

CTBA

Center for Tax and
Budget Accountability

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“The Fiscal Crisis in Illinois: A Solution”

For:

**Thursday, September 12, 2013; 4:00 pm
Eastern Illinois University
Lumpkin Auditorium – 2030 Lumpkin Hall
Charleston, Illinois**

Presented by:

Ralph M. Martire, Executive Director

FY2014 Enacted General Fund Appropriations as Passed by the 98th General Assembly (\$ Millions)

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Category		Appropriation
(i)	Total General Fund Appropriation for Capped Items (Net)	\$35,732
		\$179 M
(ii)	Total Hard Costs	\$11,159
		\$865 M
	Debt Service (Pension & Capital Bonds)	\$2,182
	Statutory Transfers Out	\$2,716
	Pension Contributions	\$6,261
(iii)	Repayment of Bills	\$50
	FY13/FY14 Backlog Payment Fund	\$50
(iv)	General Fund Service Appropriations (Gross)	\$25,023
	Healthcare (including Medicaid)	\$7,171
	PreK Education	\$300
	K-12 Education	\$6,386
	Higher Education	\$1,991
	Human Services	\$4,995
	Public Safety	\$1,648
	Group Health Insurance	\$1,346
	Other	\$1,185
(v)	“Unspent Appropriations”	\$500
(vi)	Net General Fund Service Appropriations	\$24,523

FY2014 Enacted General Fund Appropriations Compared to FY2013 Final – Nominal Dollars (\$ Millions)

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Category	FY2013 Final	FY2014	\$ Difference (nominal)	% Change (nominal)
Net General Fund Service Appropriations	\$24,737	\$24,523	(\$214)	-0.9%
Healthcare	\$237	\$206	(\$31)	-13.2%
Medicaid	\$6,917	\$6,965	\$48	0.7%
PreK Education	\$303	\$300	(\$3)	-0.9%
K-12 Education	\$6,247	\$6,386	\$139	2.2%
Higher Education	\$1,980	\$1,991	\$12	0.6%
Human Services	\$4,869	\$4,995	\$125	2.6%
Public Safety	\$1,570	\$1,648	\$78	5%
Other	\$1,464	\$1,185	(\$279)	-19.1%
Group Health	\$1,450	\$1,346	(\$104)	-7.2%

Source: CTBA analysis of SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98th General Assembly. Note: Numbers may not all add due to rounding.

This is the 23rd consecutive fiscal year with a General Fund deficit

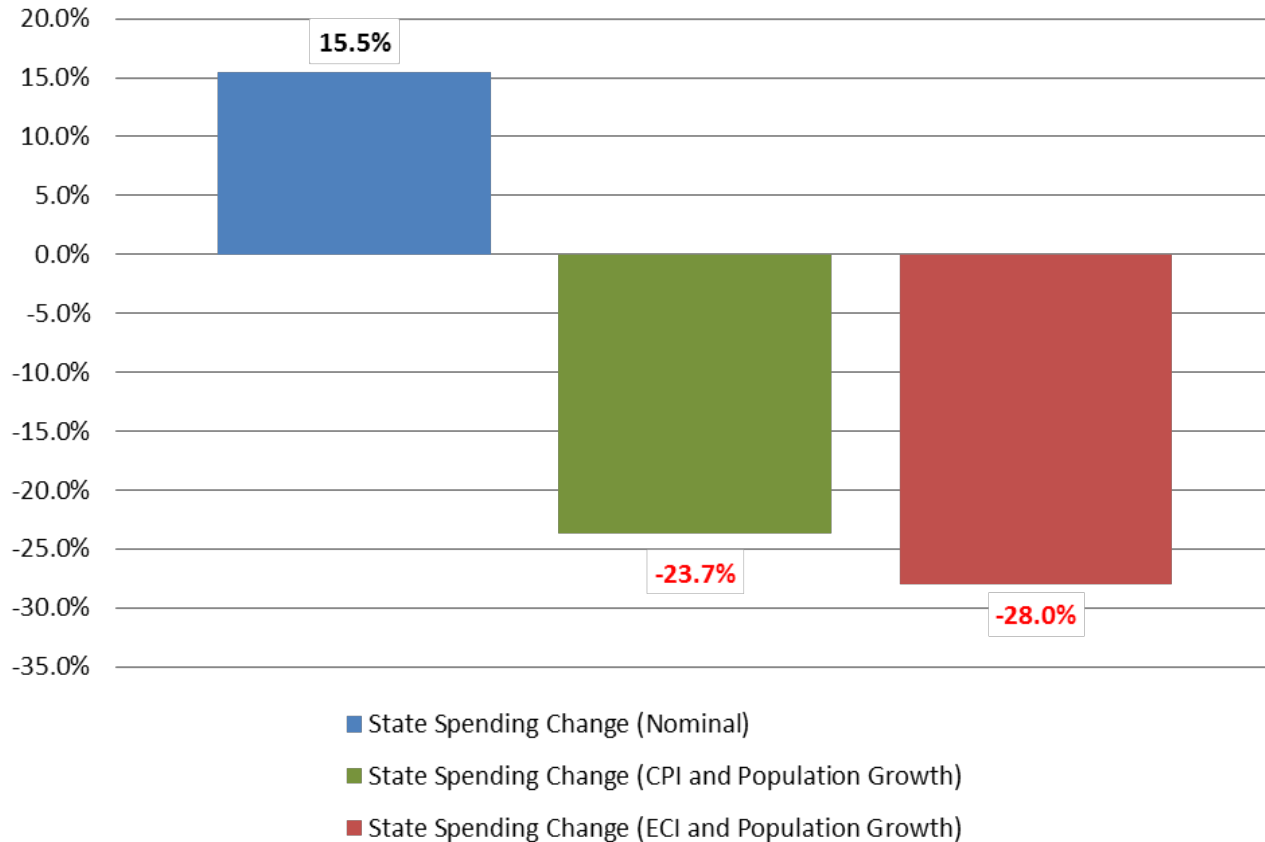
That Huge Shortfall is a Real Problem Because.....Over \$9 out of \$10 of G.F. are Spent on:

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- Education
(PreK-12 plus Higher Ed) 35%
- Healthcare 30%
- Human Services 21%
- Public Safety 5%
91%

FY2014 Enacted General Fund Services Appropriations (excluding Group Health & Pensions) Relative to FY2000, in Nominal and Adjusted for Inflation and Population Growth

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Sources: FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98th General Assembly. Inflation for healthcare inflated by Midwest Medical Care CPI; all other appropriations adjusted using ECI-C and Midwest CPI from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013

Illinois General Fund Spending by Major Public Service Category, FY2014 Enacted Budget Compared to FY2000, and FY2000 Adjusted for Inflation and Population Growth (\$ Millions)

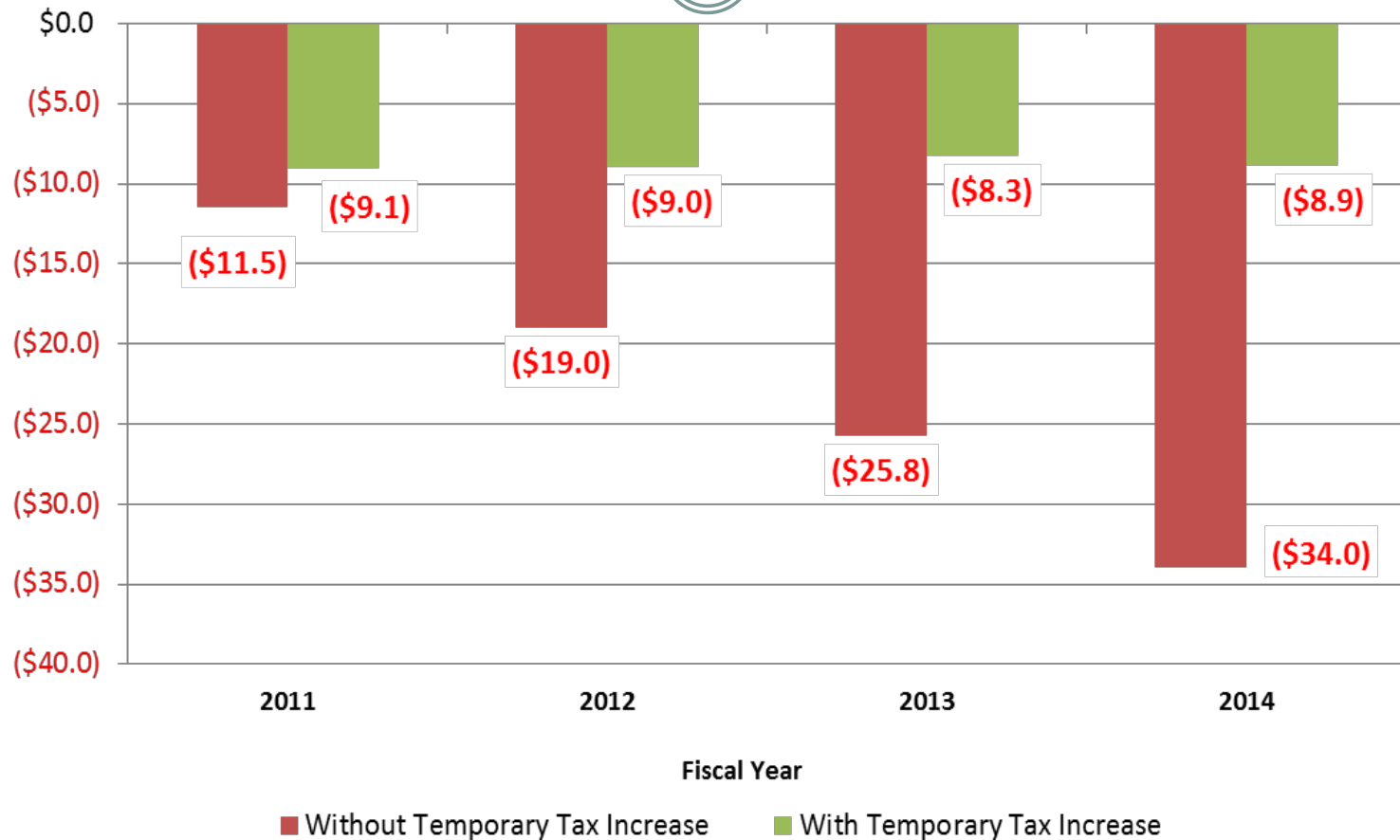
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Category	FY2000 Enacted	FY2014 GOMB	FY2000, Enacted Adj for Infl (ECI) and Pop Growth	\$ Diff FY2014 –FY2000 Adj (ECI and Pop Growth)	% Change
Net General Fund (excluding Group Health)	\$20,064	\$23,177	\$32,173	(\$8,996)	-28%
PreK-12 Education	\$4,844	\$6,686	\$7,491	(\$805)	-10.7%
Higher Ed	\$2,152	\$1,991	\$3,328	(\$1,337)	-40.2%
Healthcare (excluding Group Health)	\$5,022	\$7,171	\$8,911	(\$1,740)	-19.5%
Human Services	\$4,599	\$4,995	\$7,112	(\$2,118)	-29.8%
Public Safety	\$1,350	\$1,648	\$2,088	(\$440)	-21.1%

Sources: FY2000 unadjusted appropriations from Governor’s final budget summary for FY2000; and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98th General Assembly. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013.

Impact of the Temporary Tax Increase on the Accumulated Deficit

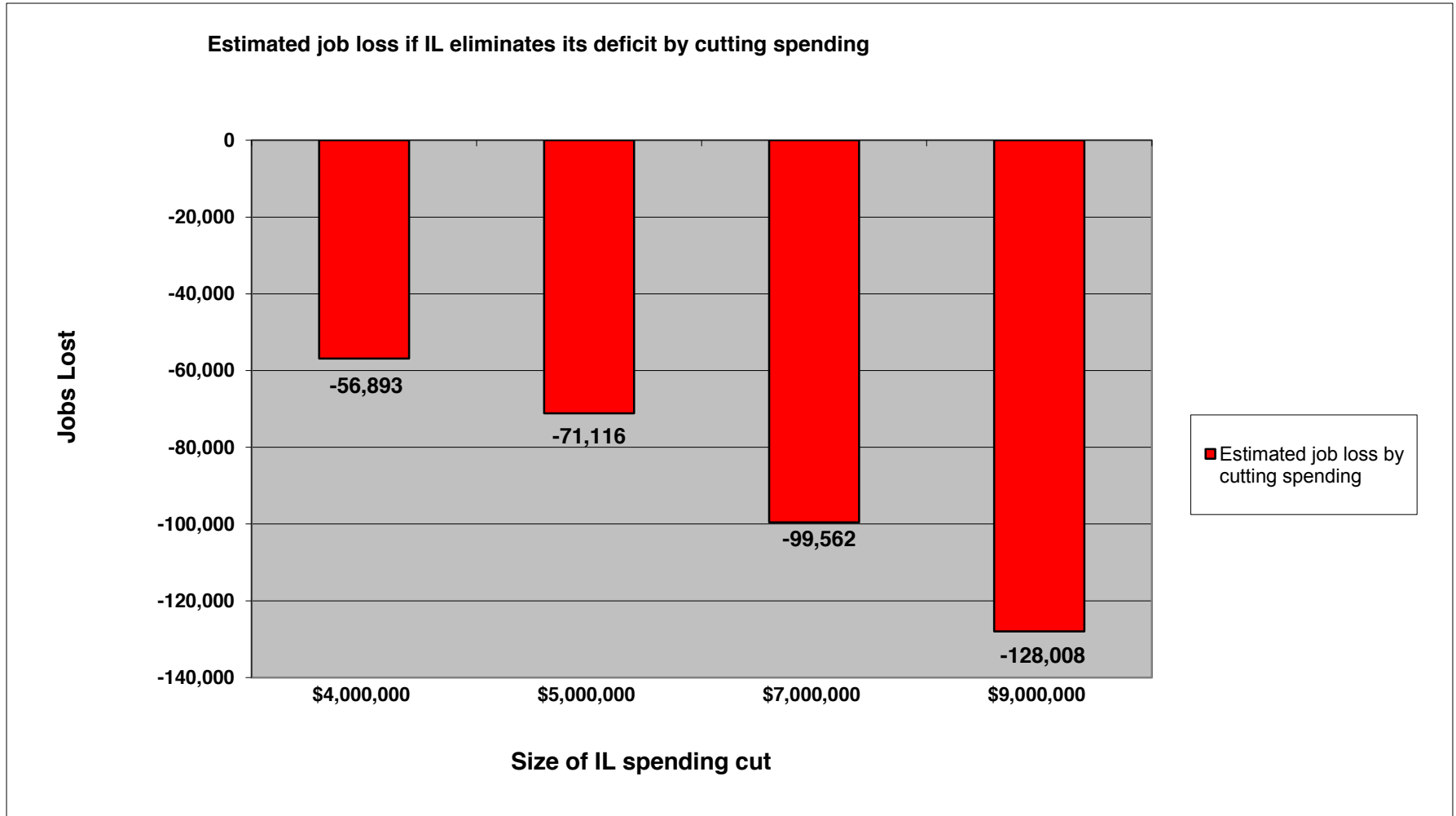
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Sources: CTBA calculations using total spending figures for FY2011 and FY2012 as reported in GOMB, *FY2013 Budget Book* (Springfield, IL: February 2012 2013), Ch. 2-18; total spending for FY2013 includes all supplementals; and spending for FY2014 as reported in GOMB, *FY2014 Budget Book* (Springfield, IL: March 2013) for hard costs and SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98th General Assembly; actual revenue for FY2011-FY2012 as reported by COGFA; FY2013 based off of revised personal income tax, corporate income tax and federal sources updated presented during the closing week of the spring 2013 legislative session, which took into account the April 2013 revenue spike and estimated revenue for FY2013-FY2014 as reported and estimated by COGFA in *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update* (Springfield, IL: March 12, 2013).

Hurting the Private Sector Economy with Cuts

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Which Makes No Sense

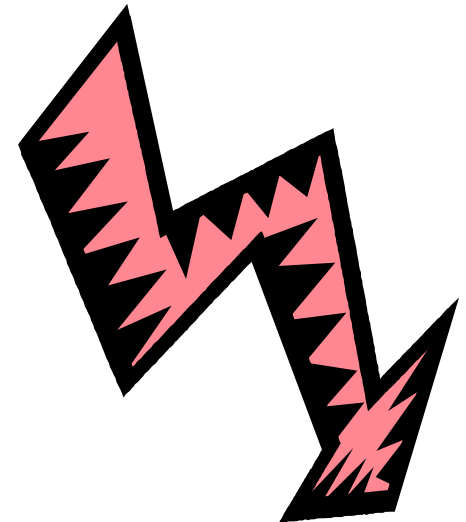
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- Illinois had the second lowest real GDP Growth in the entire Midwest in 2010

Real GDP Growth 2010

Indiana	4.6%
Iowa	3.1%
Michigan	2.9%
Wisconsin	2.5%
Ohio	2.1%
Illinois	1.9%
Missouri	1.4%

- National and Midwest Average was 2.6%



Total State and Local Tax Burden as a Percentage of Income in 2010

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Midwest States	%	National Rank
Iowa	17.0%	10 th
Michigan	16.9%	12 th
Wisconsin	16.6%	16 th
Indiana	16.6%	17 th
Ohio	16.1%	26 th
Illinois	14.2%	42 nd
Missouri	13.5%	47 th

Source: Federation of Tax Administrators. Includes all state and local taxes and fees.

Time for Illinois to Pay Attention

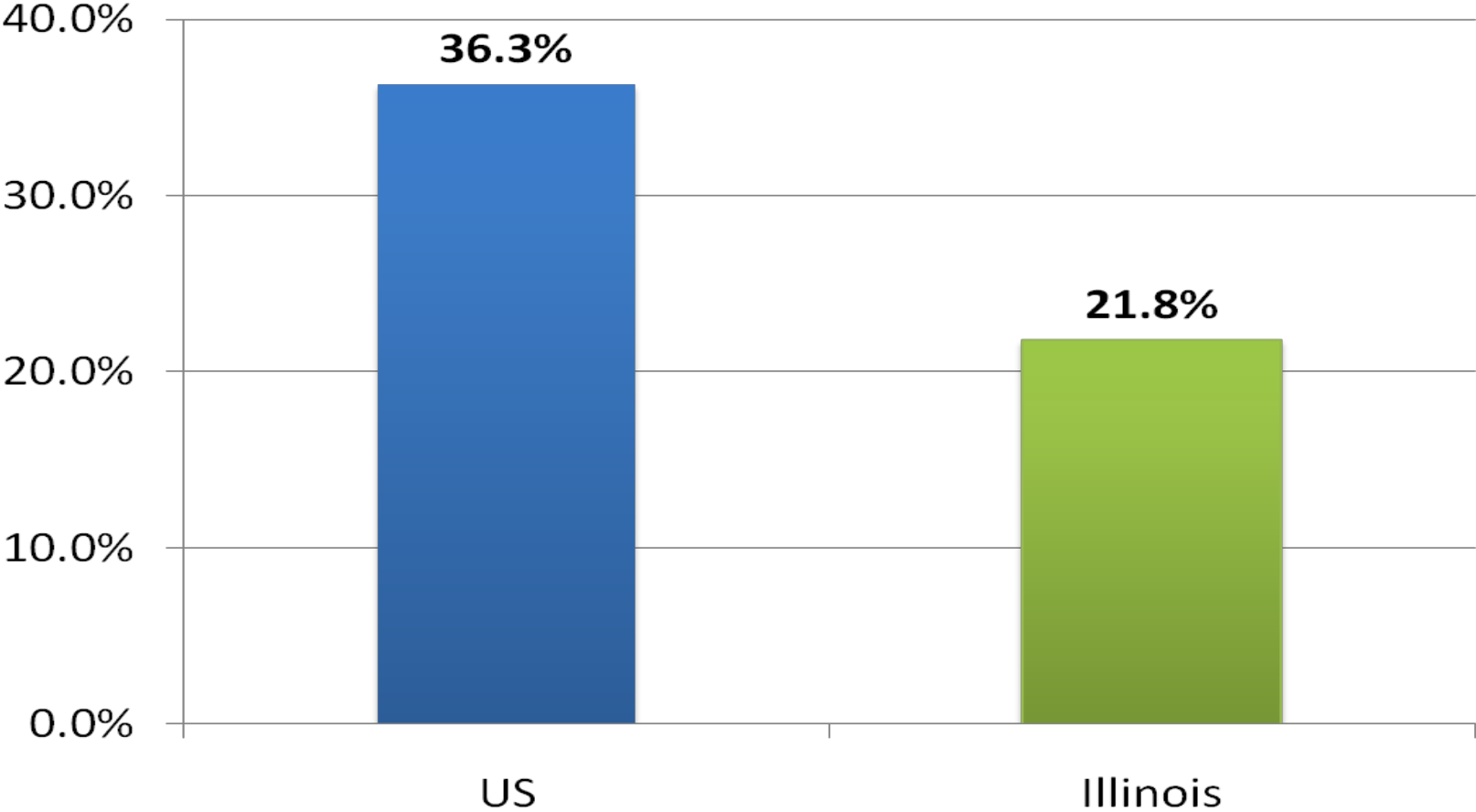
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- In 2011, Illinois ranked fifth nationally with a Gross State Product in excess of \$671 billion (BEA).
- That would be the 19th largest economy of any nation in the world-greater than Egypt, Saudi Arabia, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.

Illinois Economic Growth Lags U.S. Long Term (1997-2012)

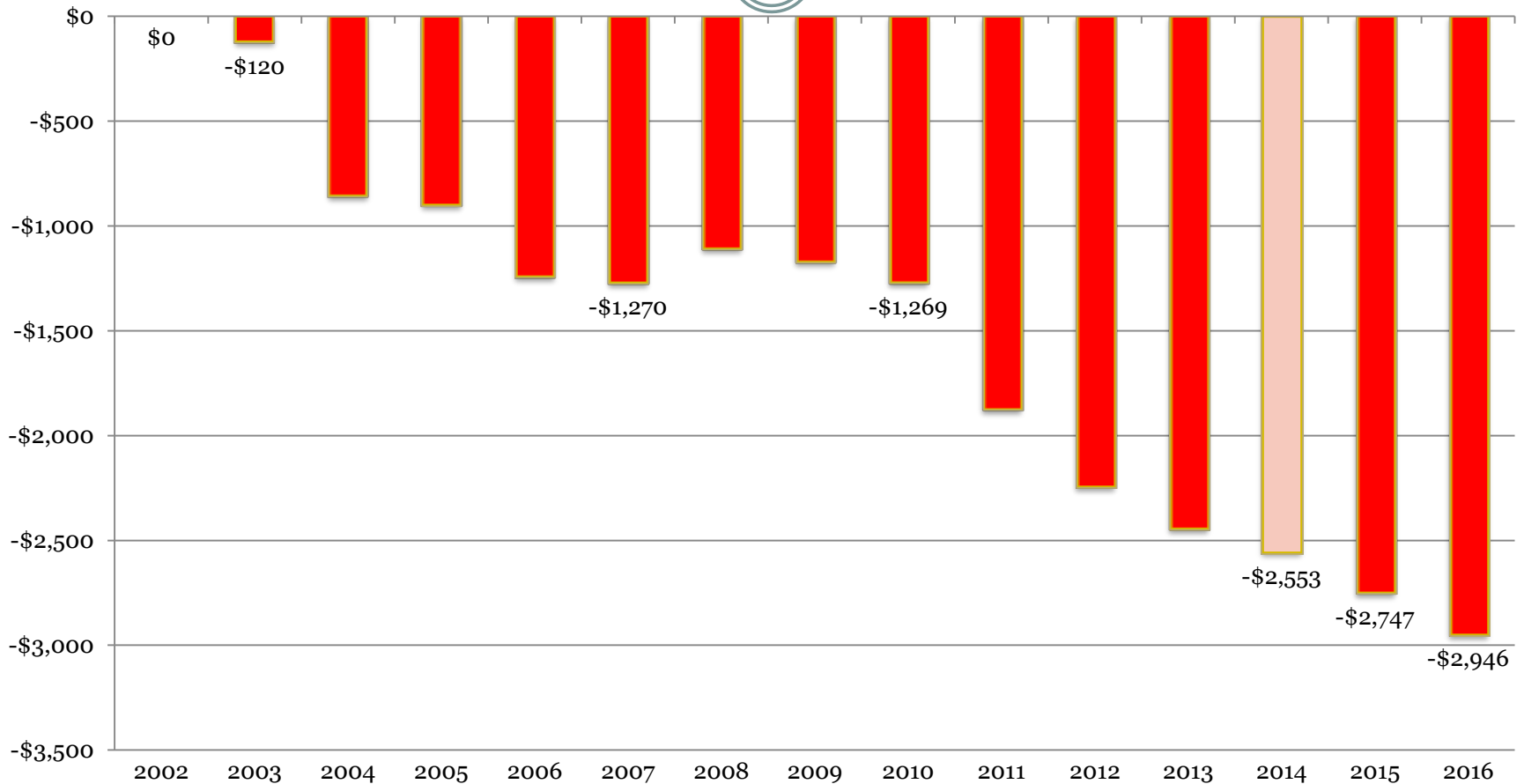
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Source: BEA

Dollar Shortfall in State Per-Pupil K-12 Education Funding to Meet EFAB Adequate Education Standard by Fiscal Year

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Sources: CTBA analysis of January 2013 EFAB data. Education Funding Advisory Board, *Illinois Education Funding Recommendations*, (Springfield, IL: January, 2013), p. 9. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013.

Local and State Share of Education Funding Spending

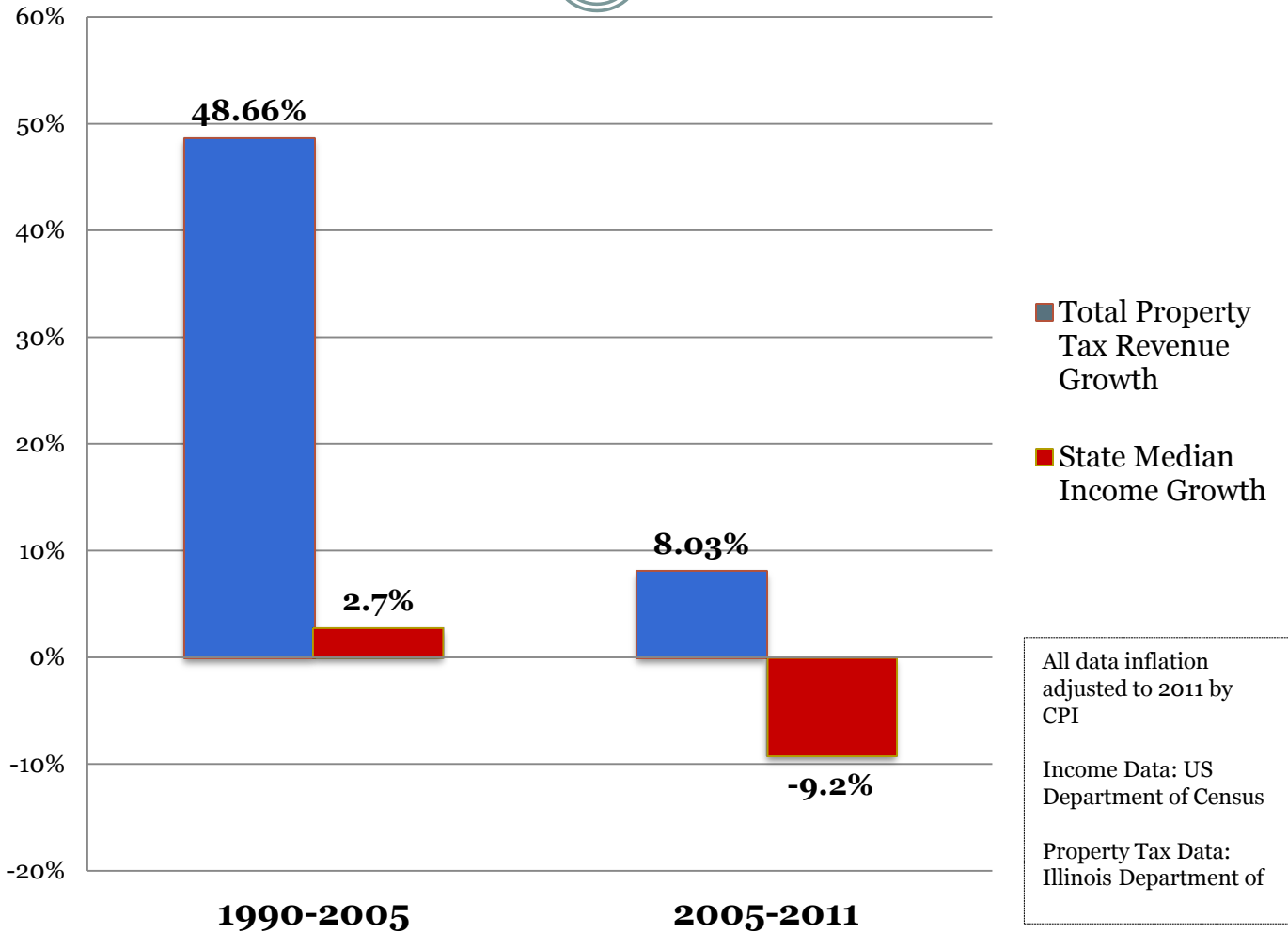
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Source: National Center on Education Statistics, 2011. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-2009 (Fiscal Year 2009)."

Illinois Total Property Tax Revenue Growth vs. State Median Income Growth

15

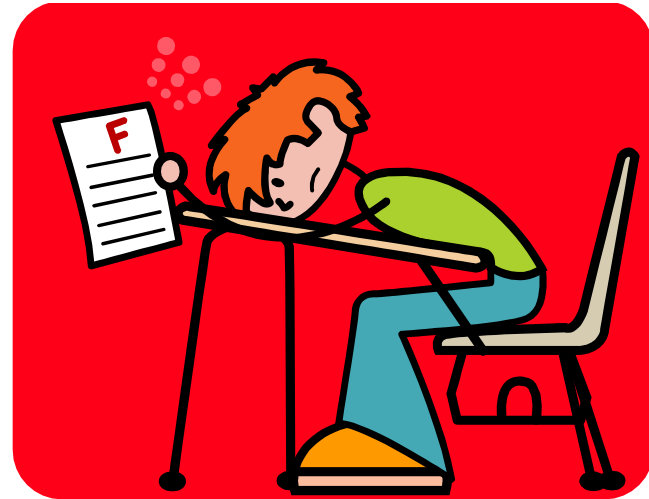


Really????

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- YES: Illinois ranks 50th out of 50 states in portion of education funding covered by the state

But Education
now matters more
than ever to
economic prosperity:

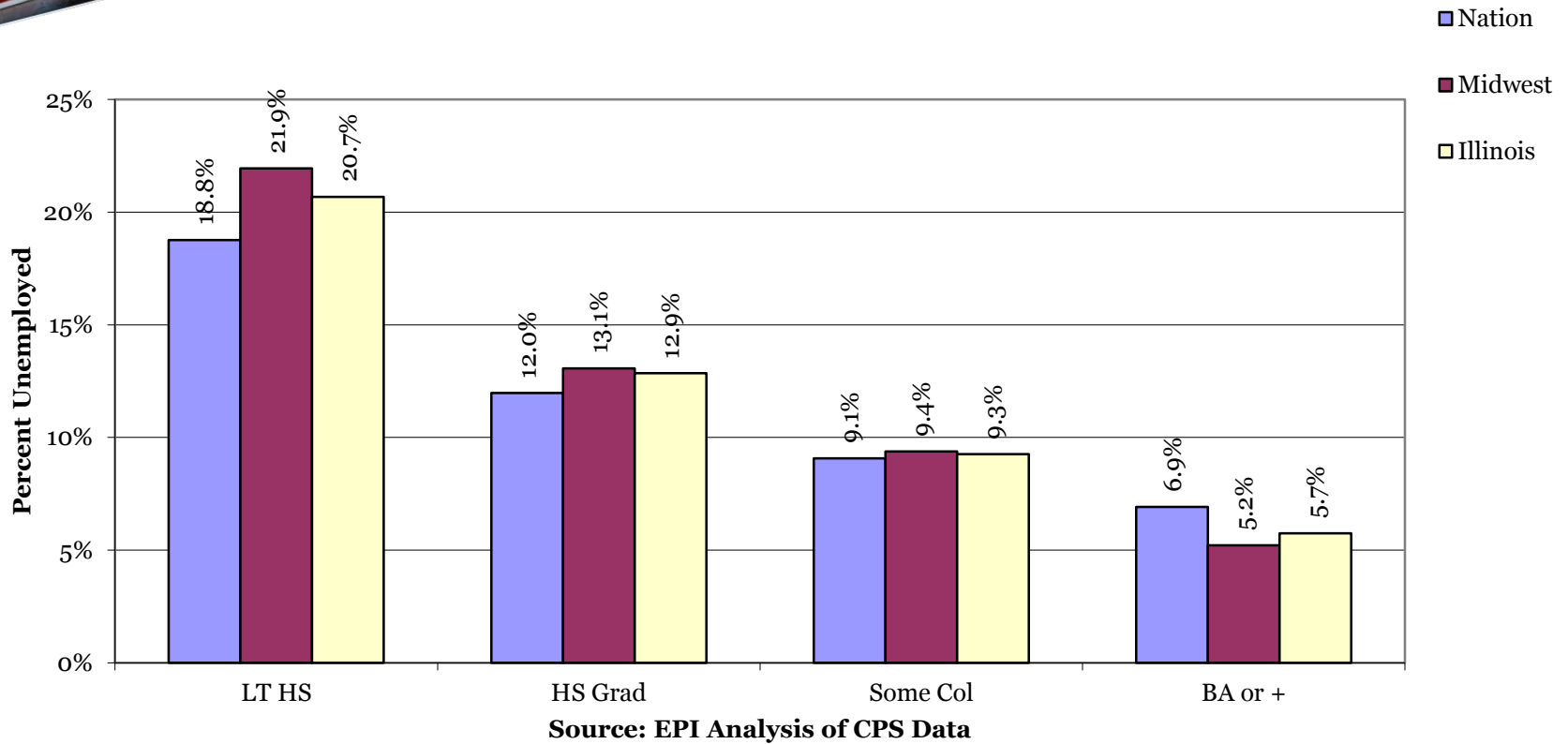


- Generally: unemployment rates are highest for those with the least education.

Unemployment Highest Among Least Educated, 2010



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Wages for Minorities Lag Whites

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Real wages for Whites increased modestly between 1980 and 2010, but :

- The White-Hispanic wage gap is larger in amount, but increased by a smaller percentage, growing from \$4.01 in 1980 to \$5.86 in 2010, an increase of **46%** over 1980
- Real wages for African-Americans declined. The hourly wage gap between Whites and African-Americans grew from \$1.60 in 1980 to \$3.08 in 2010, an increase of **92.3%** over 1980

Capitalist Tax Policy Should Be:

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FAIR



PROGRESSIVE

RESPONSIVE



TO MODERN ECONOMY

STABLE



DURING POOR
ECONOMIES

EFFICIENT



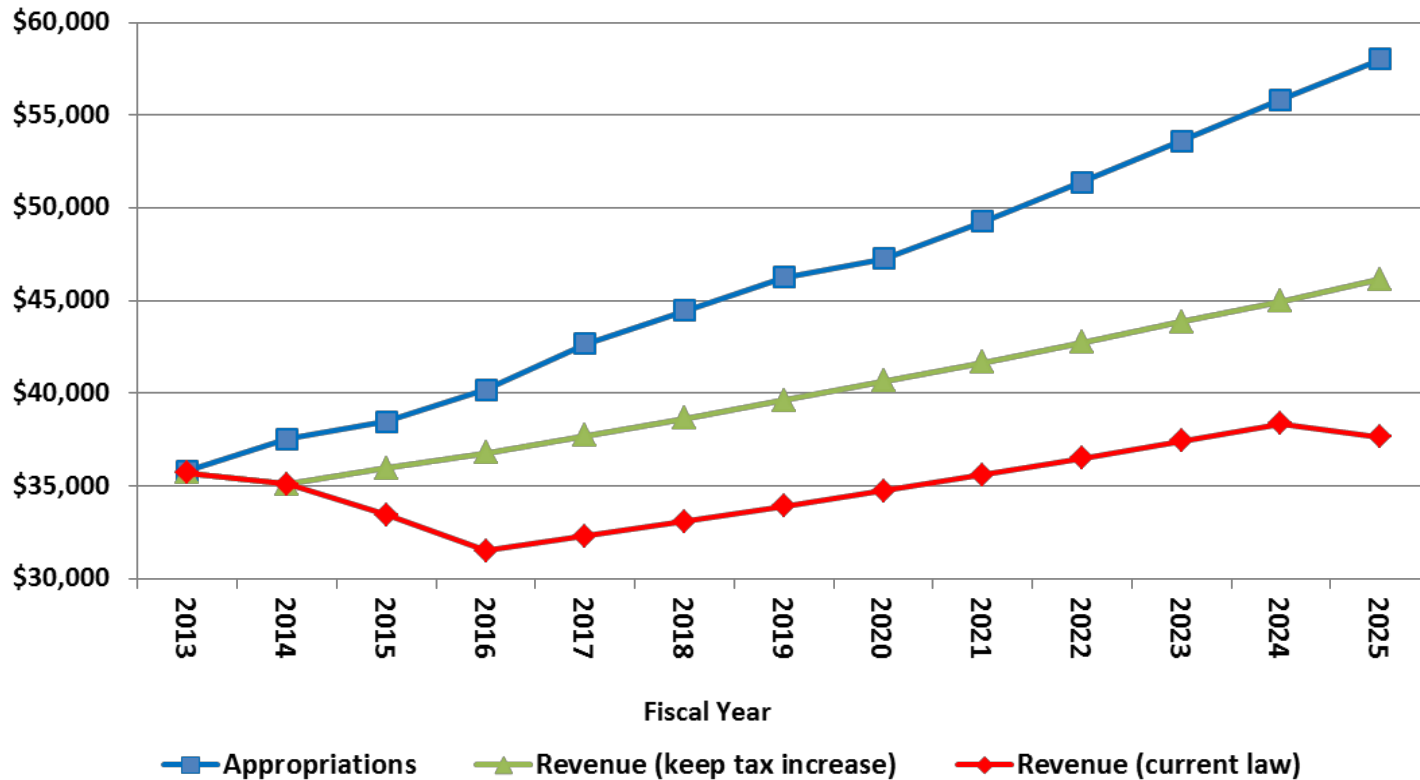
DOESN'T DISTORT
PRIVATE MARKETS

ILLINOIS IS 0 FOR 4

Which Creates a Structural Deficit

20

General Fund Revenue and Appropriations (\$ Millions)



Which Led to the Irresponsible Fiscal Practice of:

21

- Borrowing against the pensions to subsidize cost of delivering services
- By 1994 the Unfunded Liability was \$17 billion
- This was almost double the \$8.7 billion Unfunded Liability just five years earlier in 1989

Which Led To:

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P.A. 88-0593: the “Pension Ramp”

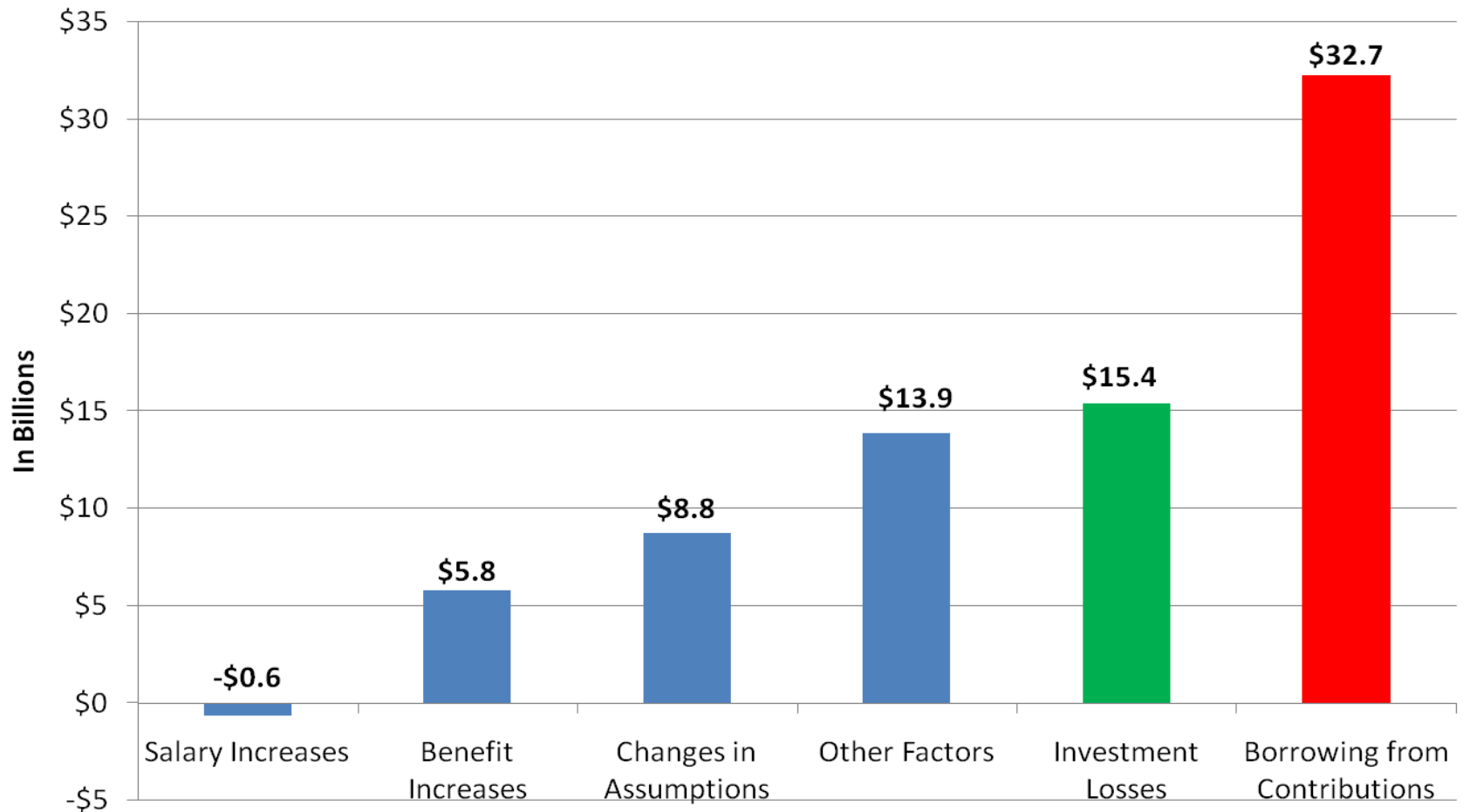
- Which created a new, unaffordable, unattainable structure for repaying the pension debt

AND

- Intentionally grew the Unfunded Liability to over \$45 billion by 2008 — when the markets crashed
- Creating the \$95 billion hole today — just 40% funded

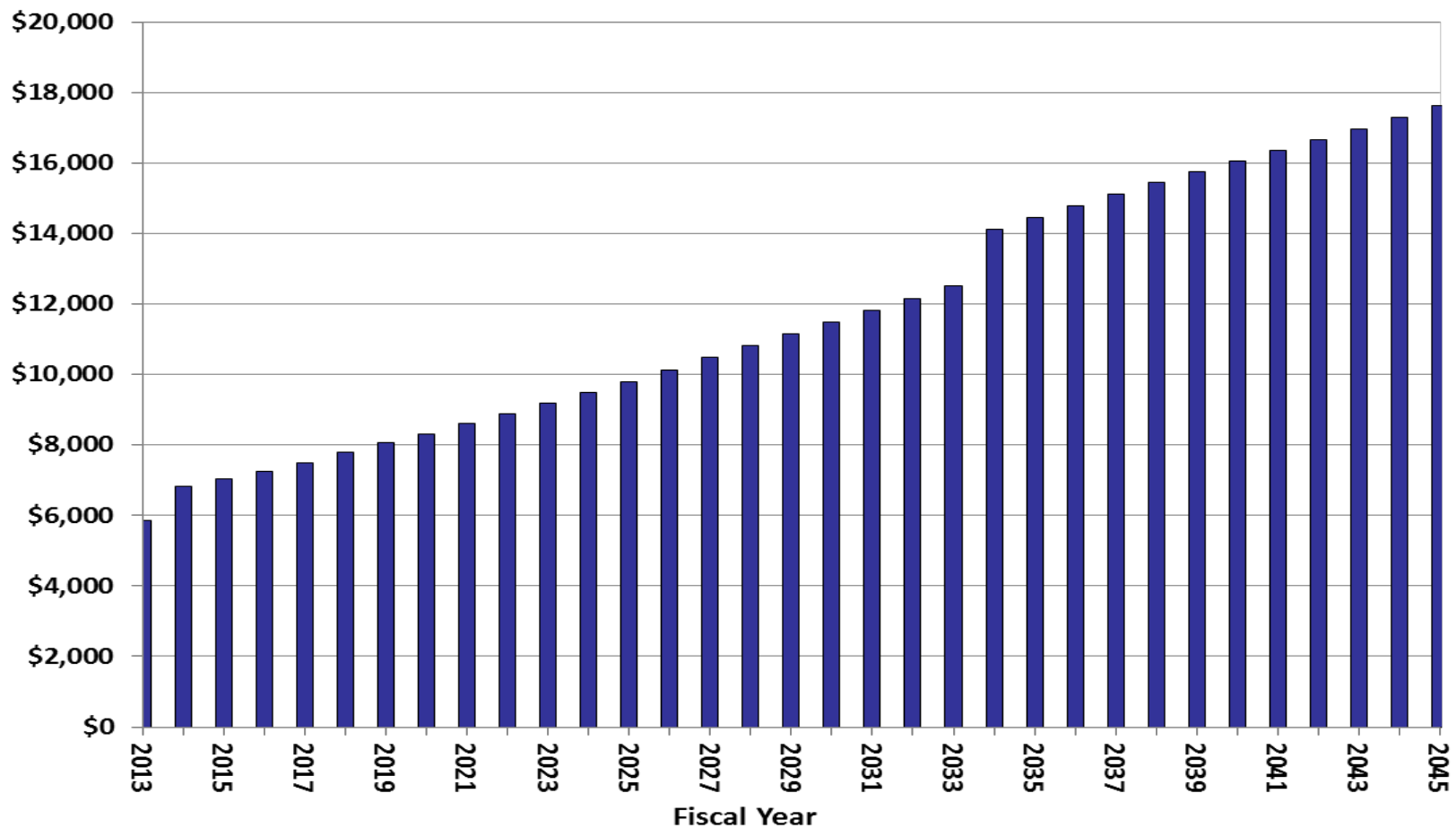
Growth in Unfunded Liabilities for the Five State Systems (FY 1996-2012)

23



Source: The Commission on Government Forecasting and Accountability

Required State Pension Contributions FY2013-FY2045 (\$ Millions)



Source: COGFA, "A Report on the Financial Condition of the IL State Retirement Systems: Financial Conditions as of June 30, 20112" p. 97.

Debt is the Driver

25

- The five retirement systems' unfunded liabilities of \$95 billion was primarily caused by borrowing—not anything involving benefits or cost
 - The normal cost is actually decreasing year-to-year

	FY2012	FY2013	FY2014
TOTAL	\$4.81 B	\$580 B	\$6.78 B
NORMAL COST	\$1.61 B	\$1.66 B	\$1.64 B
DEBT SERVICE	\$3.20 b	4.14 b	5.14 b

- The Pensions would be almost 80% funded today if the only problems were inherent to the Pension system itself

COLA Choice and Cost Shift Impact on State's Pension Contributions

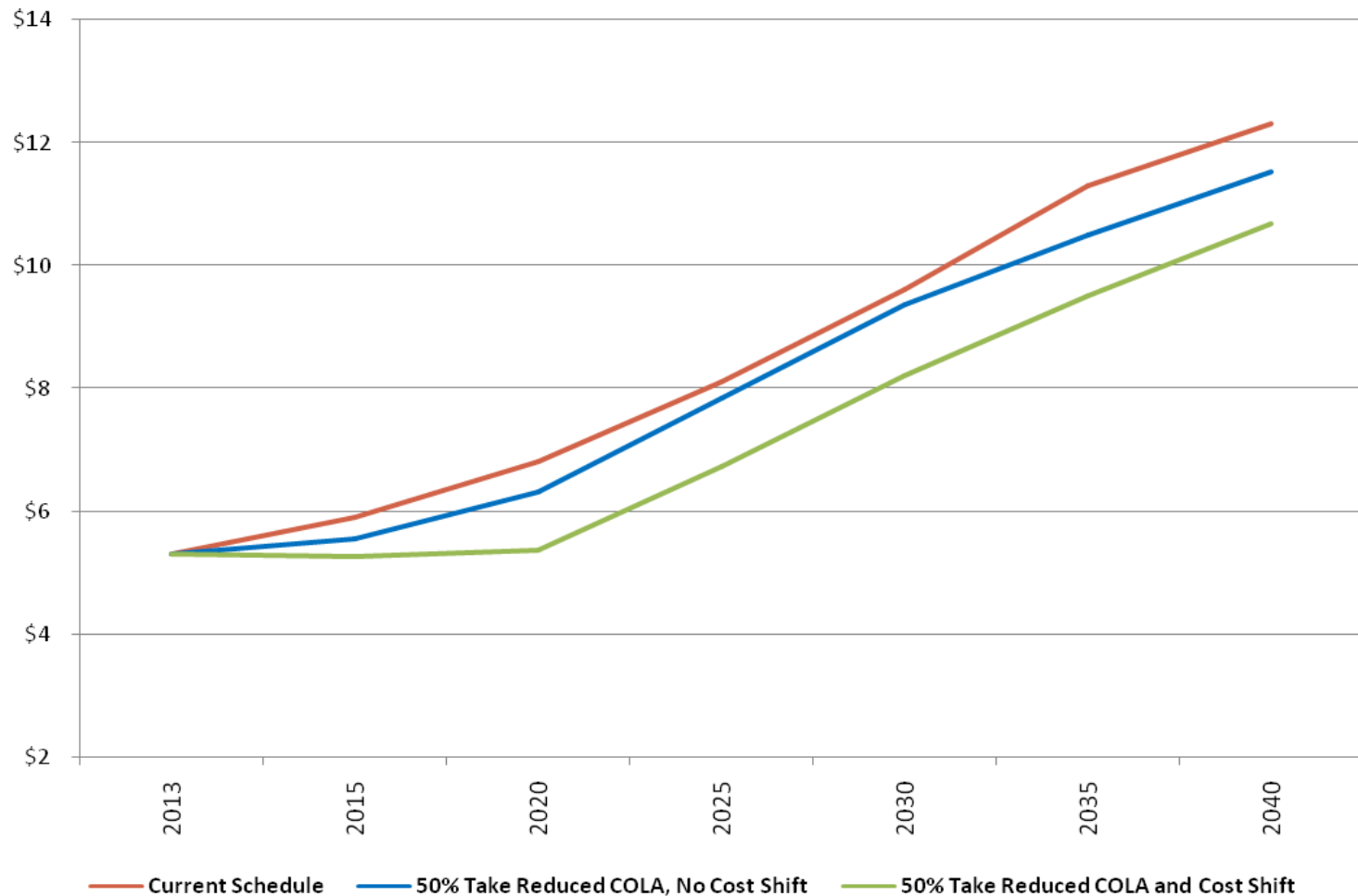
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	Aggregate General Fund Contribution (FY2013-FY2045)	Total Savings	% Decline in Aggregate General Fund Contribution
Current Schedule	\$309.90 billion	N/A	N/A
50% Take Reduced COLA, No Cost Shift	\$243.37 billion	\$66.53 billion	24.47%
50% Take Reduced COLA and Cost Shift	\$227.11 billion	\$82.79 billion	26.72%

COLA Choice and Cost Shift Impact on State's Pension Contributions

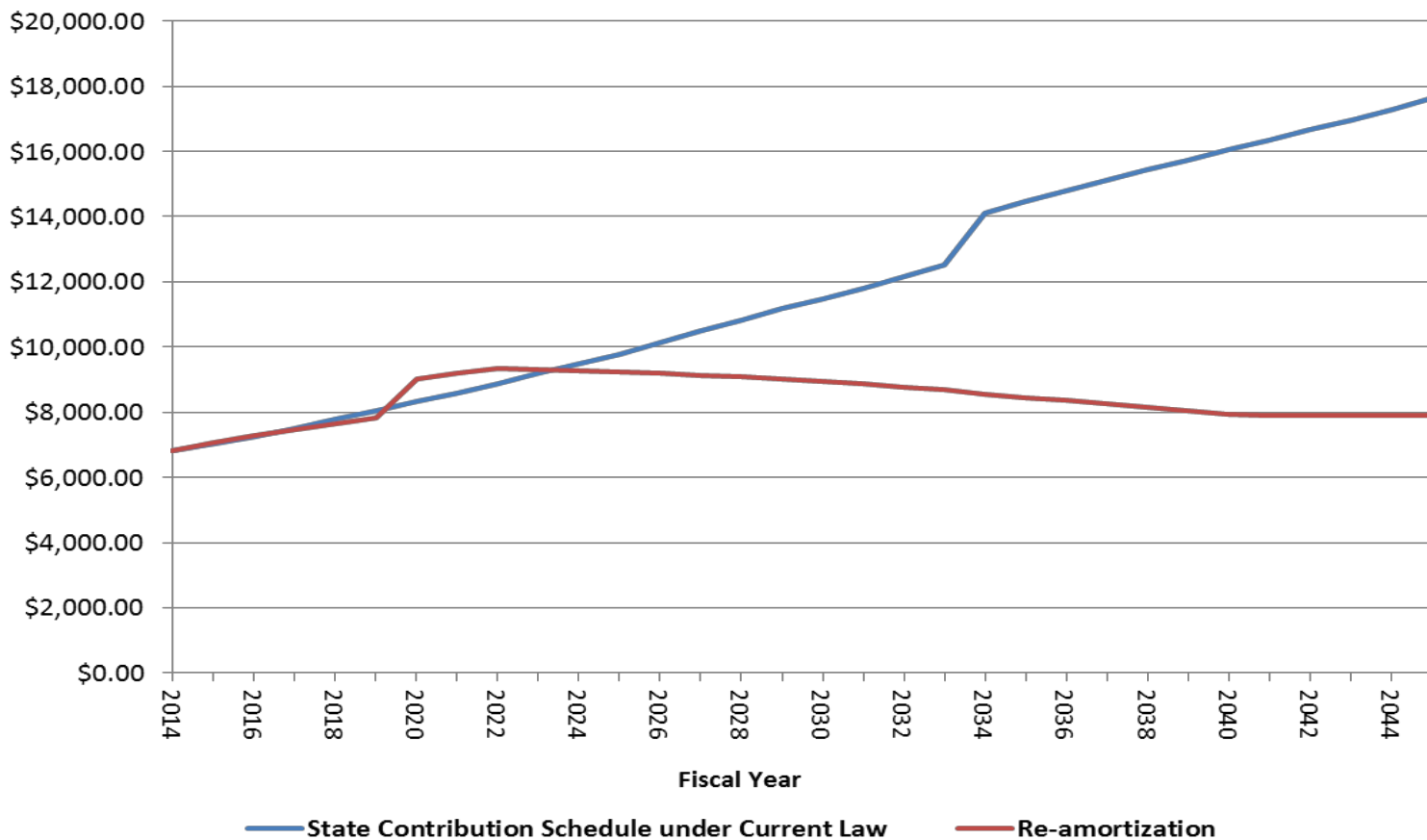


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FY2014 – FY2045 Total Contributions to Retirement Systems (\$ Millions)

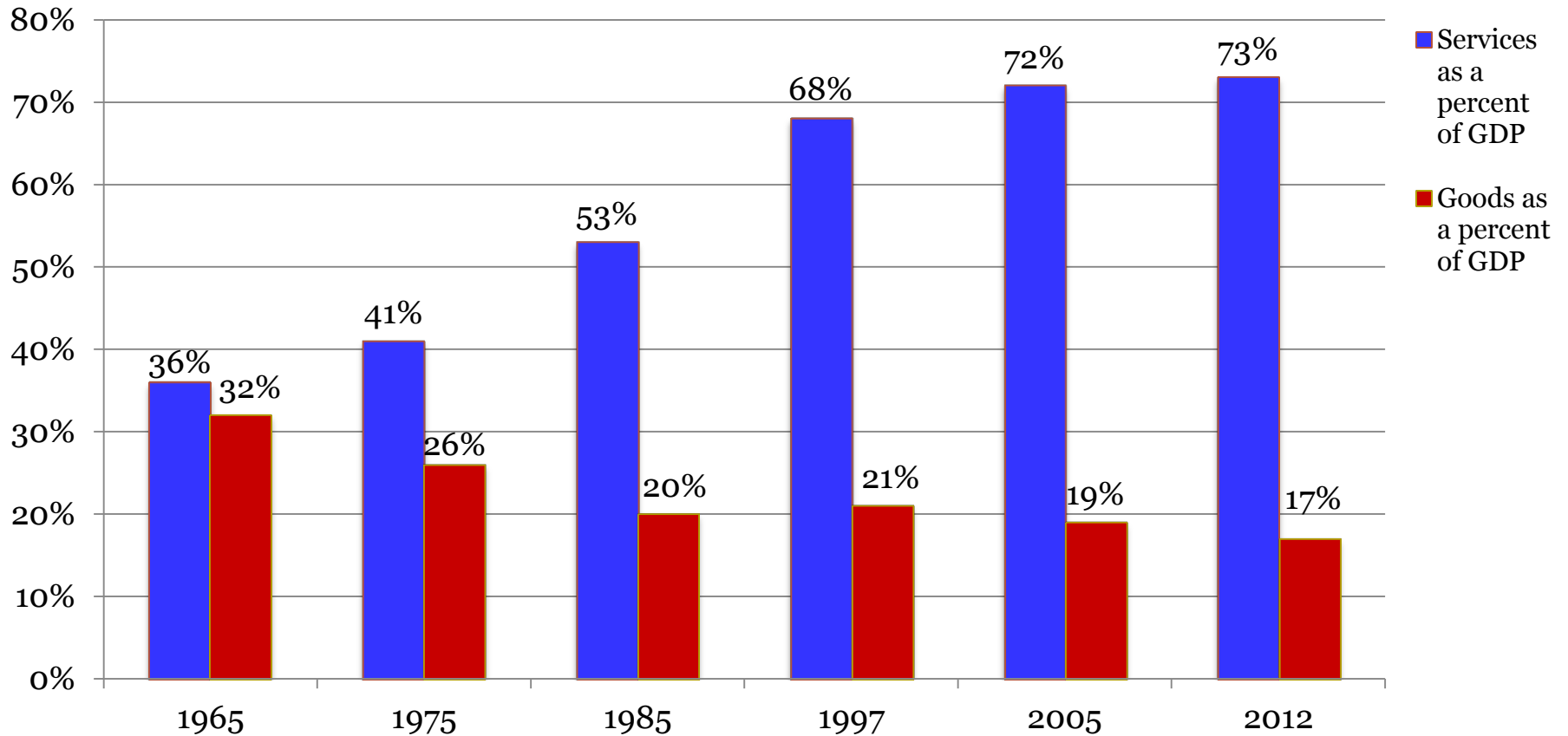
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Notes: (i) contributions for both lines include amortization and normal cost; (ii) re-amortization contribution schedule is an estimate of contributions so that systems are 80% funded by FY2059; and (iii) re-amortization contribution includes in-flow contributions from debt service of retired pension obligation bonds, which is why the re-amortization line spikes in FY2020.

Revenues of Goods and Services as a Percent of Gross Domestic Product: Illinois (SIC 1965-1985, NAICS: 1997-2012)

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Private producing industries
Source: Bureau of Economic Analysis

Adam Smith, the father of modern capitalism, contended that for a tax system to be fair it has to be progressive

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- According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ... [As Henry Home (Lorde Kames) has written, a goal of taxation should be to] 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"

Was Adam Smith Right?

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The long-term trends in income distribution in America demonstrate that his reasoning was solidly on target.

Change in Average US Income Accounted For By Income Group	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

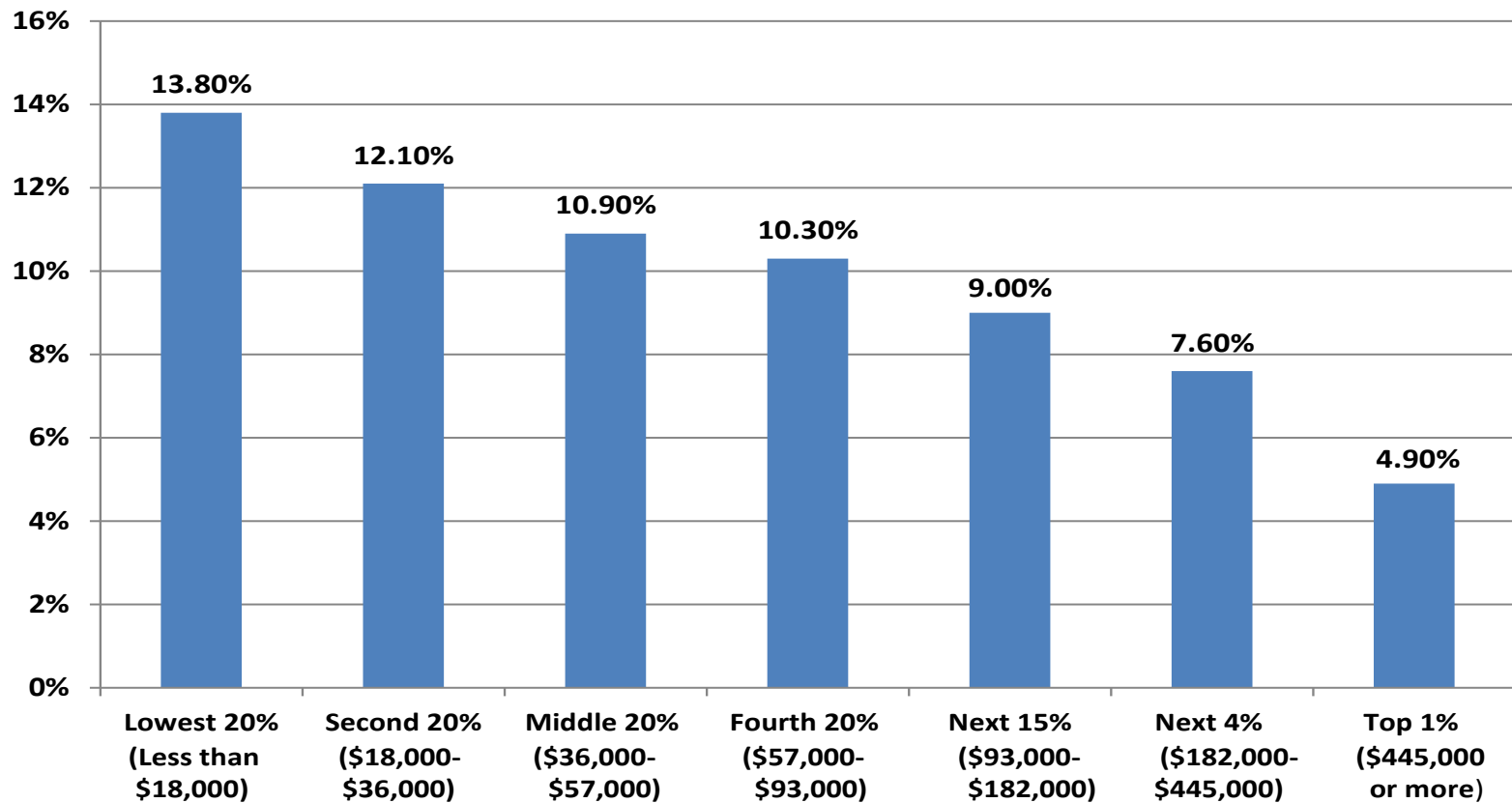
Change in Average US Income Accounted For By Income Group	
Income Group	1979 — 2011
Top 10%	139.8%
Bottom 90%	-39.8%

Source: Economic Policy Institute's website: <http://stateofworkingamerica.org/who-gains/> Data used is from Piketty and Saez, "Income Inequality in the United States, 1913-1998", *Quarterly Journal of Economics*, 118(1), 2003, 1-39 (Tables and Figures Updated to 2011 in Excel format, January 2013), <http://elsa.berkeley.edu/~saez/> .

Illinois State & Local Taxes Paid as a Share of Family Income for Non-Elderly Taxpayers

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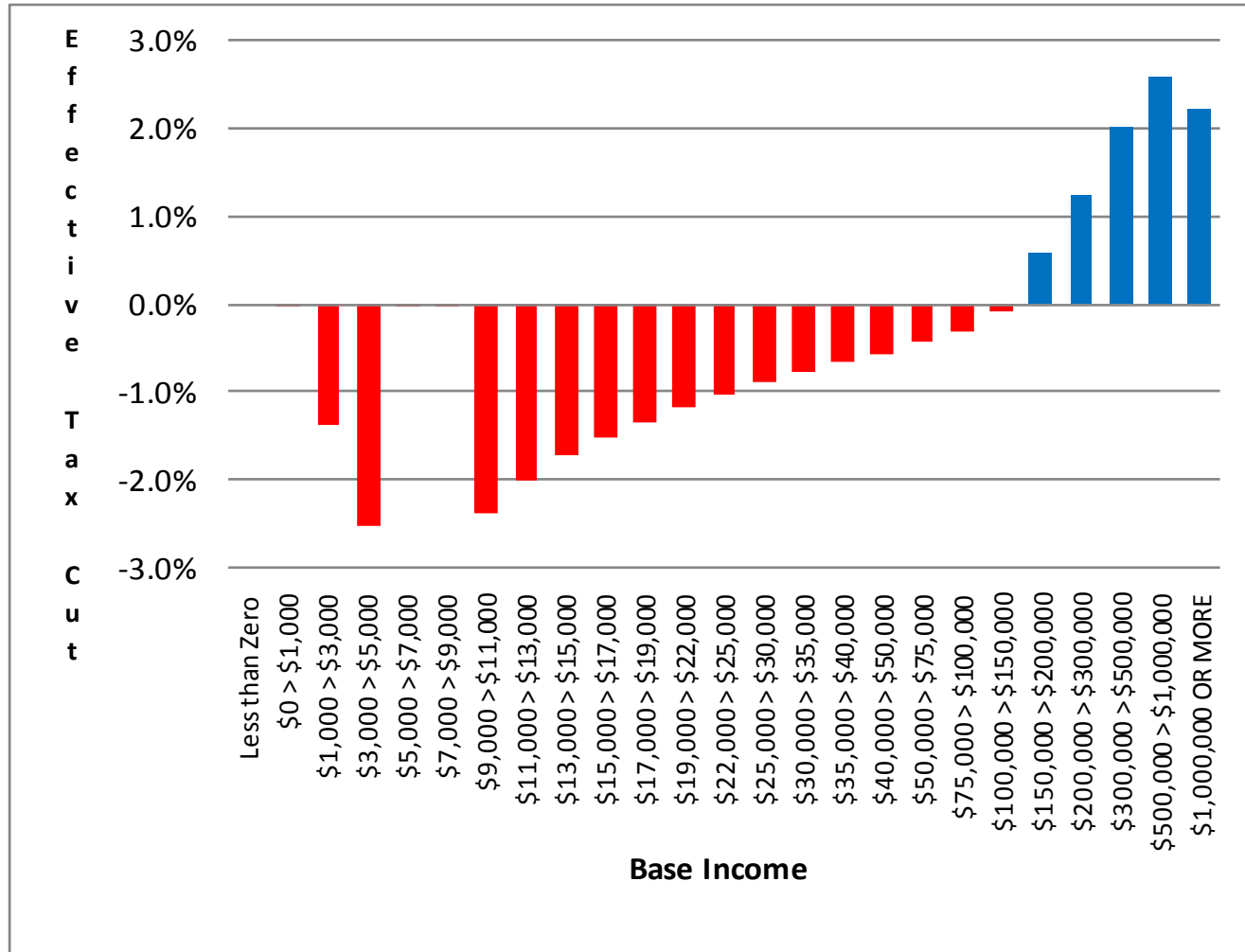
Total Tax Burden as a Percentage of Income



Source: Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of Tax Systems in All 50 States, p 52, Fourth Edition January 2013. Includes all State Sales, Excise, Property, and Income Taxes.

Potential Effective Tax Rate Changes in Illinois with Graduated Individual Income Tax Structure

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And it Won't Hurt the Economy at All

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From 2000 - 2010

- 9 states with highest graduated income tax rate structures had:
 - Better growth in state GDP per capita
 - Better change in median wage
 - Identical unemployment rate

Than the 9 states with NO income tax

Source: Institute on Tax and Economic Policy

For More Information

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