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# *The Fiscal Crisis in Illinois: It's Cause and Potential Solution*

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**Thursday, January 21, 2016  
D97 Claims Committee  
D97 Administration Building  
970 Madison Street, Oak Park**

**Presented by:  
Ralph M. Martire, Executive Director**

# How We Got Here: The Illinois General Fund

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FY2015  $\approx$  \$35 B Overall

<b>Two Primary Elements:</b>		
<b>(i)</b>	<b>Hard Costs—No Discretion ( Approx. \$11 B)</b>	<b>Approx. % of Total</b>
	Debt Service	26%
	Pension Contributions	56%
	Statutory Transfers Out	18%
<b>(ii)</b>	<b>Current Service Expenditures—Discretion Varies (Approx. \$24 B)</b>	
	Education (PreK, K-12, Higher-Ed)	35%
	Healthcare	30%
	Human Services	21%
	Public Safety	5%
		91%
	+Group Health	5%
	+Everything Else	4%
		100%

## Year-to-Year Changes Under Governor's Proposal

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Category	FY2015	FY2016 Proposal	Nominal Difference	Nominal Difference (%)
K-12 Education	\$6,254	\$6,221	(\$33)	-0.5%
Early Education	\$300	\$319	\$19	6.2%
Higher Education	\$1,946	\$1,593	(\$354)	-18.2%
Human Services	\$5,136	\$4,743	(\$393)	-7.7%
Healthcare	\$7,303	\$6,431	(\$871)	-11.9%
Public Safety	\$1,704	\$1,799	\$94	5.5%
Group Health	\$1,565	\$1,195	(\$370)	-23.6%
Other	\$1,239	\$1,091	(\$148)	-11.9%
Governor Discretionary	\$90	\$0	N/A	N/A
Gross Appropriations	\$25,539	\$23,392	(\$2,147)	-8.4%
Less Unspent Appropriations	(\$950)	(\$653)		
<b>Net Appropriations</b>	<b>\$24,589</b>	<b>\$22,738</b>	<b>(\$1,850)</b>	<b>-7.5%</b>

Sources: FY2016 from GOMB's "Operating Budget Detail," February 2015; HB 317 of the 99<sup>th</sup> General Assembly; COGFA, *FY2015 Budget Summary* (Springfield, IL: August 1, 2014); and, GOMB, *Illinois State Budget: Fiscal Year 2016* (Springfield, IL: February 18, 2015), CH. 3-6.

## Comparison of Democrats' Proposed 2016 Budget vs. Governor's 2016 Budget

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Category	FY2016 Governor	FY2016 Democrats	\$ Difference	% Difference
Healthcare (including Medicaid)	\$6,431	\$7,317	(\$885)	-12.1%
Early Childhood Education	\$319	\$319	\$0	0%
K-12 Education	\$6,221	\$6,221	\$0	0%
Higher Education	\$1,593	\$1,899	(\$307)	-16.2%
Human Services	\$4,743	\$5,193*	(\$453)	-8.7%
Public Safety	\$1,799	\$1,795	\$4	0.2%
Group Health	\$1,195	\$1,195	\$0	0.0%
Other	\$1,091	\$1,154	(\$62)	-5.4%
<b>Total Spending (Gross)</b>	<b>\$23,392</b>	<b>\$25,093</b>	<b>(\$1,701)</b>	<b>-6.8%</b>

Source: GOMB's "Operating Budget Detail," February 2015, *Excel file*; House Bill 3763, 4151, 4153, 4154, 4146-4148, 4158-4160, and 4165; and, Senate Bills 2029-2037 of the 99<sup>th</sup> General Assembly.

\*Human Services **includes** \$446 million appropriation from the Commitment to Human Services Fund for the Democrats' plan.

# FY2016 Governor's Proposed General Fund Deficit Walk-Down (\$ Billions)

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Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue	\$31.65	FY2016 Hard Costs	\$11.37	\$20.28
(ii)	Revenue After Hard Costs	\$20.28	Estimated Accumulated Deficit Carry Forward from FY2015	\$5.94	\$14.34
(iii)	Projected Net FY2016 General Fund Revenue Available for Services	\$14.34	Projected Net General Fund Service Appropriations	\$22.74	(\$8.40)
(iv)		(\$8.40)	Backlog of Group Health	\$0.77	(\$9.17)
<b>Projected Accumulated FY2016 General Fund Deficit</b>					<b>(\$9.17)</b>
<b>Projected Deficit as a Percentage of General Fund Service Appropriations</b>					<b>-40.3%</b>

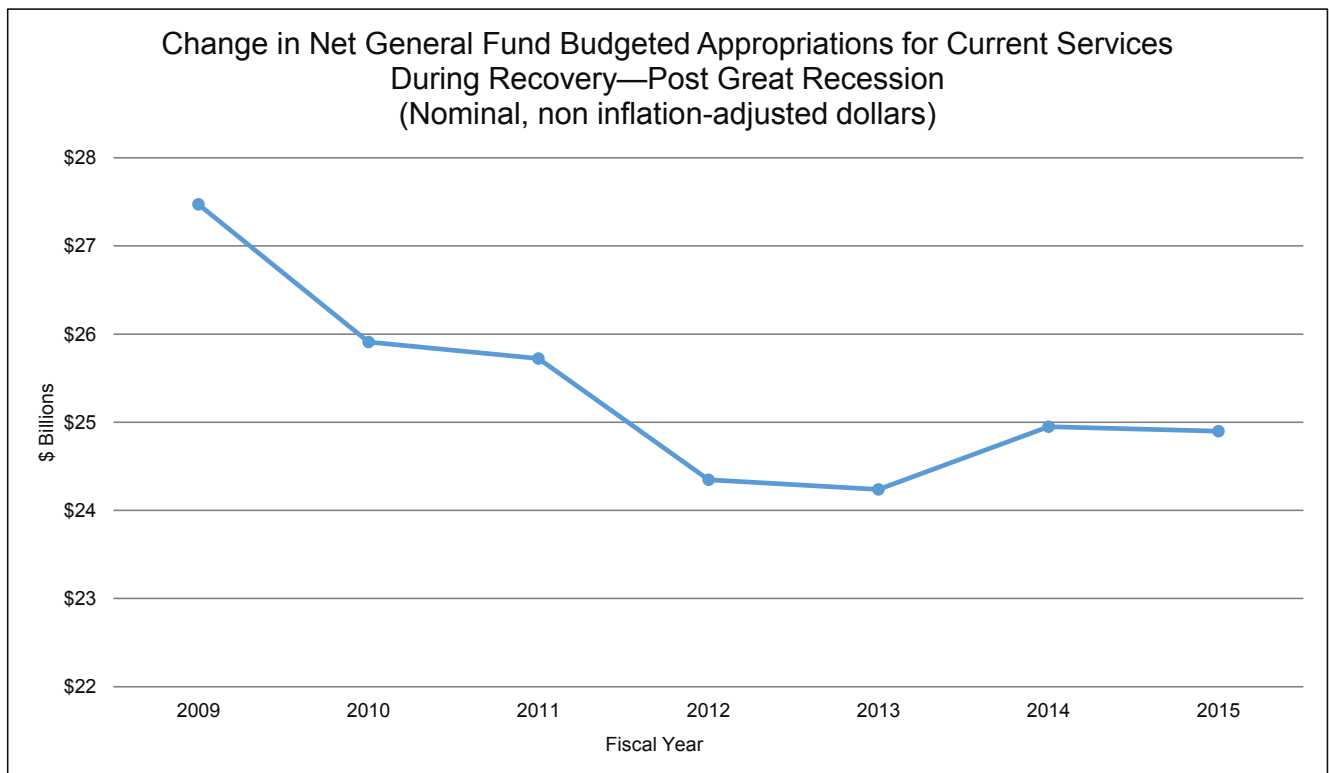
## FY2016 Democrats' Proposed General Fund Deficit Walk-Down (\$ Billions)

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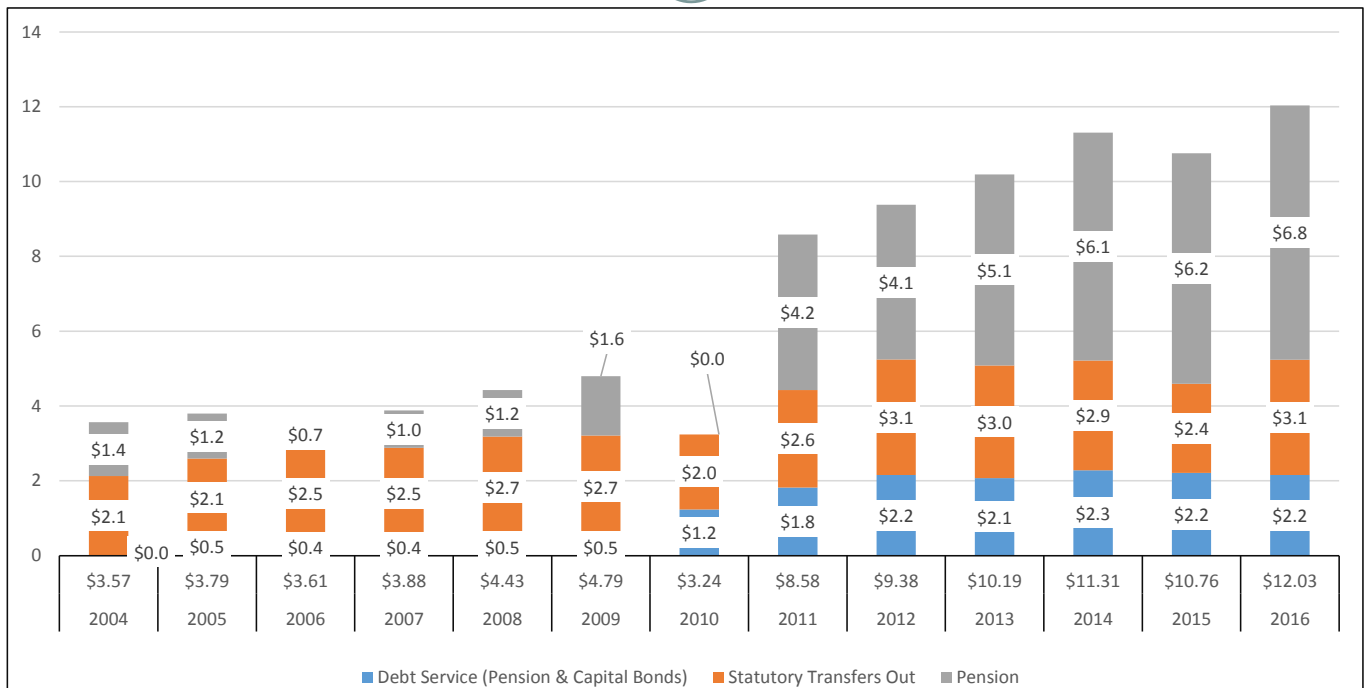
Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue	\$32.14	FY2016 Hard Costs	\$11.37	\$20.77
(ii)	Revenue After Hard Costs	\$20.77	Estimated Accumulated Deficit Carry Forward from FY2015	\$5.94	\$14.83
(iii)	Projected Net FY2016 General Fund Revenue Available for Services	\$14.83	Projected Net General Fund Service Appropriations	\$24.00	(\$9.17)
(iv)		(\$9.17)	Backlog of Group Health	\$0.77	(\$9.94)
<b>Projected Accumulated FY2016 General Fund Deficit</b>		<b>(\$9.94)</b>			
<b>Projected Deficit as a Percentage of General Fund Service Appropriations</b>		<b>-41.4%</b>			

# Change in Net General Fund Budgeted Appropriations

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# Hard Costs (Appropriations/Budgeted Figures)



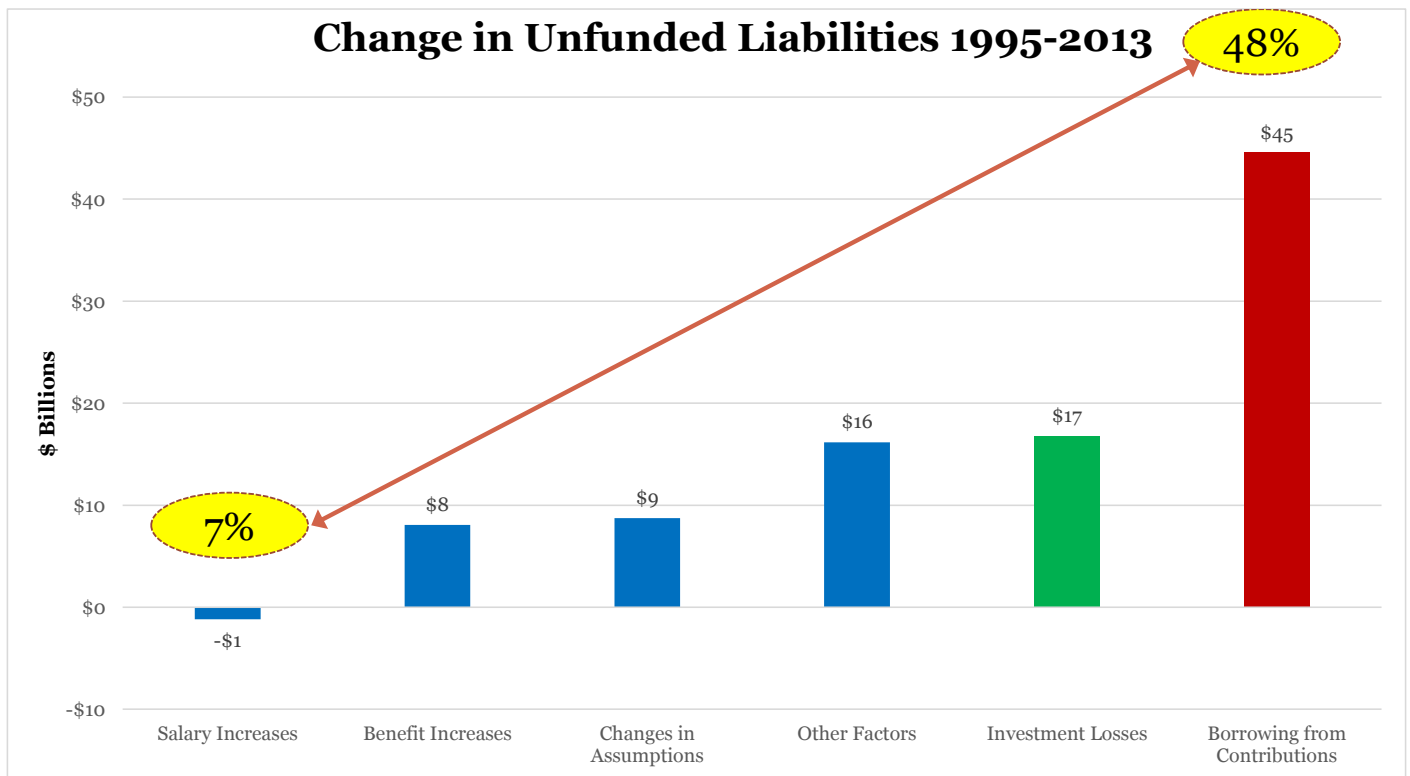
Notes:

- Legislation passed in 2005 cut the state's pension contributions for fiscal years 2006 and 2007
- In 2010 the state used Pension Obligation Bonds to pay its pension contribution
- In 2011, the state also used Pension Obligation Bonds. AS such, while the state budgeted for \$4.2 billion in General Fund pension contributions the *actual* General Fund pension contribution in 2011 was \$0
- 2015 statutory transfer is artificially low because it exclude \$600 million Healthcare Provider Relief Fund transfer, which took place in 2014 instead (that \$600 million IS NOT reflected in the 2014 figure)
- 2016 statutory transfer does NOT reflect the \$650 million repayment of inter-fund borrowing that will take place in 2015



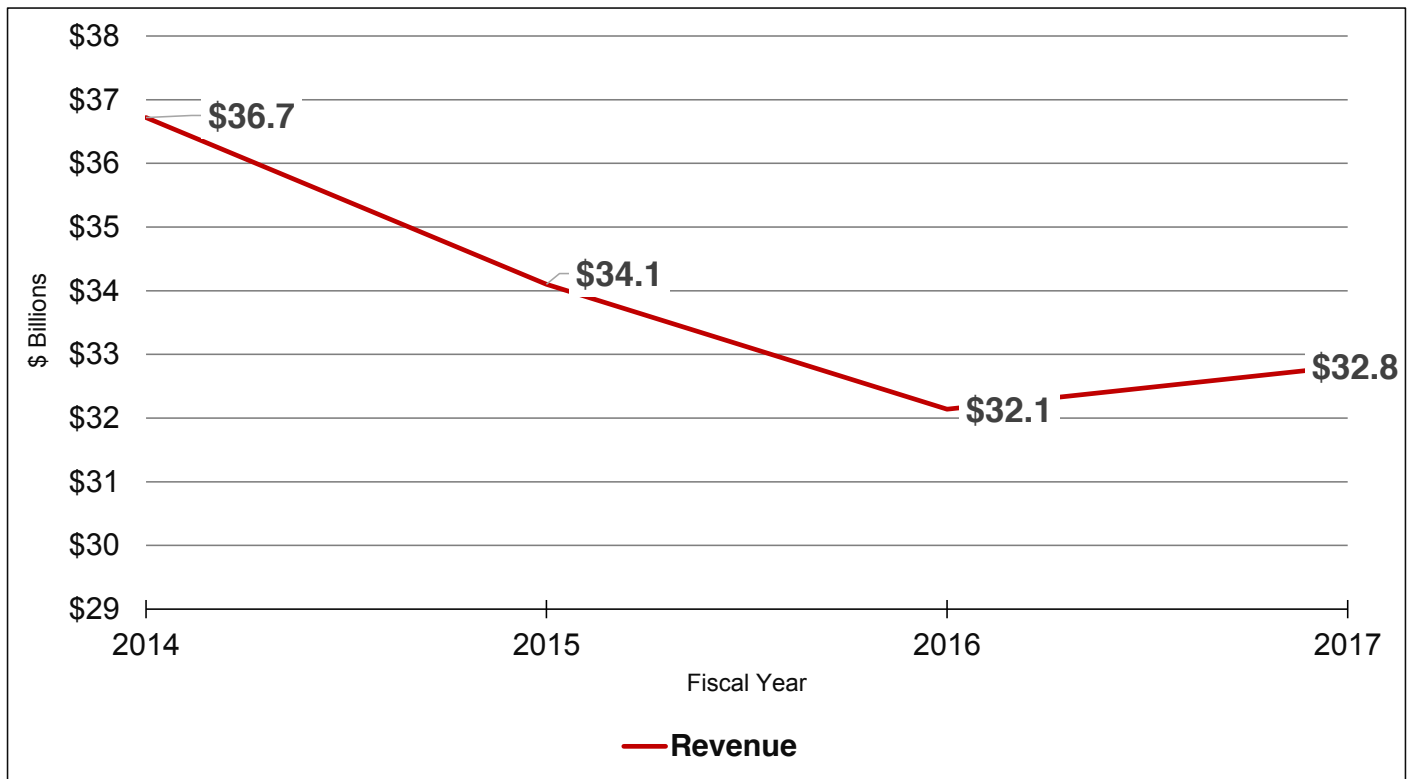
# What About Pension Benefits? Not the Problem

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# Temporary Tax Increases Phase Down: Illinois' Fiscal Cliff

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Source: GOMB, *2014 Three Year Projection* (Springfield, IL: January 1, 2014).

# Impact on People

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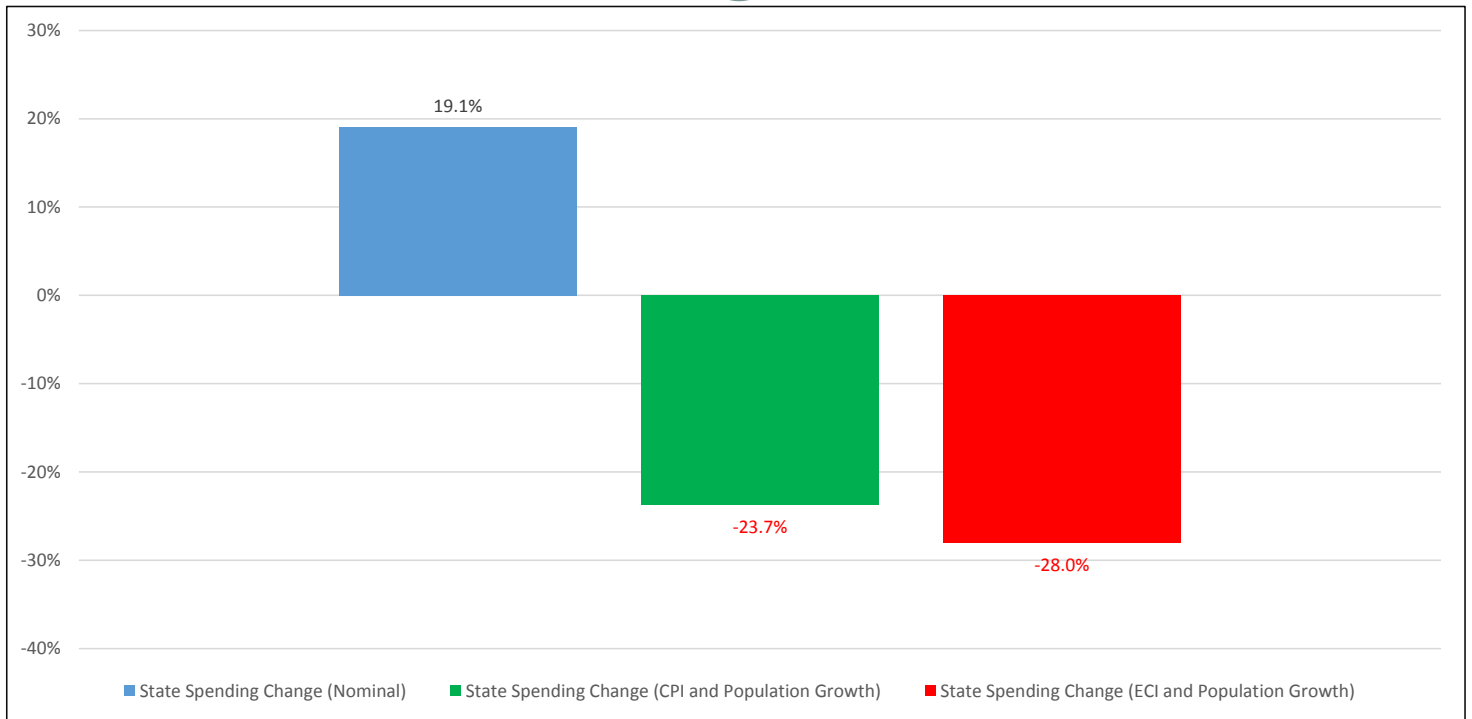
## Share of Tax Cut by Net Illinois Income—Illinois Residents Only

Net Illinois Income Group	Total Difference between 3.75% and 5% for Income Bracket	% of Tax Benefit	Average Cut	Average Net Illinois Income	Average Adjusted Gross Income	% of Tax Filers
\$0-\$25,000	(\$301,052,960)	8.1%	(\$106.89)	\$8,550.90	\$18,964.43	50.4%
\$25,001-\$35,000	(\$189,646,232)	5.1%	(\$372.32)	\$29,785.39	\$39,082.14	9.1%
\$35,001-\$50,000	(\$300,654,609)	8.1%	(\$526.45)	\$42,115.75	\$51,775.10	10.2%
\$50,001-\$75,000	(\$492,169,307)	13.2%	(\$768.78)	\$61,502.31	\$71,740.42	11.5%
\$75,001-\$100,000	(\$418,908,679)	11.2%	(\$1,080.17)	\$86,413.26	\$97,258.15	6.9%
\$100,001-\$200,000	(\$809,279,182)	21.7%	(\$1,677.04)	\$134,162.76	\$146,324.98	8.6%
\$200,001-\$1,000,000	(\$717,656,313)	19.2%	(\$4,371.34)	\$349,706.85	\$365,598.00	2.9%
\$1,000,001 or Greater	(\$503,206,395)	13.5%	(\$36,797.54)	\$2,943,802.83	\$2,976,255.53	0.2%
<b>Total</b>	<b>(\$3,732,573,676)</b>	<b>100.0%</b>	<b>(\$668.28)</b>	<b>\$53,462.03</b>	<b>\$64,072.49</b>	<b>100.0%</b>

Source: CTBA analysis of the Illinois Department of Revenue's Personal Income Tax data for tax year 2011. Numbers do not add up due to rounding.

## FY2015 General Fund Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)

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Sources: House Bills 6093, 6094, 6095, 6096, and 6097 of the 98<sup>th</sup> General Assembly for FY2015 appropriations. Appropriations for FY2000 from Illinois Economic and Fiscal Commission, *FY2002 Budget Summary* (Springfield, IL: September 2001) and Illinois Economic and Fiscal Commission, *Fiscal Year 2001 Report on the Liabilities of the State Employees' Group Insurance Program* (Springfield, IL: March 2000), 2. FY2000 appropriations adjusted using ECI, Midwest Medical Care CPI (for Healthcare), Midwest CPI from the BLS as of July 2014, and historic year-to-year population growth from the Census Bureau as of Jan. 2014.

## FY2015 General Fund Service Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)

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Category	FY2000 (Nominal)	FY2015	FY2000 (Adj. for Inflation and Pop)	\$ Difference	% Difference
Healthcare (including Medicaid)	\$5.04	\$7.45	\$9.54	(\$2.09)	-21.9%
PreK-12 Education*	\$4.84	\$6.60	\$7.61	(\$1.01)	-13.3%
Higher Education	\$2.15	\$1.99	\$3.38	(\$1.39)	-41.1%
Human Services	\$4.66	\$4.81	\$7.32	(\$2.51)	-34.3%
Public Safety	\$1.39	\$1.62	\$2.18	(\$0.56)	-25.7%
Other	\$1.64	\$1.21	\$2.57	(\$1.36)	-52.9%
<b>Total Spending (Gross)</b>	<b>\$19.72</b>	<b>\$23.68</b>	<b>\$32.60</b>	<b>(\$8.92)</b>	<b>-27.4%</b>

\* FY2015 appropriation for K-12 Education excludes \$200 million from the Fund for Advancement of Education that is appropriated for General State Aid. The Illinois State Board of Education includes that \$200 million in its FY2015 General Fund budget report.

## Compared to the Rest of the Nation, Illinois is a Very Low Spending and Small Government State

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Consider that:

- In calendar year 2012, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 12<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2012 Illinois ranked 28<sup>th</sup> in General Fund spending on services per capita, and 36<sup>th</sup> in General Fund spending on services as a share of GDP.
- In 2011, (the most recent year for which there is data) Illinois ranked 49<sup>th</sup>, next to last among all 50 states, in number of state workers per 1,000 residents.

\*Data for preceding analysis comes from U.S. Census, U.S. Bureau of Economic Analysis, National Association of State Budget Officers, and the final, enacted General Fund Budgets of all 50 states.

## Now: The Economic Context

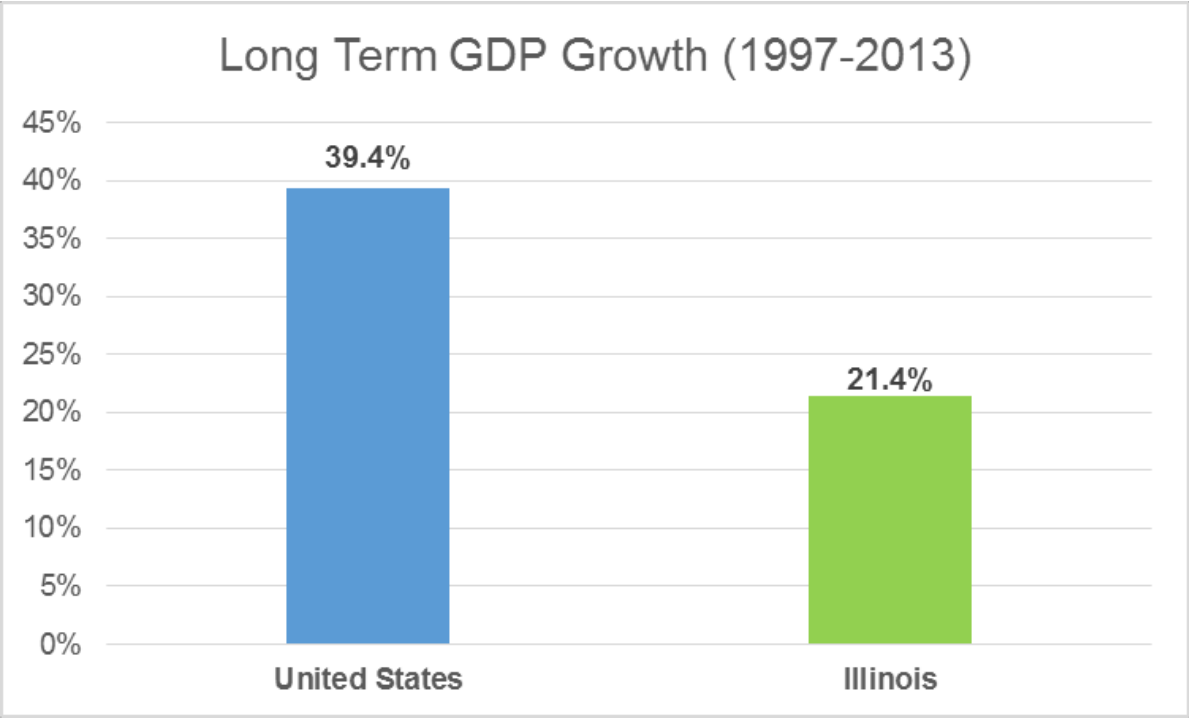
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- In 2014, Illinois ranked fifth nationally with a Gross State Product in excess of \$745 billion (BEA).
- That would be the 20<sup>th</sup> largest economy of any nation in the world-greater than Egypt, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.

# Illinois Economic Growth Lags U.S. Long Term (1997-2013)

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Source: BEA



## Are High Taxes Hurting Illinois? No: Illinois is Low Tax Overall

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- Illinois' total state *AND* local tax burden, as a percentage of personal income ranked in the bottom 10 of all states, for most of this period.
- Illinois consistently had the second lowest tax burden in the Midwest to Missouri.\*

\*Data from Federation of Tax Administrators

## Illinois is Low Tax Overall

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

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

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

## Total State and Local Tax Burden as a Percentage of Income in 2012, with Temporary Tax Increase

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Midwest States	%	National Rank
Iowa	17.0%	10 <sup>th</sup>
Michigan	16.9%	12 <sup>th</sup>
Wisconsin	16.6%	16 <sup>th</sup>
Indiana	16.6%	17 <sup>th</sup>
Ohio	16.1%	26 <sup>th</sup>
<b>Illinois</b>	<b>15.6%</b>	<b>27<sup>th</sup></b>
Missouri	13.5%	47 <sup>th</sup>

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

## But Despite Being Low Tax. . . . .

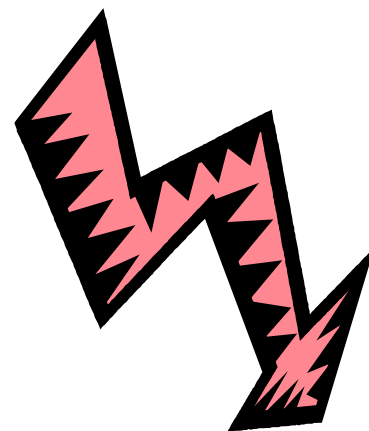
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- Illinois had the second lowest real GDP Growth in the entire Midwest in 2010

### Real GDP Growth 2010

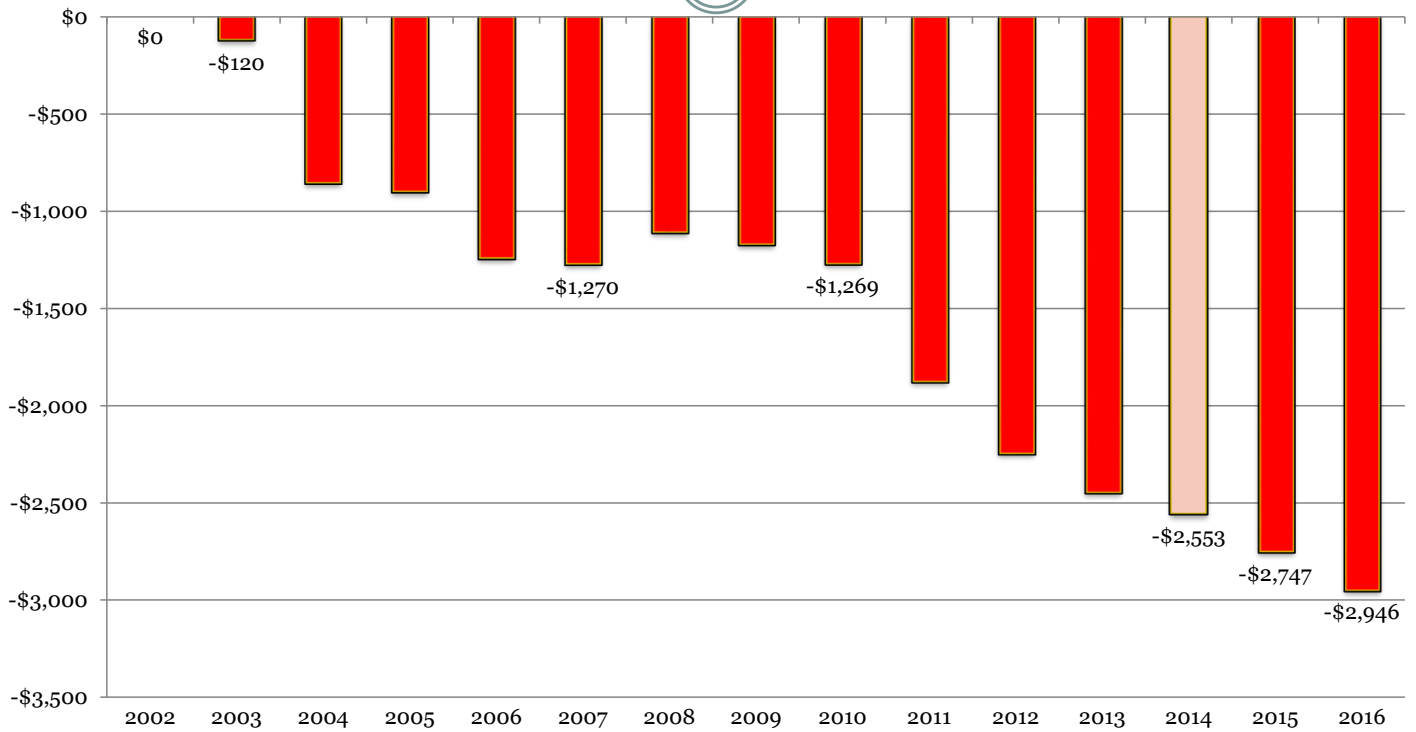
Indiana	4.6%
Iowa	3.1%
Michigan	2.9%
Wisconsin	2.5%
Ohio	2.1%
Illinois	1.9%
Missouri	1.4%

- National and Midwest Average was 2.6%



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

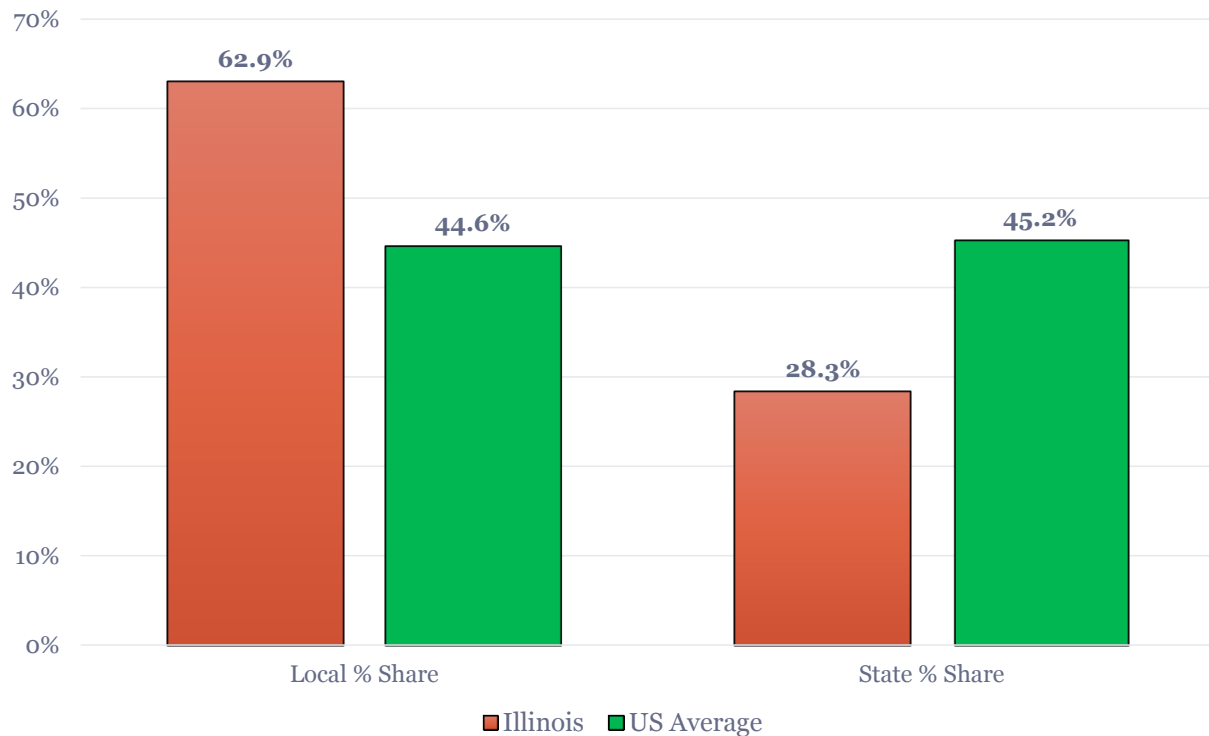
21



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.

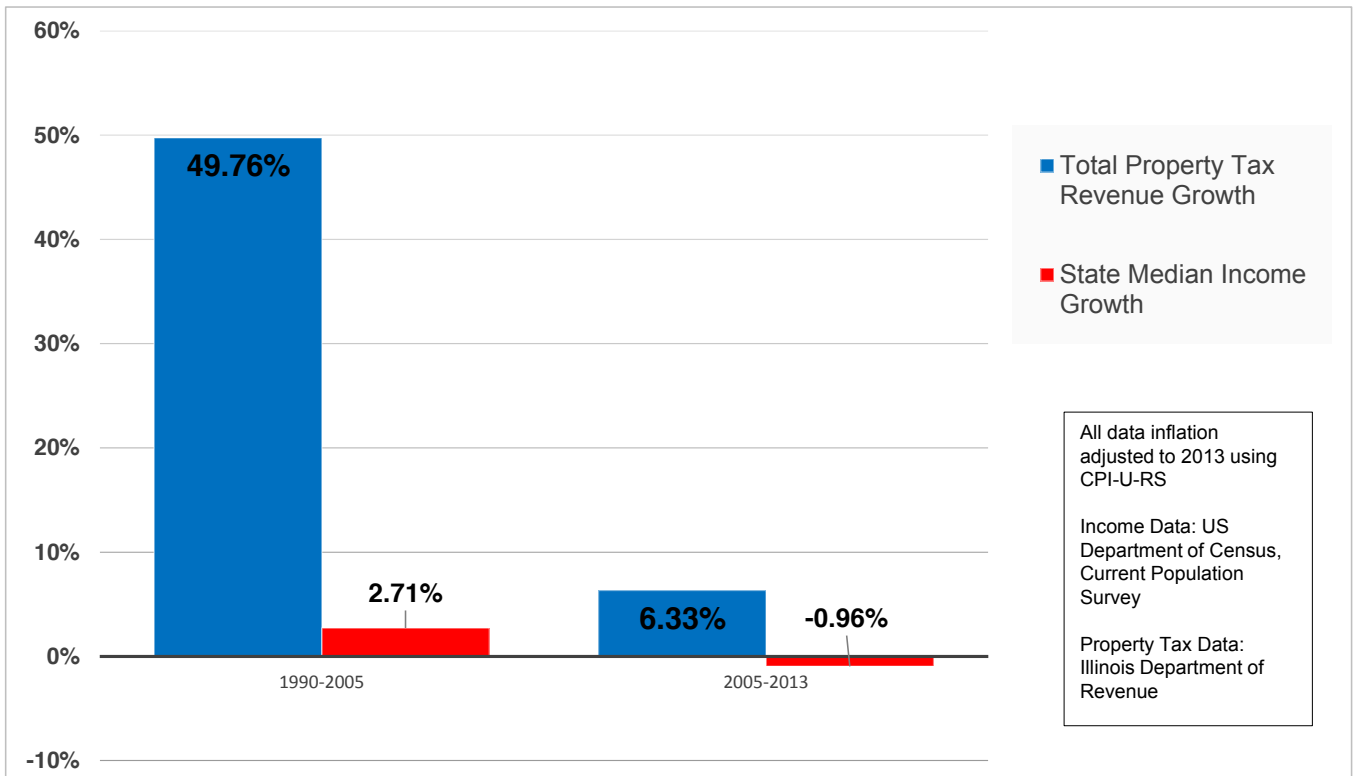
# Local and State Share of Education Funding Spending

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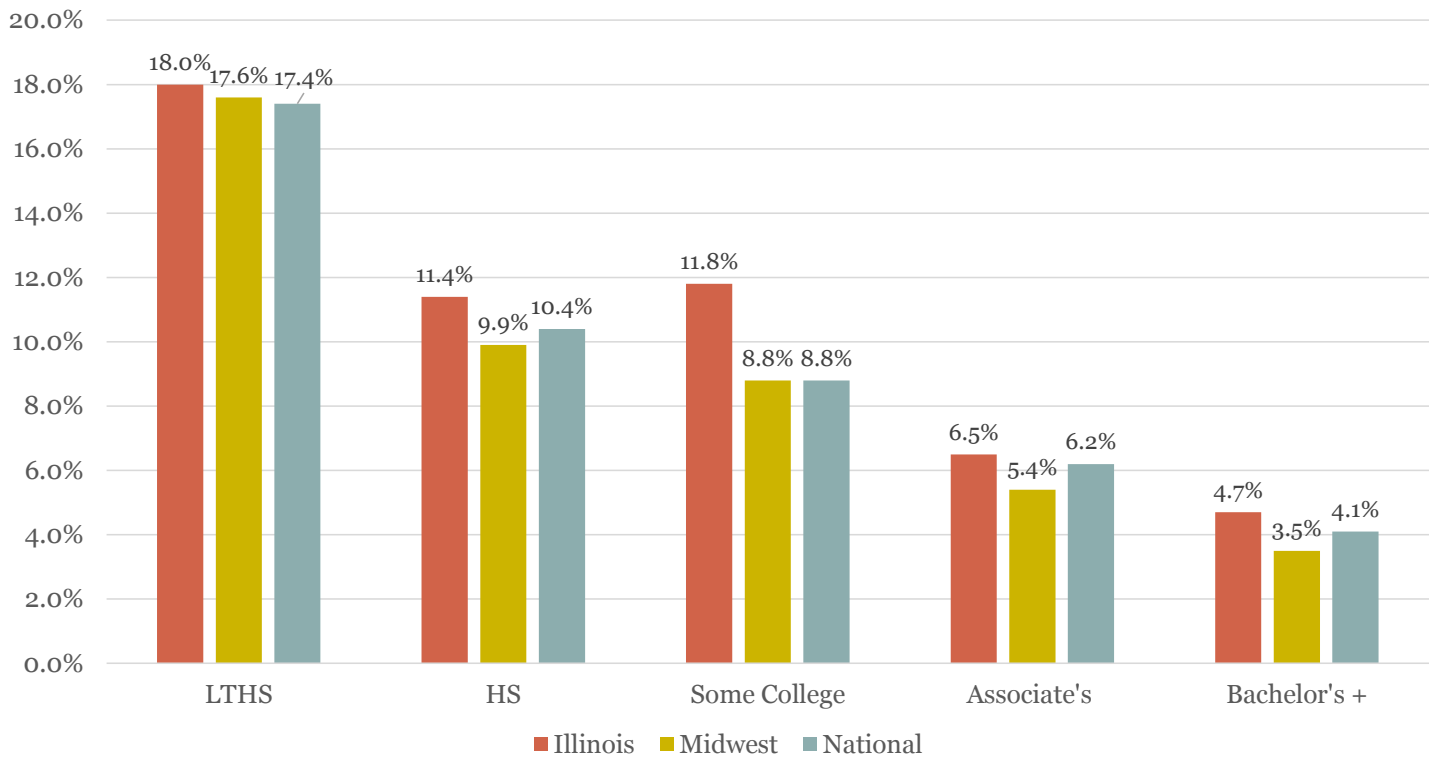
Source: CTBA analysis of U.S. Department of Education, National Center on Education Statistics, 2015. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2011-2012 (Fiscal Year 2012)."

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



# Unemployment Highest Among Least Educated, 2012

24



Source: The State of Working Illinois 2013



## Wages for Minorities Lag Whites

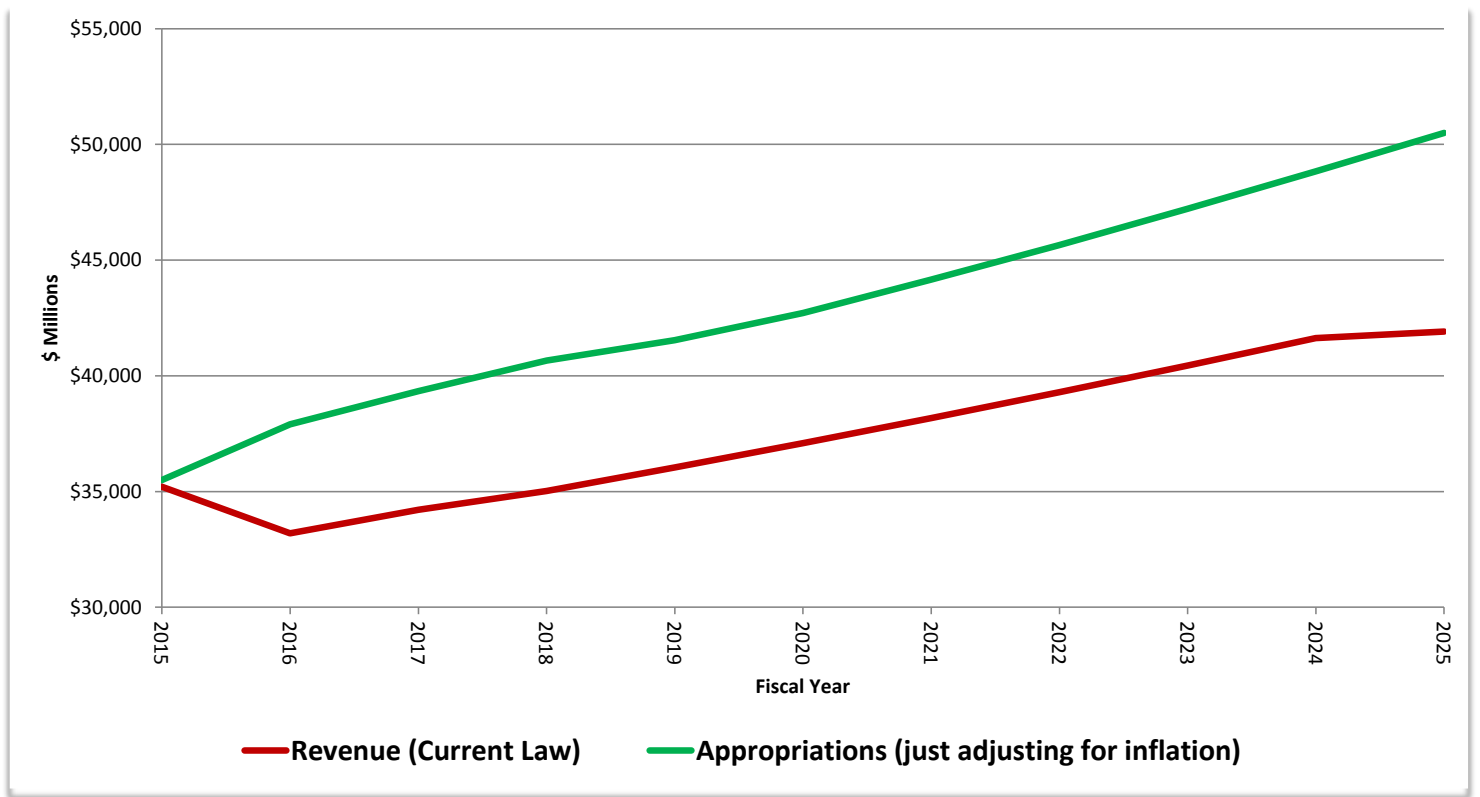
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**Median hourly wages for Whites increased modestly between 1980 and 2014, but :**

- The White-Hispanic wage gap is larger in amount, growing from \$4.36 per hour in 1980 to \$5.98 in 2014, an increase of **37%** over 1980
- Median wages for African-Americans declined, in real terms. The hourly wage gap between Whites and African-Americans grew from \$1.74 in 1980 to \$5.18 in 2014, an increase of **197%** over 1980

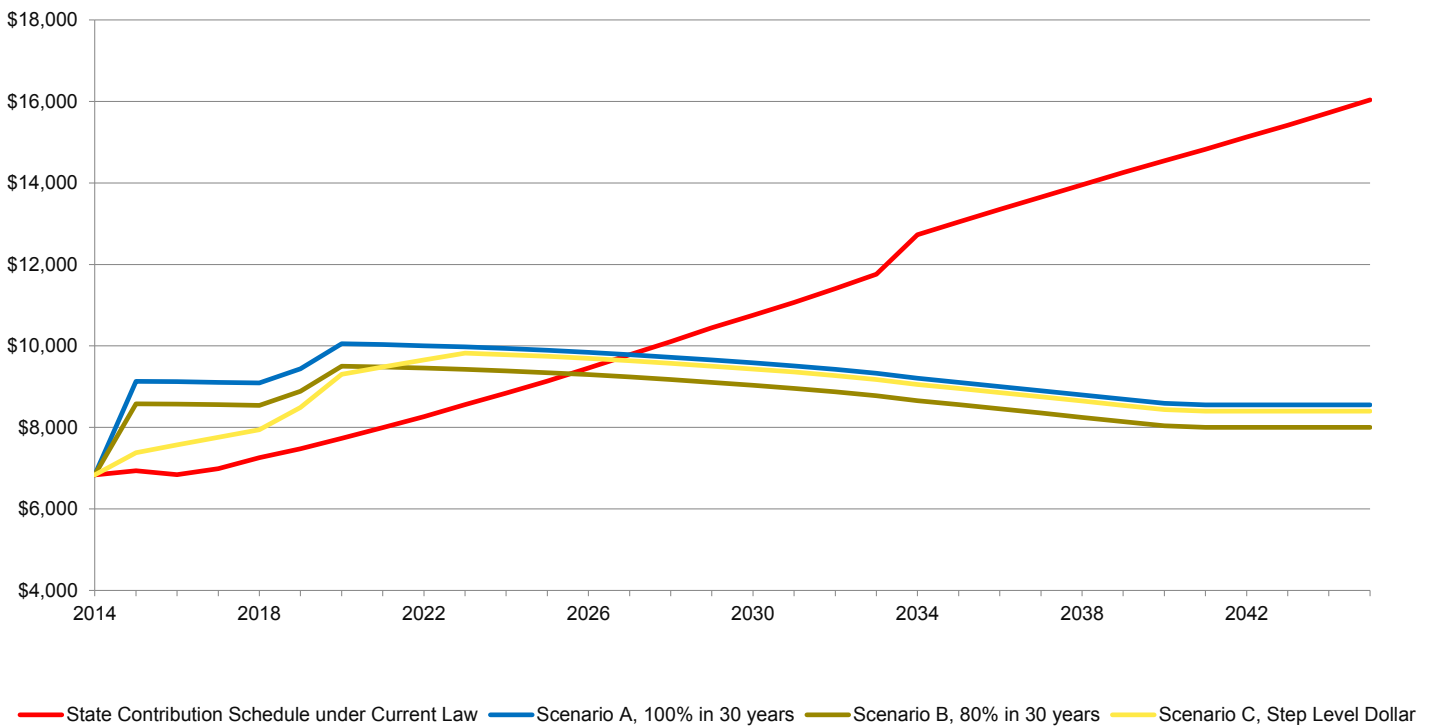
# Going Forward: Illinois Still Has a Structural Deficit

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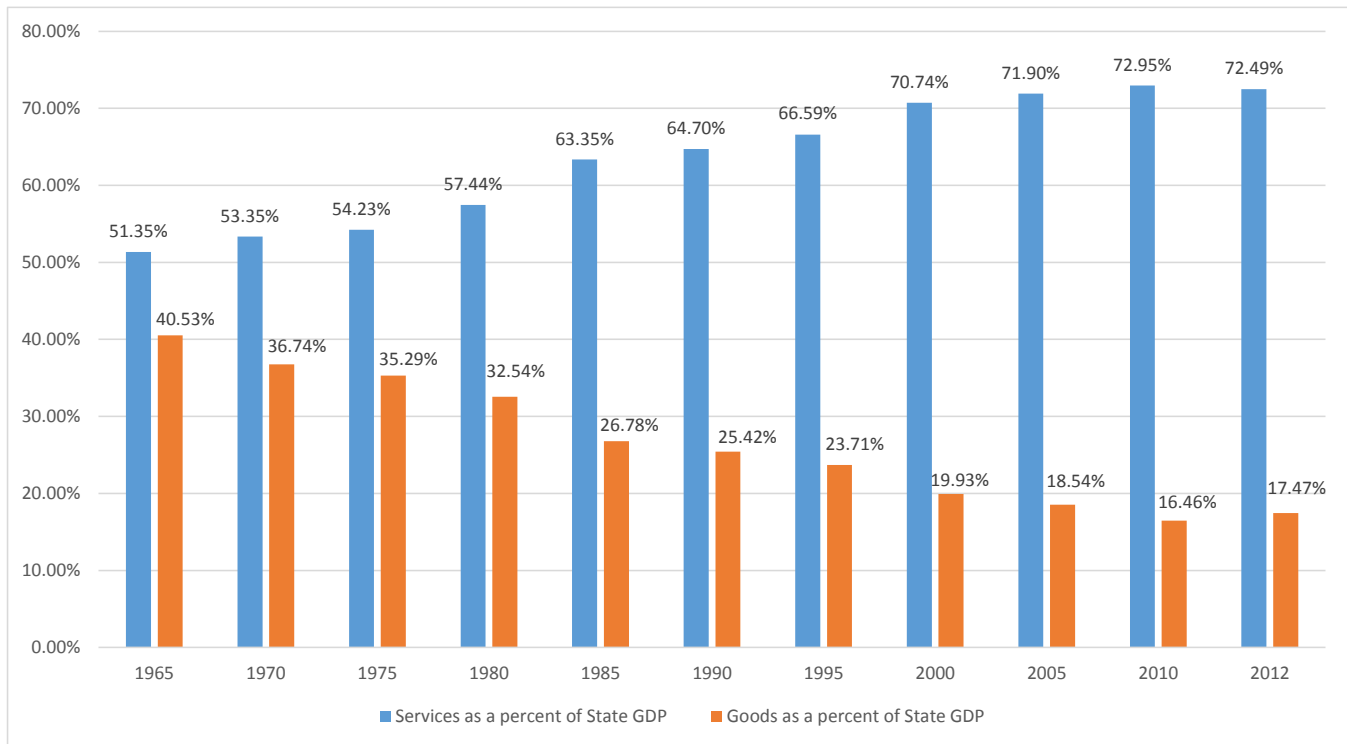
# Pension Re-Amortization and Current Law Comparisons (\$ Millions)

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

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Source: Bureau of Economic Analysis

## Personal Income Tax Revenue at 4.75% Compared to 3.75% (\$ Millions)

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	COGFA estimate at 3.75%	CTBA estimate at 4.75%	Difference (\$ Millions)
Personal Income Tax (gross)	\$14,766.0	\$18,703.6	\$3,937.6
Personal income tax refund amount	\$1,476.6	\$1,870.4	\$393.8
Fund for Advancement of Education	\$459.0	\$561.1	\$102.1
Commitment to Human Services Fund	\$459.0	\$561.1	\$102.1
<b>Net Personal Income Tax Revenue</b>	<b>\$12,371.4</b>	<b>\$15,711.0</b>	<b>\$3,339.6</b>

Source: CTBA analysis of COGFA data

## One Issue with Responsiveness is a Base Problem— the Exclusion of all Retirement Income

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- Illinois is one of three states that does not tax retirement income
- Illinois would raise **\$1.2 billion** in revenue if some retirement income was subject to the income tax

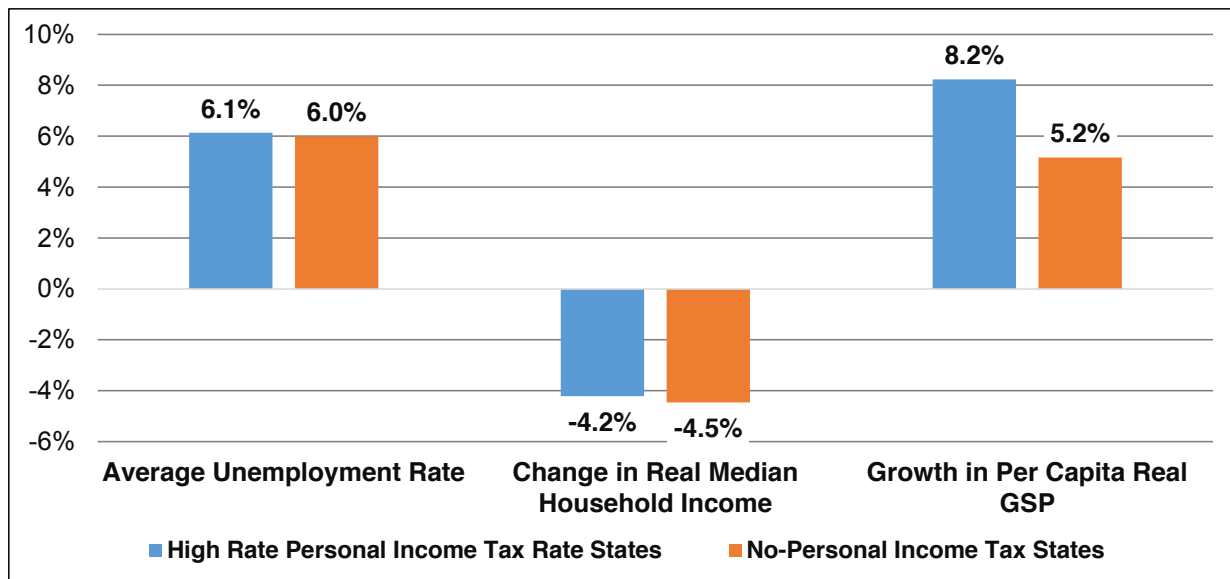
AGI Bracket	Portion of Retirement Income Added to Base	Revenue from Retirement Income
\$50,000 or LESS	0%	\$0
\$50,001-\$75,000	25%	\$99,057,446
\$75,001-\$100,000	50%	\$190,998,341
\$100,001-\$150,000	75%	\$341,199,479
\$150,001 or MORE	100%	\$565,534,861
<b>TOTAL</b>		<b>\$1,196,790,127</b>

Source: CTBA estimate using IDOR Illinois Individual Income Tax Returns with Retirement Subtractions: Tax Year 2012, <http://tax.illinois.gov/AboutIdor/TaxStats/2012/IIT-Retirement-2012-Final.pdf>

# Increasing Taxes the Right Way Won't Hurt the Economy

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## 2002-2011 Comparison: 9 States with Highest Graduated Income Tax Rate vs. 9 States with No Income Tax



Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2,3 & 4

## For More Information

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