. I have some questions relating to the last point made by the Director of the Bureau of the Budget. He indicated that the Governor plans to leave this money in the bank until December 31st or December 30th; but I think all of us know that the Governor has various options under the Public Aid Code, for example, to increase rate paid to recipients and vendors without the approval of the Legislature. The Governor, for example, could increase rates and build in a supplemental appropriations for the spring. While the General Assembly has several options, basically, what we would be called upon to do next spring for those of us who hopefully would be here, we'd be faced with an after-the-fact approval of his actions. I think we've all been reading recently in the newspapers, and I think fairly well documented, that the Governor's office is studying proposals, alternate proposals, for increasing payments to at least vendors; but the Governor's office has refused to confirm the cost or the options that they may implement. State funds of \$45,000,000 could generate \$90,000,000 in new expenditures since the Fed' reimbursed the state for 50 percent of those expenditures. I know that's not new to you, Director. But I have several questions relating to this because I feel that the Governor, even though he says that this money will be in the bank on December 30th, we don't know what's going to happen starting January 1st. And there has been rumors rampant throughout the state. I've been getting phone calls from providers in my district and elsewhere in the state asking me if the rumors are true that the Governor is negotiating rate increases. So I would like to ask about five or six questions of you, Director. The first being, could you list for us the options for increases in vendor payments and the cost for this fiscal year and fiscal year 1978 for each option? And when I talk about option . . ."

Schaeffer, L.: "What was the number of that question?"

Kempiners: "Question 1. Oh, how many questions do I have?"



Schaeffer, L.: "No, no, no, I thought it was a numbered question."

Kempiners: "I do, I have five; but let's take them one at a time.

And the first one is, as I just stated, and when I talk about options, I'm talking about nursing home increases, hospital increases, and physician increases."

Schaeffer, L.: "The Federal Government by regulation had required up to two months ago that the system used for reimbursements to long-term care facilities be changed, a point-count system. And a group of departments and some providers were involved in discussion as to how that system should be changed. About a month and a half ago, Federal regulations were changed so that the requirement to shift away from the point-count system was no longer January 1 of the coming year, but January 1 of the next year. Therefore, there is no, to my knowledge, there is no plan in the Bureau of the Budget that I'm aware to any way increase payments to long-term care vendors."

Kempiners: "There is no knowledge in the Bureau of the Budget; but what in the Governor's office? Too many of these reports . . ."

Schaeffer, L.: "I spoke to the Governor this morning . . ."

Kempiners: ". . . too many of these reports have come from all areas of the state. I mean, this is not just in my area where they're hearing these rumors of rate negotiation."

Schaeffer, L.: ". . . Well, I doubt it, but . . ."

Kempiners: "Okay, so the . . ."

Schaeffer, L.: ". . . I spoke to the Governor this morning, and he said that he has no plan to change rates for long-term care providers."

Kempiners: ". . . Well, we all know how credible his statements are. So we'll just let that one go. My second question is, could you estimate the increased cost for fiscal year 1977 of the increases recently provided the pharmacists? What will be the impact of this increase from \$2.05 up to \$2.35 for fiscal year 1978?"

Schaeffer, L.: "I don't know."

Kempiners: "You have idea what the impact will be of this redistri . . ."

Schaeffer, L.: "If you specify an A.D.C. caseload, if you will specify the number of persons per case, and if you will specify the average



number of prescriptions I'd be happy to work a number out. But you're talking about F.Y. '78. I can't begin to calculate that. It'll be up . . . it'll depend on the economy, it'll depend on how the Department of Public Aid is administered, and it will probably depend on the next Governor."

Kempiners: "Okay. Question #3, Director. Were any of these increases, and I'm talking specifically now about the pharmaceutical increases, built into the fiscal year's 1977 budget? If not, where are the additional funds to provide these increases coming from?"

Schaeffer, L.: "Well, as I indicated to you, I'm unaware of any negotiations aimed . . ."

Kempiners: "Director, I'm talking on this point about the increases which have already occurred with regard to pharmacists."

Schaeffer, L.: ". . . that is one particular increase for pharmacists."

Kempiners: "I'm specifically . . . that . . . but if, you know, continue to say there aren't negotiations going on for the others, I'll accept that from you. But with regard to the pharmaceutical increases, what has been the, you know, impact . . . were these built into the fiscal year's '77 budget? And if not, where are the funds going to come from?"

Schaeffer, L.: "According to the Department of Public Aid, the cost of that change, which comes after, you may recall, a reduction from \$2.12 down to \$1.85, the cost of that change will be absorbed within the existing budget."

Kempiners: "Well, it's our anticipation, Director, that the existing budget in the medicaid line item is \$75,000,000 in the red. So it's going to be very difficult to come up with more money when you're already in the hole."

Schaeffer, L.: "Well, I said, Sir, that we are told by the Department of Public Aid that their total budget is sufficient to accommodate that change."

Kempiners: "Okay. I would question that. Going on to question #4 . . ."

Schaeffer, L.: "If you want to look at A.D.C. caseload."

Kempiners: ". . . Well, it's my understanding from talking to our Appropriation's Committee staff that there will be surpluses in



that end, but the surpluses are only about, if I'm not mistaken, \$25,000,000, which would reduce the deficiency to \$50,000,000 in the medicaid line item. So we're still in the red. Question #4, the House defeated proposals to provide for cost-of-living increases for public aid recipients in fiscal year 1977. Has there been to your knowledge any study or has your bureau provided information regarding cost-of-living increases for these recipients? And would you share those estimates with us if you have provided estimates for anybody?"

Schaeffer, L.: "There has been no study and there are no plans to provide a cost-of-living increase."

Kempiners: "To the best of your knoweldge?"

Schaeffer, L.: "Within the Bureau of the Budget. Certainly not . . ."

Kempiners: "Okay."

Schaeffer, L.: ". . . and to my knowledge, there are no plans in the Governor's office."

Kempiners: "Thank you. All right. The last question. What are the bureau's current estimates of surpluses and deficiencies in the Public Aid budget? The current estimates are a surplus of \$20 to \$30,000,000 in the A.F.D.C. appropriation, which I've stated; and a deficiency of \$70 to \$80,000,000 in the medical payment's line item. Will you confirm or deny those estimates?"

Schaeffer, L.: "I've never seen those estimates. I'm not familiar with them. As I've said earlier, we have been told by the Department of Public Aid that the combination of lower than expected A.D.C. caseloads, a reduction in the number of persons per case and the generally improving economy have . . . will result in a lower expenditure for welfare, for transfer payments, that it will take a while for that effect to impact medical costs because there's always a lag, and medical costs are driven up by inflation. But bottom line in terms of the aggregates, public aid appropriation, we are told that they do not expect a deficiency."

Kempiners: "I could make some comments, Director, but they wouldn't be aimed at you. I appreciate your remark."

Speaker Bradley, G.: "The Gentleman from Kankakee, Mr. Ryan."



Ryan: "Thank you, Mr. Chairman; and good afternoon, Director Schaeffer.

On July 29th, by a memorandum, you issued to all department heads, agencies, institutions, boards and commissions, you requested that they submit a letter of transmittal attached to their spending plans for their estimated deficiencies for fiscal year '77. These letters were to be received by August 20, 1976, back to you.

It can, therefore, be assumed that the Governor has a reasonable idea of the magnitude of the deficiencies requested for fiscal year '77, would you agree with that?"

Schaeffer, L.: "I can be . . . it can be assumed that the Governor has the responses of the . . . that the Bureau of the Budget has the responses to Circular 1 in department memos associated, yes."

Ryan: "Well, Director, this . . . I didn't quite understand your answer. This memorandum came out from you to all heads of all departments and agencies responsible to the Governor asking for this information. My question is, in what areas are you presently projecting deficiency appropriations for this fiscal year? That's the first question."

Schaeffer, L.: "Do you have both the cover memo and what's called, Circular 1, the attachment, Sir?"

Ryan: "I can't hear you, Director. I can't hear what you said."

Schaeffer, L.: "Do you have both the cover memo and the attachment, Circular 1?"

Speaker Bradley, G.: "Just a minute, Director. Could we have . . . let's have some order in the Chambers, it's very difficult for Mr. Ryan to hear what the Director's saying in response to his questions. And I'm sure that other Members would like to hear also the response from the Director. So let's give him some order."

Ryan: "Your question is, do I have Circular #1 attached to the memorandum? Yes, I do."

Schaeffer, L.: "Okay. Circular #1 was drafted in 1970. It's been issued every year since then with changes and updates. The purpose of Circular 1 is to develop the allotment control system.



One part of that, as you'll note, mentions deficiency. The purpose of that deficiency section is to isolate and identify any department that is in a deficiency situation based on . . . well, you've got the document . . . the whole point is to get the allotment system up and underway. Those agencies that expect or feel they would be in a deficiency situation based on current expenditure levels then sit down with the Bureau of the Budget and we make those changes that are necessary to avoid a deficiency. So far we do not anticipate, based on two months of spending, we do not anticipate deficiencies at the end of the calendar year . . . at the end of the fiscal year."

Ryan: "You're saying then that you don't project any deficiency appropriations for this fiscal year, is that correct?"

Schaeffer, L.: "In terms of the operating budgets of state departments. There's certain kinds of things you can't predict. Last year, you recall, the Treasurer came in for \$2,000,000 for some kind of a refund, inheritance tax refund. You recall that income tax refunds were \$18,000,000 more than expected because unemployment, you know, as unemployment goes up, withholding actually goes down, and you owe refunds, you owe money back. But in terms of state operation, we have taken steps in regard to employment, contractual services, equipment and just about any other controllable line item to eliminate wherever possible the potential of a deficiency. Now, we may find ourselves meeting transfer bills without a doubt; ; but the entire objective is a no-deficiency policy. And by the way, Representative, it is not easy to do. We're talking about curtailing programs."

Ryan: "Talking about what, Director?"

Schaeffer, L.: "When the Legislature may cut the needs, the level, appropriated in the budget, as you will recall, we had to either curtail programs, limit staff or in some way stretch the activities of the department to the breaking point. It is not easy to do."

Ryan: "Well, Director, let me ask you, did you send out a memorandum on the 29th of July to all department heads and ask them to submit their plans for any deficiencies they may have to this fiscal year?"



Schaeffer, L.: "I sent out the memorandum you have, which covers a wide variety of things, and is actually aimed at reserve policy. I sent it out yesterday."

Ryan: "Okay. All right. Now, did you, in fact, receive any answers to that memorandum?"

Schaeffer, L.: "Yes, Sir."

Ryan: "Could you tell me what answers you received?"

Schaeffer, L.: "I think I received over 100 answers."

Ryan: "Well. All right. In terms of deficiencies can you tell me? That was the request, Director, of all the departments heads as to their estimated deficiency for this fiscal year. You said now that you had responses back, and you're telling me that there's no estimated deficiencies in any of those responses?"

Schaeffer, L.: "In those responses, there are no estimated deficiencies."

Ryan: "Over 100, there are no estimated deficiencies?"

Schaeffer, L.: "Well, I'm sorry, there wouldn't be over 100, there would only for code agencies. There would be about 60."

Ryan: "And there are no deficiencies anticipated in those agencies, is that what you're telling me?"

Schaeffer, L.: "Given the steps we intend to take, yes."

Ryan: "What do you mean, intend to take? Your ~~letter~~ . . . your memorandum explicitly says that they must have a response back by the 20th of August."

Schaeffer, L.: "And the response includes an allotment plan."

Ryan: ". . . this is the 14th of September, Director, now, each one of your agencies came back, the 60 agencies or whatever we're talking about here, came back and said, 'We don't anticipate any deficiencies for this fiscal year'."

Schaeffer, L.: "And they laid out a plan and both their allot . . . and their allotment plan indicated how they would go about insuring that there would be no deficiency. And that involves things like not hiring up, shifting people around, not spending equipment funds, not spending contractual services funds, you know, eliminating desks, telephones, what have you. It requires a change of plan. And you recall, we did not get the final action of the Legislature



until rather toward the end of the Session to put it mildly."

Ryan: "Director, do you project any deficiencies in Children and Family Services, Mental Health or Corrections, in those three agencies, do you yourself project any deficiencies?"

Schaeffer, L.: "No. Under current plans, we do not; but I have to tell you that that goes only, you know, you're asking me personally, that requires a continuance of the fiscal controls we put in place. That means very stringent hiring practices for the entire year. That means no equipment purchases in many places for the entire year. If those policies are continued, we can avoid deficiencies. But those three departments were very, very hard hit by legislative action. You can recall the whole debate over personnel fund. We're talking about very, very tight budgets. They'll come in on the nose."

Speaker Bralday, G.: "Further questions . . ."

Ryan: "Yes, I'm not through. Are there going to be further deficiencies in the income tax and the inheritance tax funds again this year?"

Schaeffer, L.: "Excuse me."

Ryan: "Will there be further deficiencies this year in the income and inheritance tax? I think you quoted that as an example."

Schaeffer, L.: "No, no, we don't . . . we do not anticipate that we'll have deficiencies in F.Y. '77. We had a very unusual year, as I mentioned briefly, in regard to unemployment. An awful lot of people were paying their withholding tax at a rate, for let's say for half of the year or three quarters of the year, then they were either unemployed or changed jobs for lower salary. And as a result the state owed them money. We're now seeing the opposite thing happening and we don't expect that there will be a similar kind of a situation."

Ryan: "Are you . . ."

Schaeffer, L.: "Inheritance tax, by the way, that's requested by the Treasurer. We would not anticipate any difficulties there; but you might ask him."

Ryan: ". . . Well, I'm glad to hear that. Let's switch gears here a minute, and go to the I.B.A. rental situation. Have any rental



fees been paid to the Illinois Building Authority for fiscal '77?"

Schaeffer, L.: "Yes, I believe some have."

Ryan: "How much?"

Schaeffer, L.: "I don't know the number."

Ryan: "Do you know how much is due?"

Schaeffer, L.: "For agencies, it's about \$9,000,000."

Ryan: "How much for higher education?"

Schaeffer, L.: "\$30, \$34 . . . something like that."

Ryan: "So what are we talking about? \$45,000,000 approximately?"

Schaeffer, L.: "\$43, I would guess."

Ryan: "All right, \$43. And you say that some of these fees . . .

these rental fees have been paid? Could you tell me how much?"

Schaeffer, L.: "I'm sorry, I don't know. But some of the institutions of higher education have forwarded their payments."

Ryan: "Would you supply that information to the Republican Staff?"

Schaeffer, L.: "Certainly."

Speaker Bradley, G.: "Mr. Ryan, I think that the Chair is going to

have to remind you that we're . . . the Director is here specifically for the legislation in front of us today. And I wish that you would confine your questions to those pieces of legislation and not continue on with the 87 questions . . . one of the Governor's candidates . . ."

Ryan: "Well, if you want . . . if you want . . . Mr. Chairman, that's fine. I thought we were down here to solve a problem that was universal for the state, and that's what my intent is, is to find the dollars or to at least help find the dollars that we need for education. And that's what I'm trying to do, and if you want to shut me up on that clause, I'll be glad to sit down."

Speaker Bradley, G.: "You proceed with your questioning, Sir, and just confine your questions to the legislation before the Committee of the Whole."

Ryan: "Well, I think this is pertinent to that legislation."

Speaker Bradley, G.: "Well, we'll decide that as we go along then."

Ryan: "Well, Director, there's \$45,000,000 due . . . or \$43,000,000



roughly due in rental fees to the Illinois Building Authority.

Can you tell me what happens if those rental fees are not paid?"

Schaeffer, L.: "I don't understand the point of the question. The state . . ."

Ryan: "Well, the state has paid . . . we've paid over the years about \$118,000,000 more in rentals to the Illinois Building Authority than required to pay the principle and interest on the revenue bonds. Now, if the state doesn't and we appropriate it, the \$43,000,000 to pay those rental fees, if the state doesn't spend that \$43,000,000, they can dip into that \$118,000,000 that's sitting there idly right now. Are you aware of that, Director?"

Schaeffer, L.: "That's not entirely accurate."

Ryan: "Well, would you correct me, please?"

Schaeffer, L.: "The bond agreement, the bond indenture. I believe, requires or permits the I.B.A. to sell bonds to construct facilities which are then rented to the state. If indeed the state were to fail to pay its rent under those documents, under those legal requirements, then I believe the I.B.A. could evict the state."

Ryan: "Well, as I understand it, Director, we're required only to keep in the sinking fund one year's principle and interest. And with \$118,000,000 in that fund, and only \$45,000,000 payable, there's certainly more than that in that fund."

Schaeffer, L.: "Representative, there have been a series of audits and reports regarding the use of that fund. I refer you to Mr. Cronson's report, I would refer you to a report that was done by a LaSalle Street firm, 'Smith-Barney' did a report, the Bureau of the Budget has done any number of analyses. The bottom line is that that \$118,000,000 must remain in that sinking fund, unless it's used to either retire bonds or in some sort of that call; and I believe that the authority is going to be retiring an entire group of bonds in October. They will use some \$13,000,000 for that purpose. That is the only legal and appropriate purpose to which that \$118,000,000 can be put. It is a complicated legal issue. Believe me, Sir, we attempted to see if that money could not be put to other state purposes. And we are told by bond



counsel, by Mr. Cronson's report, and by the report of other knowledgeable people that cannot be so used."

Ryan: "Well, Mr. Director, in the report of . . . whose report is this? . . . this is Auditor General Cronsin's report. He made several proposals to you, I guess, to make this . . . to recoup these funds. Now, what . . . done to do that?"

Schaeffer, L.: "The . . . his proposals were not aimed at freeing those funds. His proposals were aimed at using those funds to retire bonds or to refinance a bond issue or entire bond issue under a very complicated scheme."

Ryan: "That's absolutely right, Director, and that would then release that \$118,000,000 according to the Auditor General's report."

Schaeffer, L.: "At considerable cost to the state. You'll notice that he did not make any recommendation. That he left these things up in the air for discussion. We're talking about very, very costly kinds of financial dealings. And most importantly, Sir, all of them will require legislation. In other words, there is nothing to my knowledge that the I.B.A. or the State Government can do independently of specific authorizing legislation other than to pay off bonds as they mature or retire them or call them, excuse me."

Ryan: "Okay, Director, I don't think legislation would be too tough. I mean, that would . . . that's not the hard . . . that's not a big obstacle to overcome, I'm sure you would agree with that if we could come to some conclusion on how to get that \$118,000,000 freed up . . . we're entitled to the funds."

Schaeffer, L.: "You know, we'd be happy to discuss that with you. The issue must be done in a manner to protect the bondholders."

Ryan: "I want you to tell me one more time, Director, that you do not project any deficiencies for this fiscal year. Is that correct?"

Schaeffer, L.: "Given the current controls, the controls that are currently in place, on the activities of code departments. The information we have from them is that deficiencies are not anticipated. If any of those controls were lifted or changed after December 30th, I obviously can't guarantee . . ."



Ryan: "Are those your controls or the Governor's controls, do they come out of the Governor's office?"

Schaeffer, L.: "Right."

Ryan: "And they're not contingent upon the . . . this package of Bills that we have here today, the speed-up Bills. They're not contingent upon that . . . your projection is not . . . if we don't pass the speed-up Bills, then you'll still say with the rest of the controls there'll be no deficiency?"

Schaeffer, L.: "There should not be any deficiencies. There are contingent fees, like a court case, and D.C.F.S. for instance, there's a recent decision regarding payment to parents . . . payment to individuals who serve as adopted parents for wards of the state."

Ryan: "Well, well, well . . ."

Schaeffer, L.: "If that goes through, and if we're forced to pay additional funds, obviously, we'll need more money. But those things that are controllable, the operations of State Government, steps have been taken to control personnel costs, equipment costs, contractual services costs and to identify any line item for any program that may go over appropriated levels. Just remember originally we planned at levels that were not appropriated, we're not realizing appropriations and, therefore, transfer from other line items to cover where money is needed. That's a difficult thing to do. I can show you the reams of paper that are used to try and calculate it; but believe me there is a sincere attempt on the part of the Department and certainly on the part of the Bureau not to have deficiencies."

Ryan: "And lastly, Director, you stated in your opening statement that the \$45,000,000 surplus that's in this package will remain in the General Revenue Fund, is that correct?"

Schaeffer, L.: "Yes, Sir."

Ryan: "Will the Governor make any commitments against that money?"

Schaeffer, L.: "Governor Walker has said that that money will remain in the General Revenue Fund and he will not . . . he will not commit it . . . it will be available for the next governor and the next



General Assembly."

Ryan: "Thank you."

Speaker Bradley, G.: "The Gentleman from Knox, Mr. McMaster."

Schaeffer, L.: "Could I clarify a point? I was asked earlier about negotiations. Okay, and I said as emphatically, as I could, there was nothing going on in the Bureau of the Budget. All right. We checked and talked to a number of people, a gentleman from my staff, okay. There's obviously have been discussions. I mentioned the long-term care discussion. But there are no rate increases contemplated at this time in any agency under the Governor."

Speaker Bradley, G.: "Mr. McMaster."

McMaster: "Mr. Chairman, I would like to direct a few questions at the Director of the Bureau of the Budget."

Speaker Bradley, G.: "Proceed, Sir."

McMaster: "Director, I'm concerned about the advance in the sales tax collection."

Schaeffer, L.: "Yes, Sir."

McMaster: "I have had quite a bit of correspondence and a lot of phone calls from retailers in my area in regards to this. Can you tell me what is the difference between ~~the~~ current plan and the plan that we previously turned down?"

Schaeffer, L.: "The current proposal was developed with the cooperation of the Illinois Retail Merchants' Association. These were . . . this group represented retailers across the state and was instrumental in developing the package that was passed some year and a half ago now. That legislation required retailers to pay a deposit. The I.R.M.A. felt and its members feel that that deposit, which they had high hopes for originally, has not worked out in practice. And that they could not support the collection acceleration proposal unless the deposit mechanism was somehow changed. We met with them many times and with many of their experts from the major corporations in this country and developed a mechanism that would allow us to get accelerated payments to the state; but at the same time, eliminate the deposit mechanism. So what would



happen under the current proposal is that the deposit, that was currently on deposit with the state, would be used to offset the first monthly payment. And, essentially, the retailers would not have to pay that first monthly payment."

McMaster: "Now, you're saying, in other words, that if I owed \$6,000 in sales tax for the month of October, and I have a deposit down here, normally, I would be paying that \$6,000 at the end of November, correct?"

Schaeffer, L.: "No, Sir, you'd be paying it . . ."

McMaster: "No, under current law."

Schaeffer, L.: "Oh, okay."

McMaster: "Under the current law, I would pay at the end of November.

All right, under this new plan, what you were saying then that October payment, I would start to pay it the first week of November on a weekly basis, is that correct? At what point do you forgive the \$6,000 that I have on deposit down there? Are you telling me that sometime I am not going to have to pay any sales tax for the month?"

Schaeffer, L.: "On the 30th of October, I'm sorry, the 30th of November would be your switch-over month. And you would owe for the previous month. All right? You had not yet paid your taxes for the month prior, for October. So, instead of paying October, we would credit your deposit."

McMaster: "No, actually, I would start paying the first week of November on November sales tax."

Schaeffer, L.: "Right. When have you paid October?"

McMaster: "And the October sales tax is going to be paid, as always, the end of November."

Schaeffer, L.: "All right, and we would credit that against the deposit."

McMaster: "So it is no different really than what we're doing now, except that suddenly I start paying November sales tax each week."

Schaeffer, L.: "Right."

McMaster: "Would give the speed up in my estimation."

Schaeffer, L.: "Yes, Sir; but it is the taxpayers' money."



McMaster: "Yes. Yes, I understand. And really I think only the name of advance deposit is being eliminated because I am paying on a current basis weekly."

Schaeffer, L.: "Well, under the existing law, there is some misunderstanding as to what that deposit means. Legally a deposit is placed down for the privilege of delaying your payment an additional month. In practice, you hit the nail on the head. The retailers say, you know, 'I've paid that money in, why do I have to pay taxes on top of it?!'"

McMaster: "Yeah. All right, now, I am on a current basis, presently, as an example. My October sales tax I would pay the first of September. I'm closing my books, let's say, the 27th of October. So I can balance up my books and get things filed and pay at the first of November. Will I, in effect, start paying my October sales or November sales tax on a weekly basis, rather than at the end of the month?"

Schaeffer, L.: "Yes, if your . . ."

McMaster: "And this . . ."

Schaeffer, L.: ". . . over \$5,000, if your sales are over \$5,000."

McMaster: ". . . Yes."

Schaeffer, L.: "Yeah."

McMaster: "What about . . ."

Schaeffer, L.: "And if your sales tax liability is over \$5,000, yes. In other words, if you're a large retailer, yes."

McMaster: ". . . what about the retailer whose sales tax is under \$5,000? When will he pay?"

Schaeffer, L.: "There's no change. We just asked the Department of Revenue to make sure."

McMaster: "And they would go ahead and pay what? On a monthly basis? Do they have any deposit? Are they paying currently or are they paying 30 days behind?"

Schaeffer, L.: "They don't have a deposit."

McMaster: "And they are paying what? 30 days late? Or are they paying . . . when are they paying their October sales tax?"

Speaker Bradley, G.: "Director . . . will be our next witness, if . . ."



Schaeffer, L.: ". . . Yeah, there would be no change. Let's document it for you, let's nail it down."

McMaster: "Well, in reality I am inclined to disagree with you on the statement that that deposit is used as you say it is. I think they will continue to have that on hand available to the state. And thank you, Director."

Schaeffer, L.: "No, excuse me, Sir. I . . . the department will be eliminated. I mean, legally that word is struck from the statute. There is no deposit."

McMaster: "You're striking the word, yes, but I am continuing to pay on a current basis each week?"

Schaeffer, L.: "Yes, but that has never been an objection voiced by the Retailers' Association or retailers."

McMaster: "There were a lot of objections voiced to me in regard to it, Sir."

Schaeffer, L.: "Then you would like to delay payments?"

McMaster: "I don't see any reason for making a change, quite frankly. Thank you, Director."

Speaker Bradley, G.: "The Gentleman from Cook, Mr. Madison."

Madison: "Thank you, Mr. Speaker. Director, I understood you to say . . . right here . . . I understood you to say in your opening remarks that there were approximately 150,000 plus retailers in the state. And of that number only 3 to 4,000 would be affected. Can you tell me then, Director, what percentage of the sales tax is represented by those 3 or 4,000 retailers?"

Schaeffer, L.: "Oh, an overwhelming percentage."

Madison: "I see. The other question that I have, Director, is if the basic need for which we gathered is to supplement the school funding; and it is anticipated that there will be some \$50,000,000 distributed. Why is the legislation before us in such a way as to generate \$95,000,000?"

Schaeffer, L.: "The original proposal was part of the F.Y. '77 budget called for \$95,000,000 impact. That proposal has three parts, two of which impact the \$95,000,000. They're both based on the same premise that money paid by taxpayers to large corporations, the



state's money, should be delivered, handed over to the state, at a more timely basis. They happened to equal \$95,000,000."

Madison: "Okay, Director, tell me this then. Since the impact is \$95,000,000 why is it that we're not considering a \$95,000,000 distribution to the schools, rather than \$50,000,000?"

Schaeffer, L.: "Because the Governor's budget and the analysis done subsequently on that in regard to the Jaffe Bill are such that \$50,000,000 will, we believe, will be adequate. \$50,000,000 will accomplish an implementation of the Jaffe Bill and will also fund a hold-harmless."

Madison: "It's my understanding that the \$50,000,000 will bring us to a funding a percentage level of somewhere in the area of 96 percent. If we were to, in effect, distribute the entire \$95,000,000, what percentage of funding would that bring us to?"

Schaeffer, L.: "It would be a higher percentage. I don't know the specific number; but we'll get it for you in a minute."

Madison: "See I've got problems, Director, with us generating \$50,000,000 and \$95,000,000 and giving the schools \$50; and by your own admission, there is no plan to use the other \$45,000,000. I'm not doubting your word; but the only thing I'm saying is that if there is, in effect, going to be \$95,000,000 generated, it seems to me that the schools in this state could certainly and sorely use that \$95,000,000."

Schaeffer, L.: "Well, after six month's experience or eight months at that point when the new Legislature came in and the new Governor had been in off . . . the new Governor is in office, that assessment can be made. And that \$95 or \$45,000,000 can be used for whatever purpose the Legislature and the Governor want. It can't be spent without appropriations, which is left up to the Legislature to decide how it should be spent."

Madison: "But there is no doubt in your mind at this point that there is no plan to utilize the \$45,000,000 for anything else?"

Schaeffer, L.: "Sir, we just checked and I reverified there are no plans, and let me read, 'There are no rate increases contemplated, everything that we can do for the Bureau of the Budget to control



spending is being done'. I think directors know, from myself and from the Governor, that they should take every action to control expenditures. I think there's a sincere attempt on the part of this administration to live within appropriated levels."

Madison: "Thank you, Director."

Speaker Bradley, G.: "The Gentleman from Cook, Mr. Kosinski."

Kosinski: "Mr. Schaeffer, if we can backtrack just a moment, Mr. McMaster had some pertinent questions that I don't think were thoroughly clarified. Now, correct me if I am wrong, it's my understanding that this legislation affects only those which collect retail occupation tax in excess of \$5,000 a month?"

Schaeffer, L.: "Yes, Sir."

Kosinski: "In other words, only big merchants are affected by this?"

Schaeffer, L.: "Yes, Sir."

Kosinski: "Now, in terms of the small merchants, such as me and many of the people that have talked to Mr. McMaster, they go by the old plan, October sales tax collected in October is payable before the end of November?"

Schaeffer, L.: "Yes, Sir."

Kosinski: "So there is no change in terms of them. They never had to put up a deposit?"

Schaeffer, L.: "Correct, if they never put up . . ."

Kosinski: "It was only the big merchant that had to put up a deposit?"

Schaeffer, L.: "Correct."

Kosinski: "Now, the reason for that, I think, that clarifies Mr. McMaster, in addition to which the existing deposit will be utilized by the first payment or several payments by these big merchants in . . . under the new plan. It will be absorbed; but, Mr. Schaeffer, if I remember correctly, the reason for a deposit was that companies that went defunct during the course of the normal operation, shall I repeat the question?, companies that went defunct during the normal operation period, who were holding taxpayers' money, would sometimes go down the tube with that money. In consequence, we demanded by legislation that they put up money and escrow with the state to approximate their average monthly collection. Then that



was . . . that was modified by an overpayment or an underpayment at the end of the period. Now . . ."

Schaeffer, L.: "I'm told that there is a separate provision in the statutes for surety bonds and . . ."

Kosinski: ". . . this is what I'm getting to."

Schaeffer, L.: ". . . Right."

Kosinski: "Now, to prevent that occurrence under this . . . the conditions of this legislation, we would still have to protect the taxpayers of Illinois who paid in money and the State of Illinois in terms of revenue by providing some surety, and it'll come in the way of a bond."

Schaeffer, L.: "Correct."

Kosinski: "Now, I don't know what the incidence of failure is during the course of the history of the retail occupation tax; but I would assume that bond factor would be a costly factor to that big business. Do you know what the facts are?"

Schaeffer, L.: "It's currently in existence."

Kosinski: "I beg your pardon?"

Schaeffer, L.: "We currently have such a provision."

Kosinski: "We have a bonding provision at the moment?"

Schaeffer, L.: "Yes, Sir; yes, sir."

Kosinski: "In lieu of the deposit?"

Schaeffer, L.: "In addition."

Kosinski: "In addition to a deposit? But originally when this was in Committee and this legislation was originally constructed, there was an advantage to a deposit against the bonding, wasn't there? Because bonding, if I remember, was considered at that time."

Schaeffer, L.: "I was not present in those discussions. The current law has . . ."

Kosinski: "Well, let us assume the Committee in its wisdom determined our deposit would be feasible rather than bonding for some reason. What are we losing through bonding as against depositing?"

Schaeffer, L.: "I think that you should direct that question to Director Allphin. I don't think we're los . . . our exposure is:



increased any way. We're now collecting . . . or under the proposal we would collect in a much more timely basis weekly versus monthly; and the exposure, I think, is lessened."

Kosinski: "In other words, the State of Illinois and the taxpayers who paid in would lose nothing under the bonding program?"

Schaeffer, L.: "I would . . ."

Kosinski: "The bonds would cover . . . cover the sureness of payment?"

Schaeffer, L.: ". . . I would suggest that you direct that to Director Allphin because that is a technical question, and I'm really not that familiar . . ."

Speaker Bradley, G.: "Mr. Kosinski, the Director of the Revenue is going to be our next witness, and if you'd hold those . . ."

Kosinski: "I'll hold that. I'll hold that question."

Speaker Bradley, G.: ". . . All right, thank you, Sir. The Gentleman from Peoria, Mr. Tuerk; do you have questions for the Director, Mr. Tuerk?"

Tuerk: "Yes, Mr. . . ."

Speaker Bradley, G.: "Mr. Tuerk, I see everybody . . . there's about six or seven more lights to go on, and I'm trying to get to those people who haven't asked a question. Give them an opportunity to ask questions of the Director and you know that we'll get to everybody fair . . ."

Tuerk: "Well, I think that's very laudable of you, Mr. Chairman, and as you well know I'm rather succinct in my questions."

Speaker Bradley, G.: ". . . I appreciate that and that's why I looked at your light and I thought that we ought to hear from the Gentleman from Peoria, Mr. Tuerk."

Tuerk: "Thank you. You're very generous. Mr. Director, I've heard during your testimony that \$45,000,000 of this \$95,000,000 would be deposited into the General Revenue Fund. Is that correct?"

Schaeffer, L.: "Yes, Sir."

Tuerk: "Let me pursue just a line of questioning on another tact in relation to some collective bargaining arrangements that have been set up over a period of time by executive order. As I recall, the executive order calls for collective bargaining with some thousands



of employees and I don't know what the number of employees that is. Do you happen to know out of the total state employment picture, how many people are under the executive order under collective bargaining?"

Schaeffer, L.: "I don't believe that there are em . . . specific individuals under the order. It permits the . . . it permits employees to organize and sets up a structure that allows for collective bargaining, but provided that a bargaining unit can be established, and election held, and the results verified, the employees of most code agencies could, indeed, be a collective bargaining unit."

Tuerk: "Well, perhaps I didn't phrase the question . . . how many currently are under such an arrangement? Let me ask you that way."

Schaeffer, L.: "Well, there are . . . I would think . . . well, by such an arrangement, what do you mean? How many people are in recognized units?"

Tuerk: "Yes, how many people in the state employ are covered under the present arrangement of collective bargaining?"

Schaeffer, L.: "I'd have to verify that."

Tuerk: "Is it 50 percent, 40 percent, 30 . . . what?"

Schaeffer, L.: "My guess is it would be between ~~30~~ it would be around 30,000 employees; but I don't really know the status of the latest unit. I'd have to check on that."

Tuerk: "Were there any funds in the budget that would take care of any eventuality of the collective bargaining agreements that will be negotiated in fiscal '77?"

Schaeffer, L.: "Collective bargaining involves negotiations, not only for wages, it includes conditions of work. It's the policy . . .

Tuerk: "I understand that."

Schaeffer, L.: ". . . of the administration that in any collective bargaining negotiation the administration will not approve a wage increase; and, therefore, there were no funds in the budget for that purpose."

Tuerk: "There are no funds in the budget; but if a collective bargaining agreement calls for wage increases, are you saying then that the



wage increases would not be honored? Did I understand that correctly?"

Schaeffer, L.: "I don't think that I can speak to the premise. I'm saying that the administration policy would be no wage increases. In collective bargaining agreements that were signed in the last fiscal year, there were no deficiencies due to those agreements. All costs were absorbed within existing budgets. All costs will be absorbed within existing budgets. There will not be deficiencies and there will not be wage increases if management prevails."

Tuerk: "Well, you said that there's no funds available in the budget for any wage negotiations that may take place in the next several weeks or months. And yet you just said that provided those wage increases are forthcoming, they would be provided in the current budget."

Schaeffer, L.: "With all due respect, I said I had trouble with your premise. The administration's position is no wage increase."

Tuerk: "Well, that's well and good; but my point to you, Sir, is if there are negotiations, and if a negotiated contract is arranged for wage increases; you, therefore, honor the contract, would you not?"

Schaeffer, L.: "Yes, but I would think the law supersedes and there will be no deficiencies."

Tuerk: "Well, when . . . do you know, Mr. Director, when the new wage contracts will be negotiated?"

Schaeffer, L.: "There are a number of bargaining units that have begun negotiations. It can be and usually is in the beginning a very long and protracted process because of the conditions of work, because of the difficulty of the bargaining unit itself to get its demands together and the newness of negotiation. There is a wage reopener that's coming up in December; but the position will be, is, and will be no wage increase."

Tuerk: "Well, when you have a wage reopener, let's not be so naive to think that there won't be some demands put for wage increases; and, therefore, the state has to be prepared in some sort of budgeting exercise for such an eventuality, would you not agree with that premise?"

Schaeffer, L.: "The position is no wage increases. The budgets are based on no wage increases. If . . ."

Tuerk: "Are you . . ."

Schaeffer, L.: ". . . if by some twist of fate, you know, there's an act of God, and something untoward happens, there's an additional cost, you attempt to use offset to the extent possible. But I really think that the premise that you're putting forth is a very difficult one for me to accept. I can't be part of an administration that says no wage increases, and then stand here and say there's money in the budget. There isn't."

Tuerk: ". . . Are you privvy at all to any sort of estimate as to what the wage demands may be by a group that is under a collective bargaining agreement?"

Schaeffer, L.: "No, Sir."

Tuerk: "Let's assume for the moment that there are some contracts negotiated and agreed upon which would call for, indeed, a wage increase. Do you have any idea what one percent increase would mean to the General Revenue Fund?"

Schaeffer, L.: "It depends on the unit you're talking about."

Tuerk: "Well, let's assume for the moment that all employees covered under a wage contract or a negotiated contract or the collective bargaining process were included. What would that figure be?"

Schaeffer, L.: "Well, that's not possible. They are in different bargaining units that negotiate at different times, and could, indeed, have very different settlements. You know, collective bargaining has been around in this state since 1945. It's nothing new. One percent increase, I don't know; if you give me your assumption for total payroll, we can figure one percent, and that's what it would be. But that is extremely unlikely."

Tuerk: "Let's assume now the . . . that there would be a wage increase. Is the state prepared to honor a wage increase for all state employees or just those under a collective bargaining agreement?"

Schaeffer, L.: "I really have difficulty with the question, is the state prepared? The state budget is based on the assumption of no wage increases, either in collective bargaining or across the



board. There is no cost-of-living increase plans. None. There are merit and step adjustments that occur automatically for people who are not in collective bargaining units; those go on. People do get those raises; but an across the board cost of living is not contemplated. You recall that the last time that happened, it was \$100 a month increase, and there was tremendous controversy between this Body and the Governor over the appropriateness of that act. That cost a great deal of money and was very disruptive. There are no plans to do that now. I cannot be more emphatic and I hope more sincere."

Tuerk: "Well, you have reiterated that on several occasions; and, yet, with some negotiations coming up in the near future, what you're saying, in effect, is the administration is not prepared to make any increases to any state employees beyond the merit increases, is that correct?"

Schaeffer, L.: "We're saying that the . . . that in negotiations our position is no wage increases and that was our position and will be. The budget, we simply cannot afford an across the board increases. I think that was announced when the budget was announced in March. There's no change or deviations."

Tuerk: "Well, since there are collective bargaining agreements brought about by executive order, the Governor can change that at any minute, is that an accurate assumption?"

Schaeffer, L.: "The Governor can change what, Sir?"

Tuerk: "Well, any particular policy relating to increases in salaries, or wages, or whatever in compensation."

Schaeffer, L.: "He could, but to what avail, I don't understand. I mean, his position is clear, he's reiterated, he's said it in the budget. We . . . there was tremendous heat generated by the lack of across the board cost-of-living increases. That heat has been weathered now for many months. You felt it yourselves, I'm sure there was great pressure on the Legislature. But everyone has withstood that. It would not be responsible to give cost-of-living increases across the board. And to my knowledge, no one contemplates it."



Tuerk: "Thank you."

Speaker Bradley, G.: "I thought for a minute the Chair had been a little hasty, Mr. Tuerk, when we recognized you; but we appreciate all those questions. The Gentleman from Henderson, Mr. Neff."

Neff: "Thank you, Mr. Speaker. Mr. Schaeffer, I'd just like to address a couple of questions on your tax-speed up plan."

Schaeffer, L.: "Yes, Sir."

Neff: "Now, to me this, I think to put it in simple form where . . . so us farmers can understand just what we're talking about here, I . . . wouldn't this be about the same thing that if I was drawing a salary for \$1,000 a month, which . . . and I get in some financial difficulties, which I do every once in a while. I go to my boss . . . I've been drawing my salary at the end of the month, every 30 days . . . and so I go to my boss and I say, 'Now, could you pay me, start to pay me at the first of the month, that this is going to be a big help to me'. And he finally says, 'Well, okay, I'll pay you at the first of the month. And, of course, I get that \$1,000 that month. And I get my bills paid pretty well right then, and I get the creditors off my neck; but then I wonder what's going to happen to me when the . . . possibly at the end of the month or towards the end-of-the month and I don't have this \$1,000 to fall back on. Now, I think that I would compare this here speed up tax somewhat . . . this particular sales tax somewhat very similar to this. That we're just . . . we're going to help ourself right now; but I think maybe we're heading for worse trouble. I'd like to have your answer on that because I just can't . . . and wouldn't you say this is somewhat parallel?"

Schaeffer, L.: "Well, Sir, almost, but not quite. The situation is that you work from the first . . . or the state works from the 1st to the 30th and doesn't get its pay in the 30th, it gets its pay a month later. What's happening now is we're saying, rather than the two-month wait, let's pay on a current basis."

Neff: "But what . . ."

Schaeffer, L.: "In other words, in your example, you saying, 'Employer



pay me before I do my work'. In the proposals before you, we're saying currently employers are paying withholding tax to the state after they've collected it, a month after. They are paying sales tax to the state after they've collected it two months after. At no point is the employer or the retailer out of pocket. He is simply passing on what he has already collected from the consumer or the employee. So I really don't think your analogy is that. We're not getting paid ahead of time. We're getting paid on time."

Neff: ". . . well, yeah, we'll get away from that; but I'm trying to compare it to where I'm going to be at when I collect this \$1,000 and get it spent. We're not going to talk about whether I'm getting paid ahead of time or not, but I'm trying to help myself out on a financial jam here. And that's going to help me out when I draw that \$1,000 a month ahead of time. But I believe in the end I'm going to be worse off and I would think the state would be in the same category. That we're going to help an immediate problem here for a few months, but I don't think . . . I think you'll agree we're not in the long range, we're not helping us any, and we might be hurting ourselves by maybe spending some money here that we don't have in the future and get in more trouble."

Schaeffer, L.: "Well, the financial jam analogy, I think, you'd have to take a look at the schools. Do you think the school systems of this state deserve \$50,000,000 more? Our position is that it is appropriate. The second issue that you raised, will it help or hurt the state? If the \$45,000,000 goes from the General Revenue Fund, it will definitely help the state to the extent that expenditures are matched by revenues. It won't hurt the state and it will help the recipients. So I really don't think that the analysis is appropriate . . . is accurate."

Neff: "Well, go back here, and we give the impression here that a businessman isn't hurt any. That he questioned this sales tax and held it. And we go along on that, except in all the businesses that I do business with, I have 30 days to pay my bills. And I think this is



customary state-wide. And I don't collect that there, if I happen to be the businessman, I'm not going to collect that there for 30 days. And, yet, you're going to ask me to pay it before I collect it, aren't you?"

Schaeffer, L.: "Well, I think this is a very different situation.

We're talking about a windfall profit that has been realized by businesses. Let's take a look at the withholding tax. Prior to the state income tax, you're an employer, and you pay your employee \$100 a month. After the state income tax, you're the same employer, but you pay your employee \$97.50 and you keep \$2.50 for a month. Kind of a nice deal. In other words, you have been given, right?, a windfall of that \$2.50. Now, if you are a major employer and only large employers are impacted, only over 100, if you are a major employer, that can be a considerable amount of money. And that's what has happened, both in the case of the sales tax and in the case of the withholding tax. So . . ."

Neff: "I think withholding tax is different. And I think we'd have to put it in a category . . . a different category than the sales tax. Now, the sales tax, I sell something, \$100 a day, and I collect \$5 for it."

Schaeffer, L.: "Uh-huh."

Neff: "But I won't get that there until the end of the month probably. Most of our business in this state and all the company as a whole has done on 30 days. It's customary, we all expect it, and we all get it and use it . . . So I if I happen to be the merchant selling that \$100, that \$5 I've collected I don't have it in my pocket . . . and yet you're asking me to go ahead and pay it under this legislation. I've said even though I don't have it."

Schaeffer, L.: "Well, I think that there's a little bit of difficulty . . . difficult for me rather to make the analogy between a sale relationship, a purchaser and a seller, and the State of Illinois as a recipient of taxes owed it."

Neff: "Yeah. Well, of course, to say we know it's customary, and I'm sure you do too. Maybe you're one of the fortunate ones that pay cash. I have to borrow on time. So I use the 30-day credit.



But many of us do that, and it's expected that. Now, another thing . . . we'll get a little away from that . . ."

Schaeffer, L.: "Well, one point there, if you're going to give somebody a break here, remember you're giving a break to businesses. I mean . . . it's the taxpayers' money that you're giving to large businesses. And I really think, from where I sit anyhow, you want to think twice about using taxpayers' money to give big businesses a boost."

Neff: ". . . Well, I don't know, if you haven't collected that money, you don't have it. And that's what I'm saying, you don't have that money, generally speaking, until 30 days. But we'll get away from that there, but I read here a while back, and I thought it come out of your office, Director Schaeffer . . ."

Schaeffer, L.: "Yes, Sir."

Neff: ". . . where you plans right now, if you continue to spending . . . that you hope to spend, that you would have \$100,000,000 in the State Treasure next June the 30th, is that right? Did I interpret that right?"

Schaeffer, L.: "At least that much, yeah."

Neff: "Now, we're talking about some school aid here. And this particular legislation we're discussing right now takes \$50,000,000. Why wouldn't you recommend then that we go ahead and use this \$50,000,000, rather than use this stop-gap measure, and it is a stop-gap, and I'm sure you will agree on it, just something to get us over a . . . over a rough spot here and probably be . . . end up worse in three or four months from now?"

Schaeffer, L.: "The question is, why don't we use the \$100,000,000 available balance?"

Neff: "Yeah, use that \$50,000,000 out of that \$100,000,000, yeah."

Schaeffer, L.: "Well, the state has experienced in the past years some difficulties regarding cash flow because of the very uneven pattern of revenue and expenditure. We originally proposed six measures, three of them would smooth the flow of expenditures, three would smooth the flow of receipts. The Legislature passed two that impact the flow of expenditures. We still have a very uneven flow



of receipts. And you need to keep a balance of roughly \$100,000,000. It doesn't always have to be that high; but you need to keep a balance so that the state functions smoothly. If, indeed, this Body were to enact both the revenue and the expenditure side, which is what we're talking about the revenue side today, then we might not need as high an available balance. Further, that available balance earns interest, that is not, you know, money laying fallow. What we're proposing today is that the schools require an additional \$50,000,000, that that money be paid provided revenue is increased by \$50,000,000."

Neff: "Well, I . . . we're talking about the \$50,000,000 out of this \$100,000,000. Now, I agree that from this state budget the type of money we have to spend here in the State of Illinois or the State of Illinois spends, that isn't out of line. But we had a peculiar circumstance, we have a serious circumstance, we all agree, with our schools. And I think under this type of circumstances, rather than to do something that's kind of a hot-spot deal or kind of ridiculous in my opinion, on this here speed-up plan, we go ahead and use the \$50,000,000 if we have it available. And . . ."

Schaeffer, L.: "Well, in my judgment, any spending, any increased spending, over currently appropriated amounts would be detrimental to the state's fiscal health, it would be detrimental to our ability to function appropriately. And what we're proposing, therefore, is to meet the needs of the schools through raising additional revenue without increasing taxes, without hurting consumers or employees, and without hurting businesses. And that's the essence of the proposal."

Neff: "Thank you."

Speaker Bradley, G.: "The Gentleman from Cook, Mr. Totten; do you have questions of the Director?"

Totten: "Thank you, Mr. Chairman, I'll be as brief as possible. I'm a, Director, I'm a little confused about the problems on the fiscal situation in the state after we passed the accelerated payments for special ed' and transportation as to exactly where we are.



And I wonder if you could provide me and our Appropriation's staff with the following information; first of all, an updated monthly estimate of receipts for the General Revenue and the Common School Fund; secondly, an updated monthly estimate of expenditures for the General Revenue and Common School Fund. First is for receipts, second is for expenditures. And third, if you would provide me with an updated monthly estimate of the available balance for the entire 12 months of the next fiscal year, fiscal year '77. And then one question that I would like to ask. In your September 1 prospectus for the new G.O. bond issue, you indicated that the August 31 available balance was \$180,000,000."

Schaeffer, L.: "No, no."

Totten: "What was it?"

Schaeffer, L.: "It was a projection, it was an estimate."

Totten: "Well, you estimated that it would be \$180,000,000. That conflicts with the Comptroller's available balance estimate, which was \$116."

Schaeffer, L.: "No."

Totten: "Well, could you enlighten me as to what the difference is?"

Schaeffer, L.: "The Comptroller does not publish his estimates. What you have is the actual amount. We estimated two months in advance and we were wrong."

Totten: "Do you then feel that the Comptroller is right or what will the figure be?"

Schaeffer, L.: "I assume the Comptroller is right, unless he starting to publish his estimates, in which case I'd loved to have some, a copy, you know."

Totten: "What is the discrepancy attributed to?"

Schaeffer, L.: "The discrepancy to the extent that we understand it has to do with timing. In the past two years, the state has dramatically decreased the rate of appropriation increases. Prior to that time, typically what you had was appropriations were expended over 15 months. A certain amount during a 12-month period, a certain amount during the last period and monies were lapsed. In the last two years, the historical pattern has been broken for



two reasons; one, we've been appropriating less; and two, the point that I was making to the Representative who mentioned it earlier. We have instituted expenditure control that this state has never seen before. We've used reserves, we've used head-count control, we've used equipment, contractual services, all these controls. The result is that, although the amount of money that will be expended this year will not be greater than our estimates, the timing is different. People are spending more money in the 12-month period because they're having a tougher time getting through that 12 months. And that appears to be what's happened. We underestimated spending in that month. Also, we had a revenue slop-over, we didn't get all the revenues we expected, although we think they're going to come in the next month. So in terms of timing, it was a bad estimate. We feel that we'll get back on the, you know, it will correct itself out; but it was a poor estimate."

Totten: "All right, thank you. I have no further questions, Mr. Chairman."

Speaker Bradley, G.: "Thank you. The Lady from Lake, Mrs. Geo-Karis."

Geo-Karis: "Mr. Schaeffer, Mr. Schaeffer . . . see I'm nice to you . . . under the present Retailers Occupation Use Tax Act, businesses have to do about \$1,200 000 a year, is that correct?"

Schaeffer, L.: "That's correct."

Geo-Karis: "In order to pay his \$5,000 per month deposit. Now, you say that after all it's not their money, it's the state's money, is that correct?"

Schaeffer, L.: "Yes."

Geo-Karis: "Yeah, well, what about the fact that I have a business in my town, for example, that sells on credit, and it still has to report its sales. And you're going on the basis of sales. So if this company . . ."

Schaeffer, L.: "No, no . . ."

Geo-Karis: ". . . let me just finish, please . . . if this company sells say \$100,000 a month, okay, and some of it is on credit, say \$50,000 of that was on credit, and \$50,000 that is cash. He still is required to pay you, the State of Illinois, \$5,000 cash



'pesosos'."

Schaeffer, L.: ". . . Well, I don't know if that is in the law, but or in the proposal certainly . . ."

Geo-Karis: "In his dollars, it's getting to be more like pesos, go ahead."

Schaeffer, L.: ". . . the statute permits retailers to function on a cash or accrual basis. In other words, a retailer can choose to pay his taxes, not on, let's say, retail credit, not on the basis of \$100 purchase, but if they're only \$5 down, he can . . . he pays only on the money he receives. So it is the retailers choice as to whether he wants to pay taxes based on his . . . what's owed him, the accrual, or simply on the cash. You do not have to pay taxes on money you have not received."

Geo-Karis: "Well, let me ask you this, now supposing the retailers chooses the cash system, chooses the cash system, okay?"

Schaeffer, L.: "Excuse me?"

Geo-Karis: "Supposing the retailer chooses the cash system . . ."

Schaeffer, L.: "Yes."

Geo-Karis: ". . . the fact that he chooses the cash system, and there's . . . and all of a sudden he gets a couple of old clients of his who say, 'I'm sorry, I'm hard up for cash this month, you know, it'll take about 60 days to pay you'. All right, because he chooses the cash system, even though he doesn't have the cash there received, he still has to pay on the whole amount, isn't that right?"

Schaeffer, L.: "No, Ma'am."

Geo-Karis: "Yes, he can . . ."

Schaeffer, L.: "He can switch back and forth."

Geo-Karis: "On any individual case?"

Schaeffer, L.: "No, on any month."

Geo-Karis: "No, he can't. I know, but what I'm trying to tell you is let's say \$100,000 worth of business in one month, \$50,000 of that . . . comes in, he sells the stuff and the guy doesn't pay him. And he's already elected to go on a cash basis. He still has to report \$100,000 worth of sales because he elected to on a cash



basis. He can't change in the middle of the month, is what I'm trying to tell you. Am I right?"

Schaeffer, L.: "I don't understand how he can be on a cash basis and not have received a payment."

Geo-Karis: "Well, if he has an old customer, who just don't pay him because he's stuck himself for a little while, he's not going to let the customer go out the window, if he's a reputable customer, is he? . . ."

Schaeffer, L.: "I, frankly, don't know what he's going to do; but my guess is those circumstances would be rather unusual or at least unfrequent."

Geo-Karis: "Yeah, but you don't make any provision in the statute to pay for any bookkeepers for these companies, and they have to have bookkeepers up to a point. And if they're going to pay four times a month, that's a little more, isn't it?"

Schaeffer, L.: "I don't believe so. We're talking about large companies, we're talking about sophisticated operations, number one; number two, the four-times-a-month payment will not require any bookkeeping; but will be paid . . ."

Geo-Karis: "All right, now . . ."

Schaeffer, L.: ". . . Ma'am, if I could just explain . . . what will be paid will be an amount equal to one-fourth of the average monthly liability, excluding the highest and lowest month. That is a known number. The Department of Revenue will mail out a little computer card each week and say this is the amount you owe. Over time as individual businesses establish credit, they can offset their payments against their credit. So it just takes no additional bookkeeping; and, in fact, will smooth the flow of work in the Department of Revenue."

Geo-Karis: ". . . Now, one more question. Is there one . . . I can't seem to find it, but it seems to me I saw that one of the Bills contemplated is collecting the withholding tax four times a month, am I correct?"

Schaeffer, L.: "Yes, Ma'am. That is the Federal system, we are simply moving to the Federal system."



Geo-Karis: "Are you doing that for individuals and companies alike, is that right?"

Schaeffer, L.: "Oh, no, no, Ma'am, simply for large companies, those companies with payrolls of over 100 people, over \$27,000."

Geo-Karis: "A year, you mean or . . ."

Schaeffer, L.: "No, a month. Those companies are already paying a monthly basis. We're simply piggy-backing on the Federal system. There is . . . they're already doing it. There is no new work for that."

Geo-Karis: "Well, under the Federal system, if I recall correctly, the withholding is withheld weekly or whatever it is, is that correct?"

Schaeffer, L.: "Yes."

Geo-Karis: "But it isn't paid monthly to the . . . under the Federal system, it is paid at the end of the quarterly month, isn't it?"

Schaeffer, L.: "It depends . . . it depends on the size of the enterprise. The Federal system requires that payment be made on specified accumulation dates if on that date the amount accumulated is over, I believe, it's either \$5,000 or \$2,000. Our system would be identical for that system."

Geo-Karis: "Well, then you don't contemplate any hardships, is that right, on a company . . ."

Schaeffer, L.: "The withholding system would be identical to the Federal system, and the enterprises affected by it would, in fact, be doing less administrative work, not more. It would . . ."

Geo-Karis: "Mr. Schaeffer, I submit that if we go along with all of these Bills and the accelerated tax payment, and we're going to have approximately \$90 to \$92,000,000, is that right?"

Schaeffer, L.: "Yes, Ma'am."

Geo-Karis: "All right, so if we take it now, what are we going to leave for the incoming administration, be it Democrat or Republican? We'll be \$90,000,000 short."

Speaker Bradley, G.: "I think the Chair is going to have to step in here. He's been very, very lenient with some of these questions; and we're not addressing ourselves to those Bills, Mrs. Geo-Karis . . ."



Geo-Karis: "I am, this is . . ."

Speaker Bradley, G.: ". . . I think we're going to have to limit ourselves to these pieces of legislation now, Mrs. Geo-Karis, or we'll have to rule you out of order . . ."

Geo-Karis: ". . . all right . . ."

Speaker Bradley, G.: ". . . and some of the questions you've asked has been asked and answered before. The Director is being very patient. I think. . ."

Geo-Karis: ". . . I think he's patient . . ."

Speaker Bradley, G.: ". . . just asking him if it was \$92 or \$95,000,000 that was going to be collected. I've heard that question asked a half a dozen times. And I . . . if you want to be . . . let's be specific and ask the Gentleman questions pertaining to the legislation and not talk about Federal policy, that has nothing to do with this legislation."

Geo-Karis: ". . . all right, the reason I asked about it was just to I could be better informed, Mr. Speaker, and my one last question."

Speaker Bradley, G.: "I appreciate that, but I . . . we've gone around and around the ballpark here for the last half hour or 45 minutes with the Director; and as I say, he's been very patient. Let's try to be specific, asking him some questions or any question regarding the legislation before us. The Chair will be happy to sit here and listen to the answers of the Director; but I don't think we can possibly proceed the way that we've going here recently."

Geo-Karis: "Well, I'm not trying to badger the Director, and I'd like to have my final question with the leave of the Speaker here; and I think the Director's been very charming and attractive. I'm glad he's a change in this House."

Speaker Bradley, G.: "Well, we're running out of water up here and he's getting awfully dry."

Schaeffer, L.: "Let's keep that up, that was great."

Geo-Karis: "What I was driving at, if we get in approximately \$90,000,000 through these Bills, what effect will that have after this . . . say after January 1. We'll be getting between now and January 1, is that my understanding?"



Schaeffer, L.: "It will increase the available balance on December 30th by \$45,000,000."

Geo-Karis: "And then what will happen on January 1?"

Schaeffer, L.: "That money will be available for the next Governor and the next General Assembly to do with as they choose."

Geo-Karis: "Thank you."

Speaker Bradley, G.: "The Gentleman from LaSalle, Mr. Anderson."

Anderson: "Yes, Director, on House Bill 5, you testified that you did study some of the States of the Union. How many of them now require the retailer to pay their sales tax weekly?"

Schaeffer, L.: "I don't know how many of them use a weekly basis. The results . . . those numbers that I quoted came from a publication that divided states by . . . the months, they do it during the month, the month following, the month after. So there are are 25 states that do it more rapidly than we do."

Anderson: "Yeah, but just once a month, none of them collect it four times a month?"

Schaeffer, L.: "I do not know that. I assume that there are states that collect it more than once a month."

Anderson: "Well, we haven't been able to find any. What would you think about this? What if we took House Bill 5 and, instead of paying four times a month, that we move the payments up maybe three or four or five days. We pass the Income, the State Income Tax Bill, which would be \$30,000,000. We move the payments up three, or four, or five or six days to generate the \$20,000,000 to give \$50,000,000. And that's really what the schools are looking for. They're not looking for \$95,000,000. What would you think about amending House Bill 5 in that way?"

Schaeffer, L.: "Well, the basic reason for the Bills, the whole introduction of the package of the six proposals, was that the state's receipt and expenditure pattern are unbalanced. The problem with the school aid payment is that a large amount of money must be expended on the 15th of the month. The plan that you're suggesting would put additional money in the Treasury, I think; but I don't see how it would address the problem of having adequate balances



on the 15th."

Anderson: "Wouldn't it give the \$50,000,000 that you're looking for?"

Schaeffer, L.: "But that's not the entire issue."

Anderson: "That's not what you're looking for, \$50,000,000. Then what are you looking for? \$95,000,000?"

Schaeffer, L.: "Sir, the issue is when the money arrives and when it must be expended. We're currently looking at a payment of some \$110,000,000 on the 15th of every month; and we don't get the money in in a pattern that allows us to pay that easily. If we shift these two Bills and we collect both sales tax and withholding tax on a weekly basis, we have a very smooth revenue strain that we don't have if we . . ."

Anderson: "Well, why not collect, why not collect it hourly then. why weekly? Make it smoother."

Schaeffer, L.: ". . . if you're suggesting hourly, I can see some administrative problems, but . . ."

Anderson: "But, Director, if you're looking for \$50,000,000, and I propose a way to give your \$50,000,000, isn't that what you want?"

Schaeffer, L.: ". . . But that doesn't give the state the resources in the manner it needs to make the large monthly payments."

Anderson: "What you're saying then is you need ~~\$95,000,000~~ for \$50,000,000 is that correct?"

Schaeffer, L.: "Sir, I'm saying that the basic issue is a pattern of recent expenditures that leads to dramatic swings in the available balance. The Comptroller of this state has said on many occasions that that situation is not appropriate, it causes great problems and he has backed this entire package. You know, you might discuss this proposal with him, and I'm sure . . ."

Anderson: "Oh, we have."

Schaeffer, L.: ". . . he would tell you the same thing, that it does not do the trick."

Anderson: "But if you need the \$50,000,000. I propose a way to give you \$50,000,000, you don't want \$50,000,000, you want \$95,000,000."

Schaeffer, L.: "Sir, I would like . . ."

Anderson: "Well, do you agree with me?"



Schaeffer, L.: "... if we could . . . no, Sir, I do not agree with you."

Anderson: "Okay, thank you."

Speaker Bradley, L.: "The Lady from Adams, Mrs. Kent."

Kent: "Thank you. I'm not trying to delay this, Mr. Chairman, I had my light on before the man finished speaking. I would like to ask if you can give me some estimate as to what the additional costs for the administrative part of this in the Department of Revenue will be?"

Schaeffer, L.: "We feel that they will be negligible and, in fact, will be offset. Currently, the Department of Revenue, just as the state's available balance, works on a system of peaks and valleys. At the end of the month, boom, everything comes in. You have to open up all the letters, you have to tear everything apart, you have to get all the money out. In fact, the money that you do on the 30th is not receipted until three or four days until the next month because of this processing. Okay."

Kent: "But if you do this four times, and you're doing it once now, what do they do the rest of the month if they haven't been working up to now?"

Schaeffer, L.: "Well, you have the weekend between to get the work done. You're not in a hurry to get the thing that comes in the 30th, you know, quick, quick, quick, get it posted . . ."

Kent: "Well, there still is many reporting. I mean, that doesn't change the reporting at all. There still is many reporting. It's just four times the work."

Schaeffer, L.: ". . . no, the issue is not the number of reports, the issue is how soon you can translate envelopes into dollars deposited into the bank. When you only have one big hit, once a month, that's the whole ballgame. If you have a smooth flow, so you take four days to do it. It doesn't matter, you have a constant flow of input."

Kent: "Yeah, but I still don't understand if there so many doing it now once a month, there'll be the same amount doing it four times, four times that amount."

Schaeffer, L.: "Yes, but the money gets posted in an even strain."



You're not . . . you're not . . . you have it . . ."

Kent: "But you have to post it four times, where you're only posting it once."

Schaeffer, L.: "But it'll be posted during the month of receipt, not the following month."

Kent: "Well, that doesn't answer my question: What cost is this going to be to those large retailers?"

Schaeffer, L.: "Well, I . . . in terms of their administrative costs, . . . what we're talking, if you remember, in the retailing area, about 3 to 4,000 returns. All right, we're talking about a very small number of returns, which is where the bulk of the money is. They would be coming in four times a month. Like currently we have 150,000 retailers, and they're all piling it at the end of the month. In terms of those retailers, this currently on the system I . . . we're proposing for withholding tax. That is the Federal system. That will not burden them at all. The other system, the sales withholding system, will not require any accounting on their part. They will pay an easily identifiable amount, an amount equal to one-fourth of their average monthly liability, except in the highest and the lowest month. That amount is calculated and known. There will be a reconciliation, but that reconciliation through a credit memorandum can take place at the end of the month or at the end of the next month. So it should not burden them at all, except to write the check."

Kent: "Do you mean to say that this plan will not create a heavy burden on those medium-sized retailers who are just barely over the line and they do not have computers?"

Schaeffer, L.: "Well, I do not know how many of those there are, and . . ."

Kent: "No, but there are plenty of them."

Schaeffer, L.: "Well, if our numbers are accurate, we're saying that 3 to 4,000 retailers total out of 150, I would not think that there would be that many that are marginal. If they are marginal, I still don't think it's that much of a burden. We're talking about a known amount, we're not talking about any kind of calculation



required. And we're talking about a system that will allow the use of a credit memorandum to offset any under or over payment. I really don't think that a case can be made for this being an administrative burden."

Kent: "Do you mean to say that this will in no way create more burdens on the Illinois business?"

Schaeffer, L.: "I do not believe so, otherwise, why would the Illinois Retail Merchant's Association have agreed to it?"

Kent: "How come they're not actively saying anything. I mean, I don't believe . . . I want you to say this, the Illinois Retail Merchant's, do they actively . . . are they actively proposing this plan and backing you?"

Speaker Bradley, G.: "Mrs. Kent, is that directed to the legislation that's in front of the Committee of the Whole?"

Kent: "It sure is, because these are the people that are going to get hit with this."

Speaker Bradley, G.: "Okay, I don't . . . well, I . . ."

Kent: "We're slapping business one more time, and when you live on a border city and you see Missouri taking our businesses, you will realize that this is just one more trap. And I think it's poor, poor policy as far as the State of Illinois is concerned."

Speaker Bradley, G.: ". . . The Chair . . . the Chair doesn't believe though that that question should be directed to the Director of the Budget of the Bureau when he's here to testify in behalf . . ."

Kent: "Well, this is what he has been publicized . . ."

Speaker Bradley, G.: ". . . he's here to testify for . . . not for or against these particular Bills. If you wish to continue questioning him, would you please confine your questions to the legislation that is before the Committee of the Whole."

Kent: ". . . I will ask one more time in a more gentle way, why are you publicizing that the Illinois Retail Merchant's Association won't actively oppose this plan? Are not they generally opposed to it?"

Schaeffer, L.: "Ma'am, on September 8th, Mr. Muncy and I, who's



the president of the Retail Merchant's Association . . ."

Kent: "I know him well."

Schaeffer, L.: ". . . jointly released a news release, which he personally signed off on and put his name on it. So if anyone had any questions, they could call him. And it said that the decision to drop the opposition . . . their original opposition emerged from a meeting between Muncy and Schaeffer in which it was agreed that the state would meet an objection raised by I.R.M.A. in the September 12 . . . 2nd mailgram to legislative readers. It changes . . . it eliminates the requirement . . ."

Kent: "I've read it, I've read it; but what I want to know is, won't actively oppose. Those are the . . . you know, we are used to little words that change things, won't actively oppose."

Schaeffer, L.: "Mr. Muncy told me that he would . . ."

Kent: "That doesn't mean that they are a proponent of it."

Schaeffer, L.: ". . . Mr. Muncy told me that he would not ask or encourage anyone to vote against this measure."

Kent: "What will this mean to those businesses who have seasonal sales over the \$5,000 mark? For instance, large implement dealers, furniture stores that have certain seasons, Christmas time. What's it going to do to them then?"

Schaeffer, L.: "This will not change their ~~current~~ situation because the quarterly payments is not based on actual sales, it's based on the average monthly liability. So, obviously, you average out. You also exclude from the average calculation the high and low months."

Kent: "I have a note here from Mr. _____ himself that was addressed to me in my office. When such changes were made in the Bills, the administration has presented for your consideration it was made clear by I.R.M.A. that this association does not and will not support tax acceleration legislation. It was agreed active opposition on the basis of the deposit would be dropped. I.R.M.A. is not and will not encourage any Legislator to vote in favor of a procedure for accelerated sales tax collection."

Schaeffer, L.: "Is Mr. Muncy asking to vote against this measure?"



Kent: "This came this morning to my office."

Speaker Bradley, G.: "And I believe we're going to have to call a halt here. I think you're entirely out of order, Miss Kent, by proceeding the way you're proceeding with these kind of questions and talking about I.R.M.A. I don't see I.R.M.A.'s name in this legislation at all."

Kent: "No, but I see . . ."

Speaker Bradley, G.: "I've tried to remind you now . . . I've tried to remind you, and we've been very, very patient. Now, if you have specific questions for the Director . . . if you don't, we'll go to somebody else who has never . . . there's a half a dozen more who wish to question the Director."

Kent: ". . . But he was making a statements that was not true."

Speaker Bradley, G.: "Do you have a question? Do you have a question to this . . . Miss Kent, do you have a question?"

Kent: "I will quit now, but I want you to know that I was questioning him as I would any other . . ."

Speaker Bradley, G.: "The Gentleman from DeKalb, Mr. Ebbesen; do you have a question for the Director? All right, the Gentleman from DuPage, Mr. LaFleur, your light was flashing. Do you have a question for the Director, Mr. LaFleur?"

LaFleur: "Yes, Mr. . . . I do have a series of questions that will relate to the revenue of the state; and I hope that I will be able to ask them because I think it is necessary for us to know what the situation is in regard to the revenues as they exist . . ."

Speaker Bradley, G.: "The only thing that the Chair . . . the only thing the Chair will expect from you, Mr. LaFleur, is that if the questions have already been asked and answered, we would appreciate that if you did not ask those questions again, and again, and again. And then be specific and direct in your questions to the Director regarding the legislation that's before this Committee."

LaFleur: "Thank you, Mr. Chairman. Director Schaeffer, we are operating under an appropriation budget, revenue estimate that came out early in the year. And in light of that, at that time the admin-



istration's posture was that they planned to sell \$450,000,000 of general obligation bonds in fiscal year 1977. What is your posture at this time on issuing of general obligation bonds?"

Schaeffer, L.: "What is our posture on issuing general obligation bonds?"

LaFleur: "You intended to issue \$450,000,000 at the beginning of the year on your original . . . are you still in that same posture?"

Schaeffer, L.: "Yes."

LaFleur: "Then you have not changed any scheduling for the issuing of bonds?"

Schaeffer, L.: "No, Sir, the sale of bonds is dependent upon the pace of construction, the most important factor is weather. Therefore, it's very hard to predict; but our predictions were for \$450,000,000 in that range."

LaFleur: "About \$450,000,000. And on your projections at the beginning of the year, have you updated your revenue estimates for fiscal 1977?"

Schaeffer, L.: "We have not changed them. The Bureau issues a report at the end of every quarter, and we wait for one quarter's worth of experience. You need it to begin to find trends and you need it in order to get the macro-economic forecasts that are issued by the various forecasting associations. So we will have an updated estimate at the end of the first quarter."

LaFleur: "Did you carry over the amount of money that you felt was necessary or that you would carry over from your original estimate?"

Schaeffer, L.: "Our original estimate was to end the year with an available balance of \$133,000,000. We actually ended the year with a balance of \$126,000,000. The difference was due primarily to the unexpected refund."

LaFleur: "Has there been a drop-off in the revenue generated by the State Lottery?"

Schaeffer, L.: "No, Sir, the lottery's revenue 'estranged' is atypical in the sense that the summer months are normally the doldrums and they go down a bit during the summer. But we're not off expectations there."



LaFleur: "What are your current projections on how much money will be transferred to the General Fund for fiscal year '77 from lottery receipts?"

Schaeffer, L.: "It's around \$80,000,000."

LaFleur: "And that stands static with what you had originally forecast?"

Schaeffer, L.: "Right. When you do your revenue estimating, you estimate each line item; but the key is the aggregate amount. And in aggregate, we're talking about very successful experience. When you're talking about a \$5,000,000,000 flow-through, and your ending available balance is off by \$6,000,000, that is fantastically accurate."

LaFleur: "That could be partially controlled, though, is that not true by deferring certain obligations?"

Schaeffer, L.: "We have been through this, I think, a number of times . . ."

LaFleur: "But it's possible, isn't it, Doctor . . ."

Schaeffer, L.: ". . . that you can't control everything, that's the issue."

LaFleur: "But it's possible. What amount at this time from Federal reimbursement that's presently under a deferred status or a disallowed status?"

Schaeffer, L.: "What amounts?"

LaFleur: "Yes."

Schaeffer, L.: "The amount that was in the budget . . . \$75 in the budget book."

LaFleur: "\$75,000,000?"

Schaeffer, L.: "Approximately."

LaFleur: "What efforts have been made to change the status of the disallowed . . . has that been reversed or is there an appeal or what is the status of that now?"

Schaeffer, L.: "If you like State Government bureaucracy, you'll love the Federal Government. There is an incredibly laborious process of appealing deferrals, getting disallowance letters, submitting documentation. We are pursuing that at every level and with the greatest possible energy we can bring to it. But it is



a very debilitating process. We believe that we are right. We believe that we will get the money. Getting the Federal Government to agree is an issue. But we are still very hopeful we will receive the money; but I have to report to you that, except for \$3. or \$4,000,000 that was released pursuant to an indirect cost calculation, we have not received a large amount, you know, the big bust."

LaFleur: "Is there any chance of us receiving this money in the '77 fiscal year?"

Schaeffer, L.: "I would hope so; but I can't in good conscience, you know, tell you. That's why it was put in the budget book as a receivable and that's why we do not count on it, and it's not part of our expenditure plan."

LaFleur: "But it does appear in the budget book as a receivable?"

Schaeffer, L.: "Strictly as a receivable, it's not present in any revenue estimate and it's not present in any calculations of expenditures or available balances."

LaFleur: "What is the status of the relationship of the State of Illinois in the Federal Government on monies that the Federal Government has asked Illinois to repay?"

Schaeffer, L.: "Well, the same type of procedure as exists relative to deferrals; but this is a much, much older situation. The whole thing has to do with agreements that were made in the prior administration with the prior president of administrations, and that is governed by what are called the 'Swinum' memoranda and waivers to this state. It's a very complicated issue. As far as I'm concerned, they have made no progress in proving their case. That is money, though, that the state had received and the Federal Government would have to get that back somehow, and that would be a very difficult and laborious process. So I don't feel the state has much in the way of exposure there."

LaFleur: "How much jeopardy do we have on this '77 fiscal year?"

Schaeffer, L.: "Jeopardy? I don't think we have any."

LaFleur: "There is no jeopardy . . ."

Schaeffer, L.: "I don't think so."



LaFleur: "If we are in jeopardy on that, you feel it will fall after the '77 fiscal year?"

Schaeffer, L.: ". . . Oh, I think if we're in jeopardy on that, which I doubt, it will be negotiated out. The program under which that this allowance was instituted no longer exists. How would they get the money back? We're talking about ancient history."

LaFleur: "Do you . . . what are the estimated receipts from new Federal programs enacted since July?"

Schaeffer, L.: "Excuse, me, I really didn't hear that."

LaFleur: "New Federal programs enacted since July, what are the estimated receipts from any of those?"

Schaeffer, L.: "There are no estimated receipts. The only Federal program that would have any direct impact would be the Public Works' Bill. And that Bill which originally held out such great hopes for the state, really doesn't hold out very much at all. It's kind of ironic that the Chamber of Commerce is always telling us that we are a very bad state for employment; when, indeed, our unemployment rate is much better than most other states. And, therefore, we do not qualify for the kind of public works' assistance that we want. We will get a very low amount of public works' assistance. The problem is that although the substantive Bill has passed, the appropriation has not and, as you know, legislative bodies sometimes take their time with the appropriation, even though they enact formulas and other things to funnel monies out."

LaFleur: "Will this increase your revenue estimate for fiscal 1977 if it comes to be . . . if it comes to fruition?"

Schaeffer, L.: "No, the public works' money would not come to the State Treasury, it would go directly to projects. By the way, you should know that locals, in other words, local government at a variety of levels, have a first shot at that money. So as the money comes to Illinois, it will probably end up in local school districts, local road construction, that sort of thing. The state is the remainderman of whatever is left."



LaFleur: "Director Schaeffer, in your fiscal year '77 budget, you indicated that \$90,000,000 would be received from three sources; \$75,000,000 from the Federal Government, \$8,000,000 from inheritance tax receipts held by counties and \$7,000,000 in loan repayment by the R.T.A. What is the status of each of these estimated receipts, and will the state receive these payments in fiscal year 1977?"

Schaeffer, L.: "Well, we've already discussed the Federal situation. And the R.T.A. repayment is, as you know better than I, a very complex issue. I don't know if they have a budget by law. They have something. That budget has in it a reserve for payment to the state. I believe the reserve is some \$5,000,000. And I have not seen the final document; but that was part of the negotiation with among the R.T.A. board members. The problem is I know of no plan to actually make that money available to the state. The legal relationship as to who tells who what to do there is unclear until R.T.A. gets this organization and this plan together; and I think they are still operating in an environment where it's very difficult for them to make those judgments. The other one was the protest . . ."

LaFleur: "\$8,000,000 from inheritance tax receipts held by counties."

Schaeffer, L.: ". . . to my knowledge, I'm just trying to double-check, the . . . it is still tied up in litigations. That money by right, by right, is owed to the state; but the court has not yet released it."

LaFleur: "It is still not received by the state."

Schaeffer, L.: "It has not been . . . the court has not directed that payment be made to the state."

LaFleur: "I only have one more question, I don't know whether you or the person that . . . is the correct person to ask this of, but I will ask it and you can tell me if you wish to defer it to revenue or someone else. But it has been established that we have some \$60,000,000 uncollected in state sales tax and also that we have, I forget the exact figure, but it's several million dollars in protest funds. The pursuing of this would seem to me to



be able to meet many of our current obligations, and especially the priorities that the administration is setting. What hope . . ."

Schaeffer, L.: "Well, I think you . . . I'm sorry."

LaFleur: ". . . what hope is there of accelerating our present laws to collect the uncollected tax and also what is being done to pursue an effective course to get the money that is under protest, not only the money that is not under protest, but the money under protest into the State Treasury?"

Schaeffer, L.: "Well, I think that you might want to direct that to Director Allphin; but in terms of our estimates of revenue, there are always collectables, there are always monies in protest. And every year we look at past history and we estimate based on the trend what percentage of those dollars . . . well, how the collectable, you know, rate will fluctuate, how the protest rate will fluctuate, and what percentage of those dollars will eventually go to the Treasurer . . . go to the Treasury. And those estimates are embedded in our revenue estimates. In other words, we're counting on some portion of those collectables to turn into receipts and some portion of the protest to turn into receipts based on historical patterns. Now, I think that you are aware that under Director Allphin, the Department of Revenue has really moved ahead and outdistanced many other states and, certainly, past history in this state to re . . . you know, to recoup monies owed the state. And he has an enviable record, which he can tell you about. But we are counting on that to be accomplished. There's no windfall there. I mean, as you know, the whole issue of payment of taxes in dispute is one that's controlled by the court and controlled by constraints on the state's ability to claim money with liens on, et cetera. But we're counting on some . . . on the portion of those monies that by historical trend would come to the state to, indeed, come to the state. But I think if you want to get into any greater detail, you want to talk to Director Allphin."

LaFleur: "Yeah, I can realize that on the protest money because that has outside controls on it as to the state accelerating or the state



actually collecting that. But has there been anything done to do better than what is historically on the \$60,000,000 that is uncollected that is not under protest? Are we going to . . . are we going to have a better track record on that than we did in the past?"

Schaeffer, L.: "I think you want to talk to Director Allphin because, indeed, we have a better track record on that and further the collectables are probably a testimony to the aggressive way that the department has gone about with their new auditors and their new powers to get every dollar owed them. But I think you really do want to direct that to Director Allphin."

LaFleur: "Well, perhaps since we've talked about this, and that was my last question, that Director Allphin or the Revenue Department will make note of that and in his opening remarks he can address that subject of uncollected taxes."

Speaker Bradley, G.: "Thank you. The Gentleman from . . ."

LaFleur: "Thank you."

Speaker Bradley, G.: ". . . Grundy, Mr. Washburn, for what purpose do you arise, Sir?"

Washburn: "Thank you, Mr. Chairman. I was wondering how many more witnesses we might have, and what your projection is for adjournment or conclusion to this hearing, Jerry?"

Speaker Bradley, G.: "Well, I'm not going to base it on the number of witnesses we've had so far and; you know, if we would go that route, we'd be here the rest of the night. We have six more witnesses, and I don't know and we won't know until they come forward whether they're going to be available for questions and answers or whether they just want to make a statement or whether they just want to be listed as a proponent or opponent. But I would think we're going to be here for a couple more hours at any rate."

Washburn: "Well, the reason I make this inquiry, Mr. Chairman, is that at the conclusion of this meeting, and, hopefully, it wouldn't take two more hours, I certainly would like everybody to have the opportunity to ask any question they might want to ask, that they



felt necessary, but my point is when this hearing is concluded, I would like to meet with the Republicans immediately upon adjournment. And I hope it's much less than two hours from now."

Speaker Bradley, G.: "Well, if the Chair has anything to do with it, it will be much less than two hours. We'll move along as rapidly as we possibly can, Mr. Washburn."

Washburn: "Maybe I should say right now that when we do adjourn, of course, I'll make this announcement before we do, but we do have Room 118 standing by for the Republicans to . . . in which to gather when we do adjourn. And as I say, I hope it's much shorter than your two-hour prediction."

Speaker Bradley, G.: "All right, I hope I'm wrong on that, too. So if we can we'll get done with this just as rapidly and possibly within an hour. And if we can just limit the questions and just don't ask questions that have been asked, I think will be a big help. Are there any further questions of the . . . the Gentleman from Cook, Mr. Houlihan."

Houlihan, J.: "Mr. Speaker, a point of inquiry. I wonder if Mr. Washburn has just gotten the orders from the one man that he doesn't take orders from and if he's interested in conveying those orders to the rest of the Republicans who have been waiting kind of in a limbo, not knowing what to do on this issue."

Speaker Bradley, G.: "Mr. Houlihan, I think that's out of place, and I wish you would keep your remarks to the legislation and the Committee of the Whole. The Gentleman from Lawrence, Mr. Cunningham, with a few brief questions."

Cunningham: "Chairman, is it a wonder we develop paranoia in the 54th District. And we get nothing down there, and you won't even let our Representatives in that district speak. I just have a couple of questions, though, to ask of the Director."

Speaker Bradley, G.: "The Chair . . . the Chair is recognizing . . . okay, I'll . . ."

Cunningham: ". . . I wanted to ask you, Director, what is the emergency for the speedup? I've listened very attentively all the while you've been talking. What is the emergency? Just in small words



and quick."

Schaeffer, L.: "The F.Y. '77 budget calls for these two proposals, three proposals to be enacted so that the state could afford a program that was embodied in that budget. When these proposals were not enacted, that program was reduced by the Governor. We have heard from school district after school district that they feel the need for additional funds. If we are to provide those additional funds to those school districts, we must generate additional revenue."

Cunningham: "Yes, but you have complimented yourself on your prediction as to the ending budget . . . ending balance at the end of the year. You said it was one in a million you could be that accurate. You had \$100,000,000 left. You've answered earlier and said that there was enough money in the till to pay off. You were one of the coauthors of that famous budget that predicted . . . that projected a zero balance. Do you remember that?"

Schaeffer, L.: "No, I was not involved in that."

Cunningham: "Well, you knew Director Hovey coauthored it, didn't you, at a zero balance?"

Schaeffer, L.: "Yes, Sir."

Cunningham: "Did you not support his position in that matter?"

Schaeffer, L.: "I . . ."

Cunningham: "Are you against zero balances for state planning?"

Schaeffer, L.: ". . . I think you're talking about a budgetary balance."

Cunningham: "Okay."

Schaeffer, L.: "If you're talking about a budgetary balance, I don't have problem with a zero balance. I'm talking about an available balance."

Cunningham: "I've just got two more questions. You keep emphasizing that it's the large businesses that will be penalized by this punitive legislation. I would ask you . . ."

Schaeffer, L.: "I don't think I know of any . . . anyone who has refused . . ."

Cunningham: ". . . that's redundant; but I wanted to ask you, isn't it true that practically every grocery store would have a gross of



\$25,000 a week, and that would qualify him to pay? Most car dealers would come under that category, most department stores.

Is that wrong or not?"

Schaeffer, L.: "I would think there'd be many more than 4,000 grocery stores. But I don't think I would . . ."

Cunningham: "Well, that's what I'm getting at. Where did you come up with this 4,000 figure as being the only ones that would be nailed under the . . ."

Schaeffer, L.: ". . . From the Department of Revenue."

Cunningham: ". . . Did you . . . have you found them infallible? One more question. No reflection on the Director. I wanted to ask you one more question about the corporate. It's a technical question. At the present time, you're saying that you're only going to make the corporate income tax be paid by the largest. Would you rap the gavel so this fellow can hear the question?"

Speaker Bradley, G.: "I could hear it. Who couldn't hear the question?"

Cunningham: "I'm asking you, have you given any thought to whether it was in violation of the Constitution providing the 8 to 5 ratio that you would single out the largest corporations for paying earlier their tax return? Is there any question involved there or not?"

Schaeffer, L.: "No, the corporate income tax is currently paid under state statutes one month later than what . . . that is paid under the Federal law. All we're talking about is moving up the date of payment. There is no impact on the amount paid or the ratio between corporate taxes and any other taxes. I . . . if I understand your question correctly."

Cunningham: "Well, but doesn't the Bill penalize the corporate taxpayer in comparison to the individual?"

Schaeffer, L.: "No, Sir, it has. . . it in no way changes the tax code other than the timing of the return. The period for which taxes are paid is not changed, the rate is not changed. I can't see . . . unless I'm missing your question entirely, I can't see how that change would in any way impact the 8 to 5 ratio."

Cunningham: "Thank you."



Speaker Bradley, G.: "Thank you. I think that concludes the questions of the Director. And the Chair, certainly, wants to thank you, Mr. Schaeffer, for being with us today and being so patient and adding to the decor of the Chambers. Thank you very much."

Schaeffer, L.: "Thank you very much. I've enjoyed being here."

Speaker Bradley, G.: "Mr. Paul Neil of the Illinois State Chamber. is listed as an opponent, but we're passing out some pamphlets with his statistics, and he's informed us that he will not make a statement; but if there are any questions that anybody has of Mr. Neil, he'll be happy to respond. If not, we'll go on to the next witness. I would suggest that you look these over; and if you have questions, Mr. Neil will stay for a few minutes and we'll call on him later if there are any questions. The next witness then will be the Director of Revenue, Robert Allphin."

Allphin, R.: "Thank you, Mr. Speaker. There's been a lot of questions, and answers and discussions here this afternoon. And I know you all are about as tired as I am and maybe even more so. I think my role might be better placed by responding to your questions and I'm available and fire away."

Speaker Bradley, G.: "Are you ready for questions then?"

Allphin, R.: "Yes, Sir."

Speaker Bradley, G.: "Fine. The Gentleman from Sangamon, Mr. Kane."

Kane: "Director Allphin, I think we've been through the procedures for the accelerated tax collections a number of times. And I think that we understand that. I'd like to direct my questions to a couple of other items of possible revenue to the state, and it has to do with speeding up collections of taxes owed to the state. And these are in the areas of accounts receivable and the money that is owed to the state that has not been collected. And I'm wondering if you could go through the amount of money in various accounts that are owed to the state that are either . . . have been protested or have not been protested that may be subject to court decision. And indicate how much money is not owed to the state, that is, sales tax, income taxes that have not been collected."



Allphin, R.: "I'll be glad to, Representative Kane. First of all, you have to understand that we are required by law to maintain accounts receivable for at least 10 years. So, unlike the number of businesses who can charge them off and get them off their books, we carry them on our books. So to begin with, I would like to distinguish between those accounts, which I call current accounts receivable; current being those are the accounts that we were proceeding with various collection activities. There's also another category of accounts in litigation; that's those in protest. And I'll give you those figures now. The amount in litigation, which are tied up either by way of protest, or the taxpayer has paid under protest or we can't collect because of court action, is currently under the R.O.T. Act some \$56,000,000 and under the miscellaneous taxes some \$110,000,000. I might point out in response to a question that was asked Director Schaeffer that the attorney for the Department of Revenue in these collection activities is the Office of the Attorney General of the State of Illinois. And if you can ever get him before this Body, you can find out what his efforts are at proceeding with court collection."

Kane: "How . . . could you tell us how long these monies have been out and . . ."

Allphin, R.: "Some . . . some of this litigation has extended for a number of years, and some it may or may not be determined in your lifetime and my lifetime. Some of them, they are constitutional questions. There are many of them that will only be determined when they go either to the Supreme Court of the State of Illinois or the Supreme Court of the United States. There are genuine differences of opinion as to the liability."

Kane: ". . . I understand that \$100,000,000 of this or \$166,000,000 has to do with the telephone company. Could you tell us what the status of that is and what the . . ."

Allphin, R.: "I think this is a matter of public record since they did file a protest to our original Bill. When I came on board as Director of Revenue and looked into the very . . . portion of



the various tax facts in this state, I found the telephone company had not been audited since 1937. This is the Messages Tax Act, the 5 percent excise tax on all messages other than sales to the Federal Government and those of inter-state commerce. After an audit, we determined that there was a liability. We issued an assessment. The Bell Telephone Company has appealed and this matter is currently in litigation."

Kane: ". . . How about the amount of money that's receivable to

the state that is not under protest or not subject to court action?"

Allphin, R.: "The most current figure that we have is in the area of about \$60,000,000, Representative Kane, stratified by years of incurred liability about \$34,000,000 for fiscal '76, and I'm giving you these in round numbers, \$18,000,000 for fiscal '75, \$13,000,000 for fiscal '74, \$28,000,000 for fiscal '73, \$21,000,000 for fiscal '72. Now, these will not come out in total because there are certain . . . these are the aging of the accounts. And I might point out that one reason that the fiscal '76 amount is so high is that this figure reflects the increased auditing activities of the auditors in the Department of Revenue in that the minute we issue an assessment, it immediately goes on our books as a receivable. And I good number, a goodly amount of this liability for fiscal '76 is assessments that will be paid off timely. And, of course, we don't know a number of them may be protested."

Kane: "How much time do companies have to either protest the assessment or to take it to court?"

Allphin, R.: "I think it's some 30 days if they have to take some manner of activity on it."

Kane: "So most of this money then is due to the state and the time has already lapsed for them to go to court or to protest it?"

Allphin, R.: "No, no, these are liabilities determined on audit for the particular fiscal years involved, Representative Kane. In other words, we could've completed an audit day before yesterday, could've assessed it yesterday, but it might have involved an assessment for some three years back."



Kane: "How much of this \$60,000,000 would be more than 30 days old?"

Allphin, R.: "I would have to look at my monthly assessment figures and I have those here for the month of August, if you'll yield with me for just one moment here. For instance in August we assessed roughly \$6,000,000. Now, the minute it is assessed, it becomes an account receivable. Now, some of that may come . . ."

Kane: "So \$54,000,000 . . ."

Allphin, R.: ". . . in revenue in September or they may enter a protest in September. Do you follow me?"

Kane: ". . . So \$54,000,000 of this would be more than 30 days old then?"

Allphin, R.: "Yes."

Kane: "And what's the next step to collecting that money?"

Allphin, R.: "The next step of collection, of course, is a follow-up letter on the original tax bill or some assessment notice that we mailed to the taxpayer. After two notices, then it goes out to a field office for a direct contact with the taxpayer. And at that point, then a decision is made to either institute a payment plan or to invoke the seizure provisions which the Legislature has enacted to give the department some muscle in the collection process."

Kane: "Okay, one last question. This seems to be an awful large amount of money out in accounts receivable. How does this compare to the historical trend for accounts receivable to the state?"

Allphin, R.: "It compares very favorably with the historical data that I've been able to put together from the past history of the Department of Revenue. And as you might well indicate, I have been in contact with other states with comparable problems; and our current balance, given the nature of our taxing system, a number of taxpayers is . . . compares very favorably with that in other states."

Kane: "Do you know what the accounts receivable would have been when you took over as Director?"

Allphin, R.: "I do not, for the simple reason nobody kept a running balance of the accounts receivable. We made the first attempt to



review all accounts receivable and to put them on the computer. And we're just now being able to get a computer run aging the accounts and to get, what I think, are realistic totals."

Kane: "Are those totals going up or down?"

Allphin, R.: "Currently, they fluctuate from month to month. They're pretty much . . . through a period . . . over a period of time they're staying stable. They were increasing when I came to the Legislature and recommended that we be granted seizure powers under the R.O.T. because this by far has been the greatest troublesome area in collection of taxes. When we got the power to seize and utilize this, the accounts receivable started levelling off and now they only fluctuate from month to month depending upon the activity of the Audit division and after obtaining additional liability."

Kane: "And what's been the success rate on collecting the accounts receivable?"

Allphin, R.: "I think that we've had a very excellent track record; We've not made too many of these type of taxpayers happy about being hardnosed. And those people who come up with an acceptable payment agreement and who maintain that month after month to extinguish the liability. Our basic desire is not to put them out of business, but to keep them in a productive capacity. We have a number of payment agreements currently in effect. We have had to close a few businesses and auction off the equipment and the inventories. This has been done in a very limited way. If you would like to have the audit and collection activity for a total fiscal year, I think that might give some indication perhaps. For instance, last year when I'm talking about fiscal '76, our total audit activity was \$57,000,000 as opposed to \$40,000,000 in '75, which indicates two things, the increased training of our force, and also the ability to use the seizure provision."

Kane: "Is that collections or assessments?"

Allphin, R.: "The \$50 . . . that's collections from the activities of the whole collection division."

Kane: "Could you send me a copy of that report by month on those



assessments and collections?"

Allphin, R.: "Be glad to."

Kane: "Thank you."

Speaker Bradley, G.: "Mr. Kosinski."

Allphin, R.: "Do . . . would you like that for fiscal '76? Would you like it compared with '75, too? All right."

Speaker Bradley, G.: "Mr. Kosinski."

Kosinski: "Director Allphin, may I first remind you that you have a 3 o'clock appointment with the Auditor General."

Allphin, R.: "Basically, though it may seem ludicrous to you, I prefer the appearance here."

Kosinski: "I left off with Director Schaeffer on some technical questions, the Speaker recommended that I ask you. And we were attempting at the time, I think, to qualify deposit against bonding. Now, can you give me a little history of the deposit factor in retail occupation tax? When did that come into being?"

Allphin, R.: "The deposit came into being under the Ogilvie administration, I think, in 1969."

Kosinski: "I see, and at that time, Director, from your memory was bonding . . ."

Allphin, R.: "It was not . . . pardon me, Sir, I do not want to be misquoted, it was not called the deposit system. There was a system of estimated payments at that time, which was later converted last year, as you well know, to what we call a deposit system."

Kosinski: ". . . At the time this originally came up, was there consideration of bonding as opposed to the deposit system we have now?"

Allphin, R.: "Not having been present at that time, I am not completely sure of that."

Kosinski: "I have the understanding that bonding was put aside in favor of this system."

Allphin, R.: "It could well have been because the cost of bonding in a number of these types of businesses is fairly prohibited."

Kosinski: "In other words, the interest factor that big business may



gain on retaining monies for 30 days might be much less from the cost of supplying a bond."

Allphin, R.: "I assume that takes into account the cost in the money market, and you are probably more qualified than I to answer that."

Kosinski: "I think that culminates my questions. Thank you."

Speaker Bradley, G.: "No further questions of the . . . Mr. Maragos. Thank Mr. Maragos."

Maragos: "Mr. Director, I did not quite get the questions when Mr. Kane was interrogating you. On your discussion in the accounts receivable, upon what basis do you estimate the accounts receivable for any one fiscal year? Is it on your estimates or your notice of tax liability or is it based on the actual returns of the taxpayers acknowledging the amount due?"

Allphin, R.: "I'm sorry you didn't ask that question of Director Schaeffer. He . . . We've informed the Bureau of the Budget of our current collection activities. They factored this into the size of the total amount of taxes collected; and I think to convert that to a percentage, depending upon the efforts of the Revenue Department, that we will collect a percentage of the accounts receivable. Now, that has been increasing for each of the last fiscal years as indicated by our annual report."

Maragos: "Yes, but I'm asking the interior of the internal processes of your department as to . . . on what basis do you submit figures for accounts receivable at . . . for instance, the report that you're going to give Mr. Kane, for instance. Is that going to show the basis . . . based upon notice of tax liability estimates that you have or is it going to be . . ."

Allphin, R.: "It's . . ."

Maragos: ". . . actual return based on figures on returns filed by the taxpayers?"

Allphin, R.: ". . . No, this involves basically audit and collection activity, Representative Maragos."

Maragos: "All right."

Allphin, R.: "In other words, it's not an estimate, it's taking the



field reports of our auditors and collectors and the number of bucks really deposited in the bank and also the number of bucks put on the books by a result of the assessment of the auditors."

Maragos: "Yeah, I wanted that for the record because I didn't want anybody to feel that your department was getting something that was not estimate . . . that was an estimate rather than returns because I know you . . ."

Allphin, R.: "What everybody does with them is not our business. All my business is is to report what the Department of Revenue is actually doing and something I can stand on."

Maragos: ". . . I know from personal experience that you are very diligent in your approach as to collect taxes, and I commend you for it."

Allphin, R.: "One of the less . . . one of the fine words is hard-nose, Representative Maragos."

Speaker Bradley, G.: "The Gentleman from Franklin, Mr. Hart."

Hart: "Director, what kind of procedures do you have for depositing income tax checks as they come in? The reason I ask that question is in previous administrations, we found instances where income tax payments had been set aside in boxes and not cashed for months and months. I made my payment in April; and as of the end of July . . . end of August when my July statement came in, my check hadn't cleared for payment of my income tax in April. That kind of makes me wonder about the efficiency of a system and what really happens to all the money that should be put in the bank. What kind of a tie-down do you have on that?"

Allphin, R.: "Well, did you file your return around April the 15th, Representative?"

Hart: "Yes, I did."

Allphin, R.: "There is always a few, depending upon the number that . . . you see, what you have to consider is, of our 450,000,000 returns, about 40 percent of them come in the last week, which gives us a real one-shot impact. Now, if yours is one that has not been deposited, there may be . . . and we have found this on certain instances . . . the mail never got to the Department of Revenue."



All you have to do is make a simple telephone to my . . . call to my number and give your social security number; and if it's in our system, we'll let you know where, why and why you haven't gotten it back."

Hart: "Well, I haven't gotten my August statement yet. So I don't whether it cleared in the month of August, but . . ."

Allphin, R.: "Based on our activity, there is no reason why your check should not have been cleared."

Hart: ". . . And how many days at the most?"

Allphin, R.: "In times other than the 15th of April, we're on a . . ."

Hart: "Well, even in the . . ."

Allphin, R.: ". . . we're on a 48 hour deposit system at max'. Now, this extends to sometimes a week, 10 days or two weeks, around April the 15th. So if yours is more than a month old, then there is a problem."

Hart: ". . . Okay, I'm glad to know that. There will . . . there is a way, I think, if you know what you're doing that you can look at the back of a check or some way and tell when it actually was deposited. So I'll get back to you . . ."

Allphin, R.: "Sure, and I'd appreciate hearing from you because it's only incidences like this where we can trace a specific item that I can find out whether my system is functioning like my people tell me it's functioning. And if one is not deposited, I want to know about it, too."

Hart: "Thank you."

Speaker Bradley, G.: "No further questions of the Director, we'll . . . thank you very much, Mr. Allphin, for being with us today. We appreciate . . ."

Allphin, R.: "Thank you very much, and I appreciate the patience of this Body; and if they have any additional questions, all they have to do is to call me."

Speaker Bradley, G.: ". . . We appreciate that. Thank you. I have another witness, Ronald 'Cardoni', who is listed as a proponent for House Bills 1 through 5, from the Illinois Association of School Boards. And I don't see him in the Chambers now. Maybe he



just wanted to be listed as a proponent? Donald, Doctor Schledge of the Illinois Association of School Administrators' Associate Director is listed as a proponent on House Bills 1, 2, 3, 4 and 5. Do you wish to be heard, Sir? He indicates that if there are any questions that he would be happy to . . . Mr. Madison, do you have a question for Mr. . . Doctor Schledge?"

Madison: "I have a question of the Chair, Mr. Speaker. I'm just wondering if there are any opponents registered?"

Speaker Bradley, G.: "Yes, Sir. We're going through the proponents, and I do have two opponents."

Madison: "Thank you."

Speaker Bradley, G.: "All right. Doctor Weil, Illinois Federation of Teachers' AFL-CIO, indicates that he is a proponent for House Bills 1, 2, 3, 4 and 5. It appears that he is not in the Chambers and, evidently, we'll just list him as a proponent. Paul Neal of the Illinois State Chamber of Commerce now is listed as an opponent, and we passed out the literature. Are there any questions of Paul . . . of Mr. Neal? No questions. We have with us another opponent of House Bills 1 through 5, Mr. George Kormos. I don't know if he wishes to testify or just be listed as an opponent. Do you want to testify, Sir? This will be our last witness, so that we can move on for the day. I'm sure he will be brief. Proceed, Sir."

Kormos, G.: "I don't know whether I can be heard. I have a little trouble with my throat. The reason . . . the reason I asked to be heard is that I'm a little bit surprised and overcome by all the arguments that I've been hearing about education and why we should increase the collection of taxes. I'm surprised because I've been interested in education for a great number of years and you people haven't even touched the surface of what education is all about. What I mean by that is you've done nothing for the pre-school child, you've done very little for the older Americans. And here you are trying to raise money and you haven't even begun to do your constitutional duty in relation to education. Now, I've heard of a one-word definition of education, and that is



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that it's . . . you . . . it's slipped my mind now. I have to wait until it comes back; but . . . education is a broad subject and what you have been discussing here doesn't even begin to touch upon the real problem. For instance, this year you passed a Bill that is spending \$40,000 per student, per year. Did you know that? One student is having \$40,000 spent on him. On the other hand, you have students who are having a great deal less. Now, this is what the problem is in education, and I want you people to consider it. In relation to the collection of the speed up of the taxes, I'm suggesting that you people go home and hear from what your constituents have to say. If you collect this money, you still haven't solved the problem of education. The one-word definition of education is discrimination. That's what it is. I don't know if you've ever heard of it before; but that's what education is. And in one hand, you're discriminating and on the other hand, you're not. You're not paying enough for the individuals. You're supposed to educate every individual in this state to the extent of his ability. And you're spending nothing in the two extremes. It's about time you started to think about it. The pre-school child, let us find out what their problems are before you let them continue into school. And in that way maybe we'll have fewer dropouts because these dropouts cost you about \$26,000 a year in different institutions. It really surprises me that you spent so many hours talking about something that doesn't even begin to solve the problem of education. Now, the prodigal has come home; and I don't think that we should turn around and speed up the collection. If you're going to do anything, I suggest that you put it aside for one year to speed up the collections. But not speed them up now when you haven't even . . . don't even . . . haven't defined the real problems in education. You don't know whether you're spending too much or too little. You as a Legislature, the General Assembly, the House, you are doing a lousy job when it comes to education. You're spending a lot of money; but you're not really educating the people. So if you're going to do anything



for the speed up, I suggest that you wait a year before you . . . and vote against this thing and go home because you discussed this thing last July . . . you discussed this thing last July, you had arguments all along the way, and you went home and you voted . . . I mean, you voted against it and you went home. And all of a sudden the prodigal returns to Mayor Daley and he comes back with a speed up. I say, yes, speed up because I was taught 50 years ago in high school in a course called Civic's, that the more money that is around, the more is spent. And if we speed up the collections and we have no money to fall back on, as you have now, there's a less chance of when the end of the year comes that you're going to have to argue about how it should be spent."

Speaker Bradley, G.: "Thank you, Mr. Kormos, for those remarks. Any questions of Mr. Kormos? Hearing none, well, thank you very much, Sir, for your testimony. The Gentleman from Lake, Mr. Matijevich, for what purpose do you arise, Sir?"

Matijevich: "I heard so much about speed up, Mr. Speaker, I was going to really speed things up and move that we arise, but I . . . feel that somebody else was going to do it . . ."

Speaker Bradley, G.: "Well, could I ask a question, could I ask a question? We want to be fair to the . . . are there any other witnesses? Hearing none, then we will recognize the Gentleman from Lake, Mr. Matijevich, to make the motion."

Matijevich: "I now move, Mr. Speaker, that the Special . . . Committee of the Whole now arise . . . and report."

Speaker Bradley, G.: "Arise and report. All in favor of the Gentleman's motion say 'aye', opposed 'no'; the 'ayes' have it, the Committee of the Whole shall arise and report. Now, the Gentleman from Cook, Mr. Shea. The House is now back in order. The Gentleman from Cook, Mr. Shea."

Shea: "Mr. Speaker, I understand the Clerk is now distributing the Calendars with the House Bills on it. And it is my understanding after talking to the Republican Leader that our plan is to read the Bills a second time now and move them to Third Reading



tonight with the understanding that when we return tomorrow, the Bills will be brought back to Second Reading if there's any Amendments to be put on them. And then to return to Third Reading and have them voted up or down tomorrow. So we will come in at noon tomorrow. So I ask now that the Clerk . . ."

Speaker Bradley, G.: "House Bills, Second Reading. House Bill 1."

Clerk O'Brien: "House Bill 1, a Bill for an Act to amend Sections of the School Code. Second Reading of the Bill. No Committee Amendments."

Speaker Bradley, G.: "Amendments from the floor? Hearing none, Third Reading."

Clerk O'Brien: "House Bill 2, a Bill for an Act making appropriations to the State Board of Education. Second Reading of the Bill. No Committee Amendments."

Speaker Bradley, G.: "House Bill 3 . . ."

Clerk O'Brien: "Amendments from the floor?"

Speaker Bradley, G.: ". . . Amendments from the floor? No, there's no Amendments."

Clerk O'Brien: "Third Reading."

Speaker Bradley, G.: "Third Reading."

Clerk O'Brien: "House Bill 3, a Bill for an Act to amend Sections of the Illinois Income Tax Act. Second Reading of the Bill. No Committee Amendments."

Speaker Bradley, G.: "Amendments from the floor?"

Clerk O'Brien: "None."

Speaker Bradley, G.: "Now, just a minute. The Gentleman from Kankakee, I don't know if you were on the floor when it was discussed just a few minutes ago. We're going to move these Bills to Third Reading this evening; and by the agreement of the Leadership, they will be brought back to Second Reading tomorrow for the purpose of Amendments. So no Amendments from the floor? Third Reading. House Bill 4."

Clerk O'Brien: "House Bill 4, a Bill for an Act to amend Sections of the Illinois Income Tax Act. Second Reading of the Bill. No Committee Amendments."



Speaker Bradley, G.: "Amendments from the floor? Third Reading."

Clerk O'Brien: "House Bill 5, a Bill for an Act in relation to the filling of . . . the filing of returns of taxpayers having monthly tax liabilities for certain occupation use taxes. Second Reading of the Bill. No Committee Amendments."

Speaker Bradley, G.: "Amendments from the floor? Hearing none, Third Reading. The Gentleman from Cook, Mr. Shea."

Shea: "Mr. Speaker, I move that the House do now stand adjourned."

Speaker Bradley, G.: "Would you just hold that for second, then the Gentleman from Grundy, Mr. Washburn, with an announcement."

Washburn: "I'm certainly not objecting to the adjournment motion; but I do want to say . . . to remind the Republican Members that I would like to have them gather in Room 118 as soon as we do adjourn tonight for a few minutes, 118 immediately after adjournment here."

Speaker Bradley, G.: "Immediately after adjournment the Republicans will meet in Room 118. All right, now, if there are no other announcements, we'll go back to Mr. Shea, the Gentleman . . . the Majority Leader, the Gentleman from Cook, Mr. Shea."

Shea: "Mr. Speaker, I move that the House now do stand adjourned until 5 . . . until 12 o'clock noon tomorrow."

Speaker Bradley, G.: "All in favor of the Gentleman's motion say 'aye', opposed 'no'; the 'ayes' have it, the House stands adjourned until tomorrow at 12 o'clock."

