

# *The Future of Illinois and State Funding*

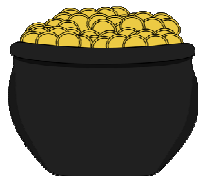
THURSDAY, OCTOBER 27, 2016  
HOUSING ACTION ILLINOIS—ANNUAL CONFERENCE  
DOUBLETREE BY HILTON  
10 BRICKYARD DR, BLOOMINGTON, IL 61701

Presented by:  
Ralph M. Martire, Executive Director

## The Fiscal Policy Issue:

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ONE AXIOM SAYS IT ALL

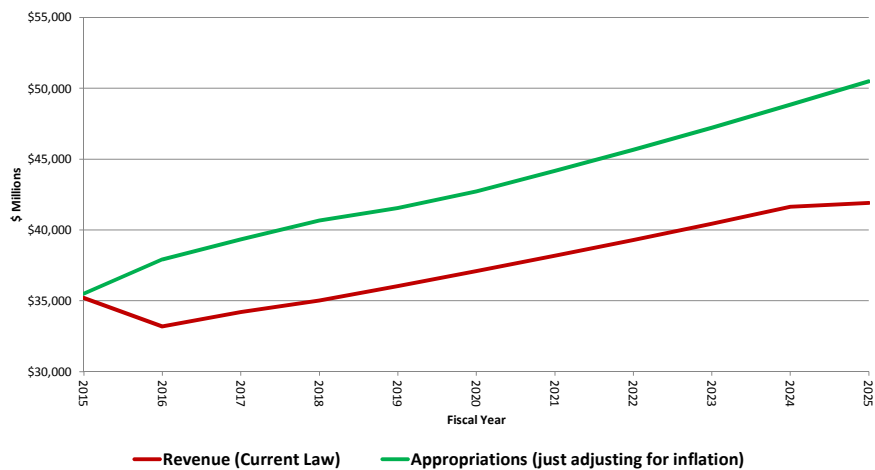


Where needs are greatest  
→ Resources are least



## The Fiscal Policy Challenge Illinois Has a Structural Deficit

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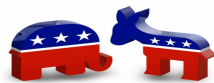


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## The Political Impact of a Structural Deficit?

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Incentivizes electeds in both parties to:

1. Hide the real cause of the fiscal problems, i.e. “Tax Policy”;

and

2. Cover up the structural deficit by borrowing against the normal cost of pension systems to fund services.

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## The Illinois General Fund

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FY2015 ≈ \$35 B Overall

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

\$5.97 or 25% Deficit Spending

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## FY2016 Maximum Authorized Spending Compared to FY2015

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Category	FY2015	FY2016 Maximum Authorized Spending	Nominal Difference	Nominal Difference (%)
K-12 Education	\$6,262	\$6,193	(\$69)	-1.1%
Early Education	\$293	\$315	\$22	7.5%
Higher Education	\$1,950	\$627	(\$1,323)	-67.8%
Human Services	\$5,134	\$5,072	(\$62)	-1.2%
Healthcare	\$6,826	\$6,950	\$124	1.8%
Public Safety	\$1,735	\$1,317	(\$418)	-24.1%
Group Health	\$1,565	\$1,726	\$161	10.3%
Other	\$1,232	\$1,010	(\$222)	-18.0%
Governor Discretionary	\$57	\$0	(\$57)	-100.0%
Gross Appropriations	\$25,054	\$23,210	(\$1,844)	-7.4%
Less Unspent Appropriations	(\$562)	(\$1,468)		
<b>Net Appropriations</b>	<b>\$24,492</b>	<b>\$21,742</b>	<b>(\$2,750)</b>	<b>-12.5%</b>

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

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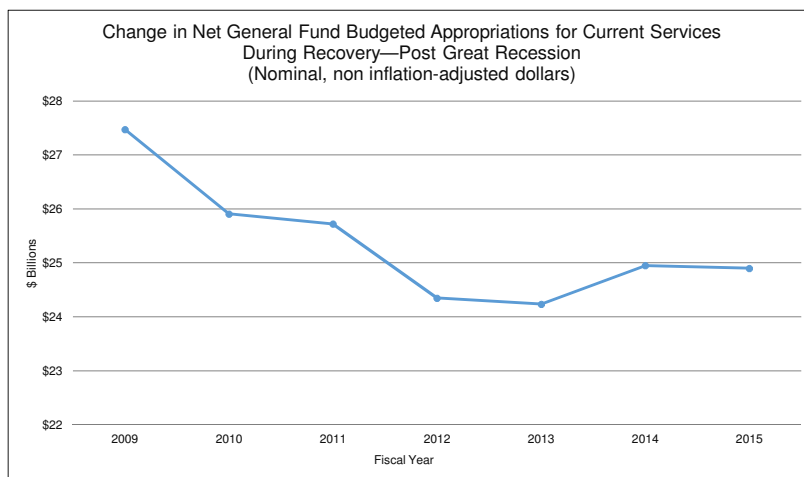
Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
(i)	FY2016 Revenue	\$30.37	FY2016 Hard Costs	\$12.07	\$18.30
(ii)	Revenue After Hard Costs	\$18.30	Accumulated Deficit Carry Forward from FY2015	(\$5.97)	\$12.33
(iii)	Projected Net FY2016 General Fund Revenue Available for Services	\$12.33	Projected Net General Fund Service Appropriations	\$21.74	(\$9.41)
<b>Projected Accumulated FY2016 General Fund Deficit</b>		<b>(\$9.41)</b>			
<b>Projected Deficit as a Percentage of General Fund Service Appropriations</b>		<b>-43.8%</b>			

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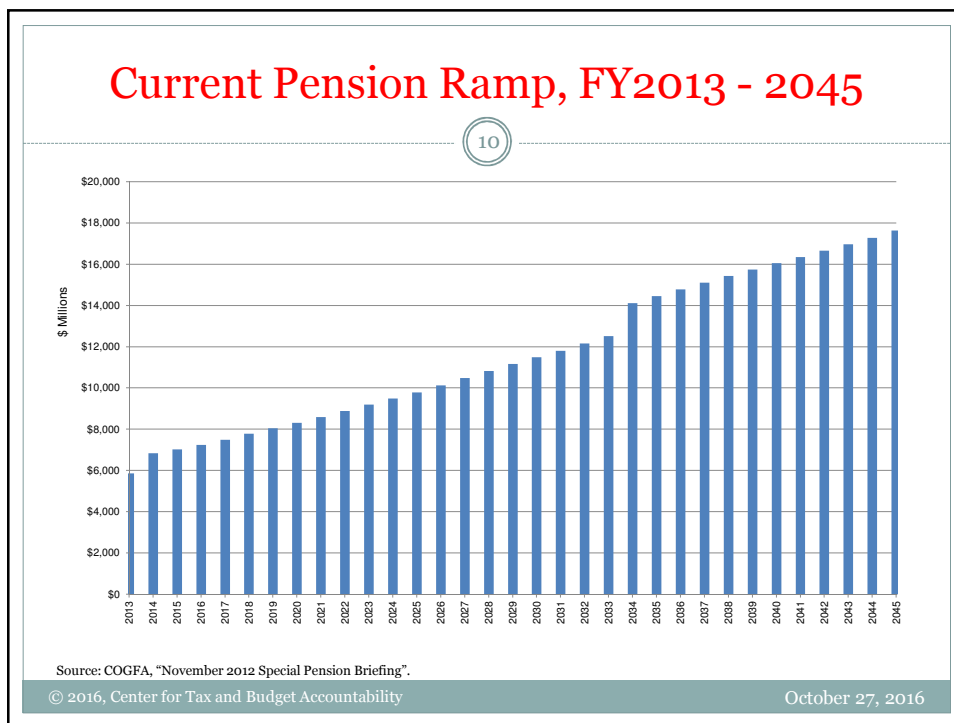
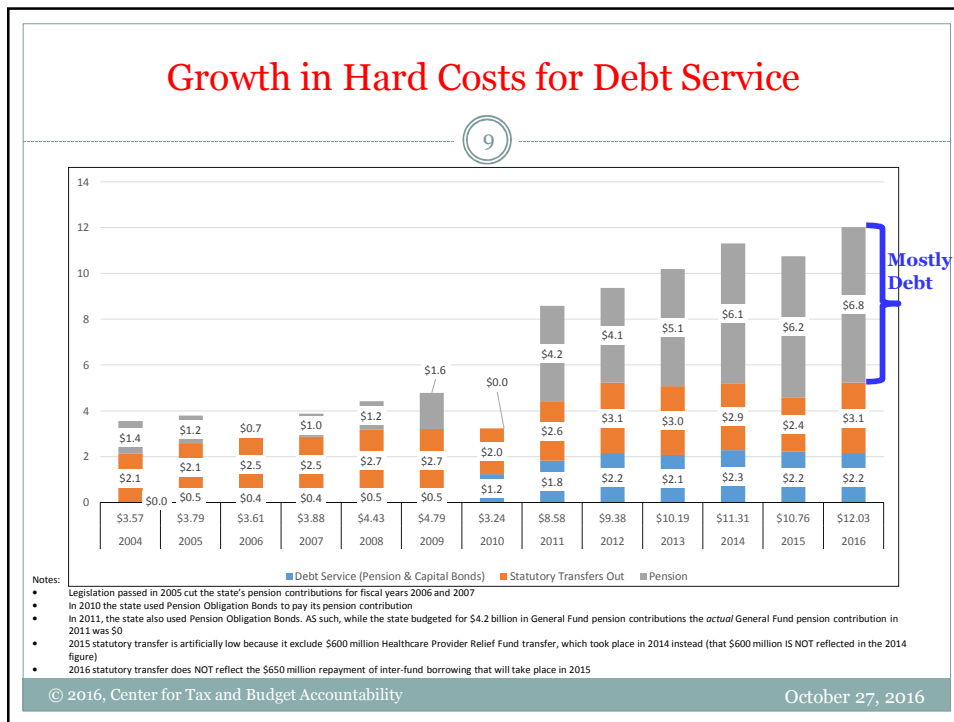
## Change in Net General Fund Budgeted Appropriations

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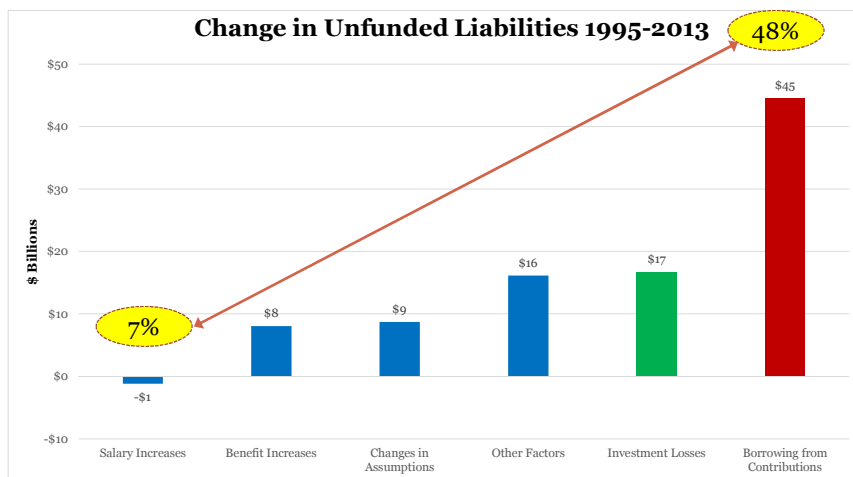
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## What About Pension Benefits? Not the Problem

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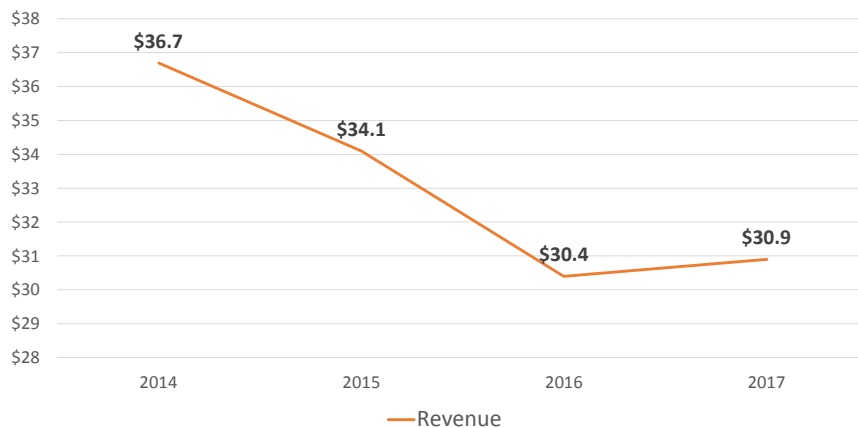


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## Temporary Tax Increases Phase Down: Illinois' Fiscal Cliff

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## 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>

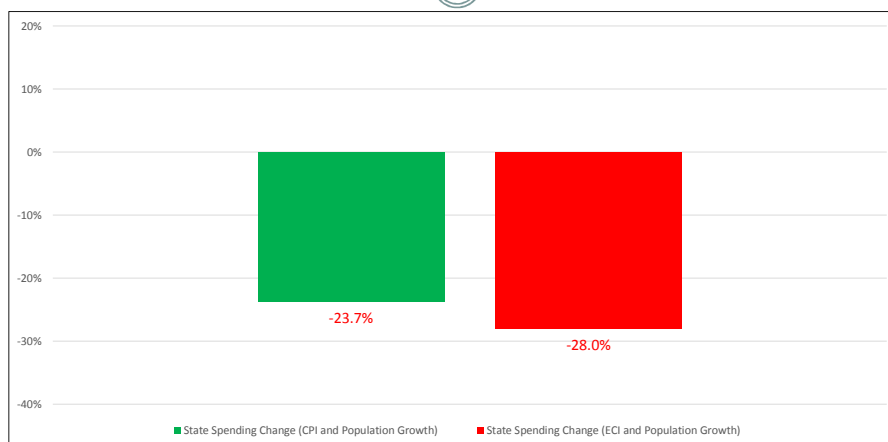
Source: CTBA analysis of the Illinois Department of Revenue's Personal Income Tax data for tax year 2011. Numbers do not add up due to rounding.

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### 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.

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### 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.

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### 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 2014, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (GDP) (BEA Data), and 15<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2014 Illinois ranked 31<sup>st</sup> in General Fund spending on services per capita, and 39<sup>th</sup> in General Fund spending on services as a share of GDP.
- In 2014, (the most recent year for which there is data) Illinois ranked 46<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.

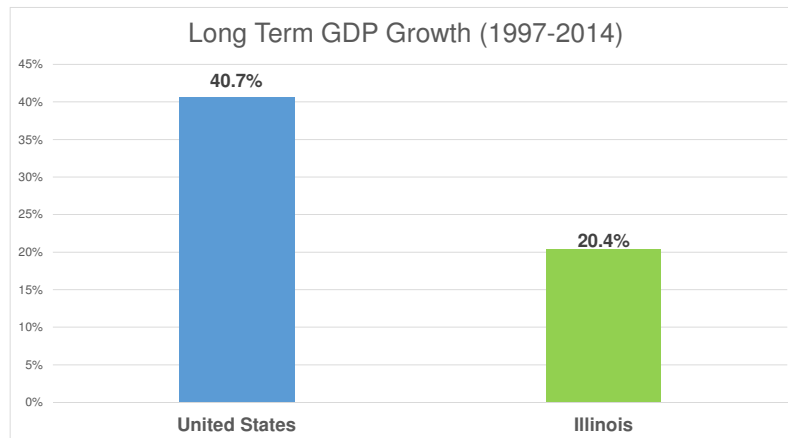
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## Illinois Economic Growth Lags U.S. Long Term (1997-2014)

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Source: Bureau of Economic Analysis

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## 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

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## 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.

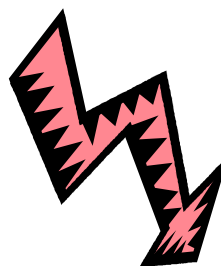
## But Despite Being Low Tax. . . .

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

### Real GDP Growth 2010

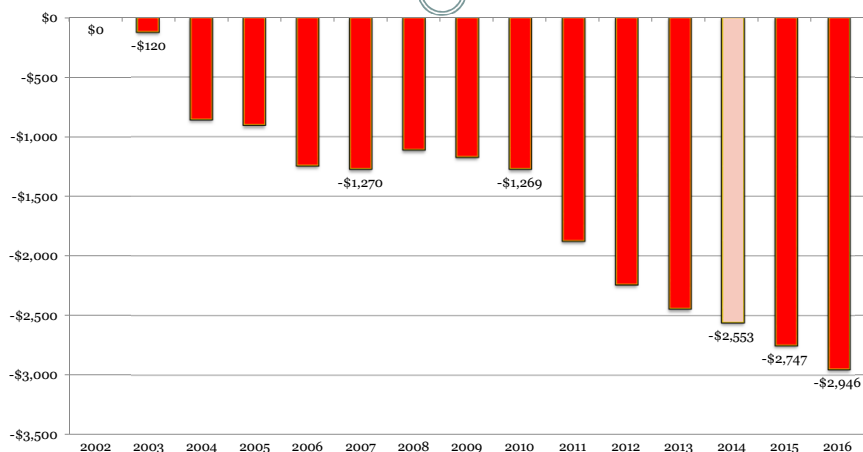
Indiana	4.6%
Iowa	3.1%
Michigan	2.9%
Wisconsin	2.5%
Ohio	2.1%
Illinois	1.9%
Missouri	1.4%



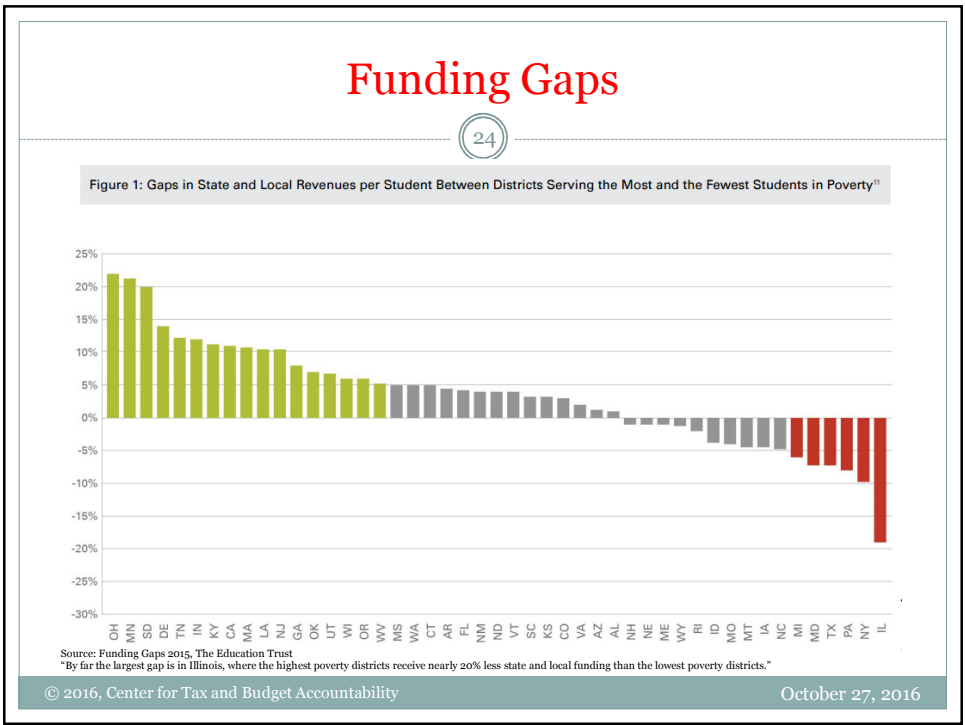
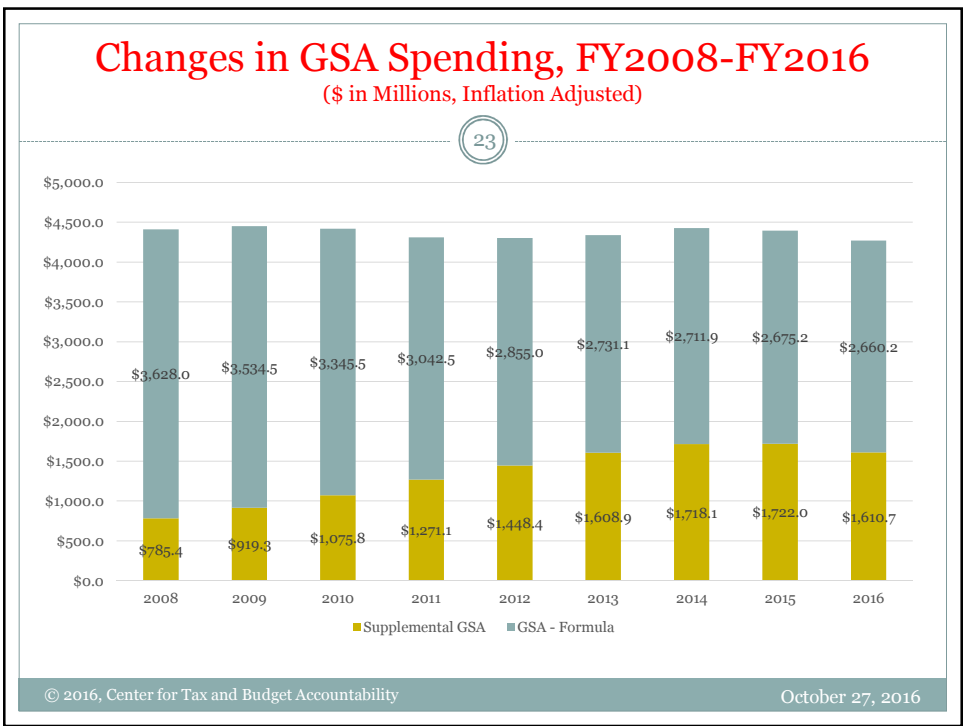
- National and Midwest Average was 2.6%

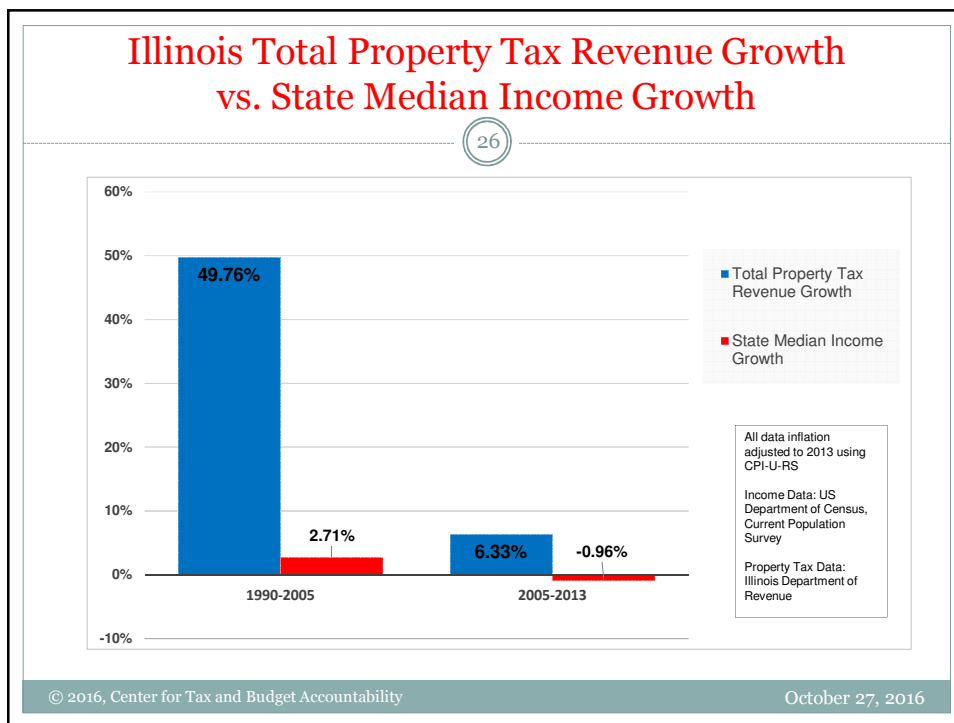
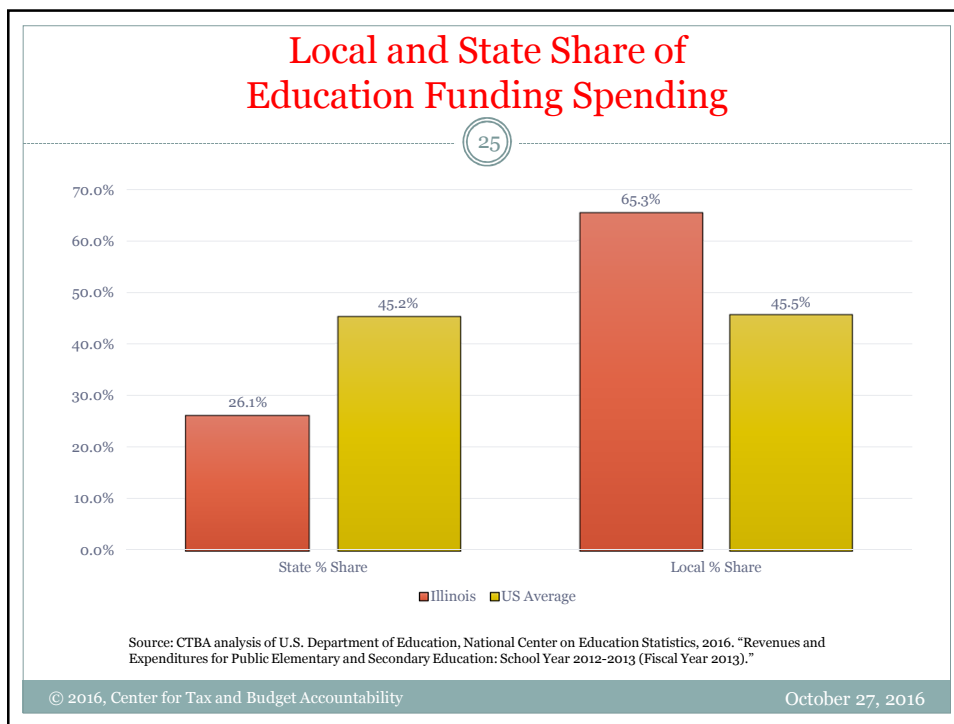
## Dollar Shortfall in State Per-Pupil K-12 Education Funding to Meet EFAB Adequate Education Standard by Fiscal Year

22



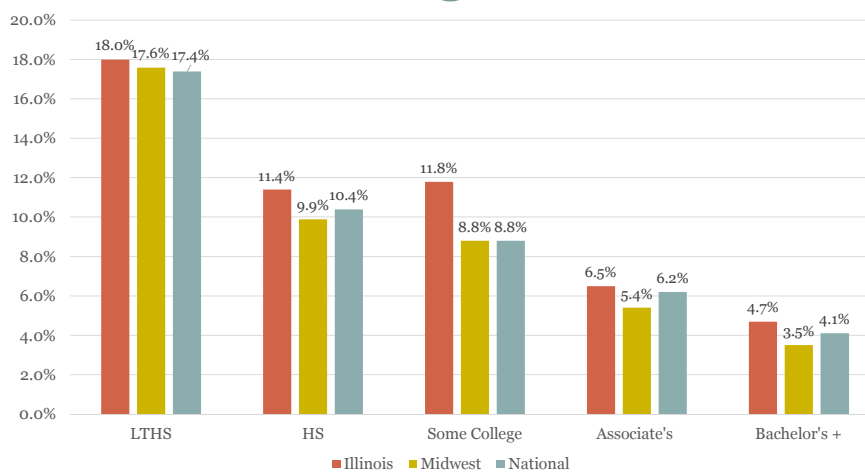
Sources: CTBA analysis of January 2013 EFAB data. Education Funding Advisory Board, *Illinois Education Funding Recommendations*, (Springfield, IL: January, 2013), p. 9. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2013, and population growth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





## Unemployment Highest Among Least Educated, 2012

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Source: The State of Working Illinois 2013

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## 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

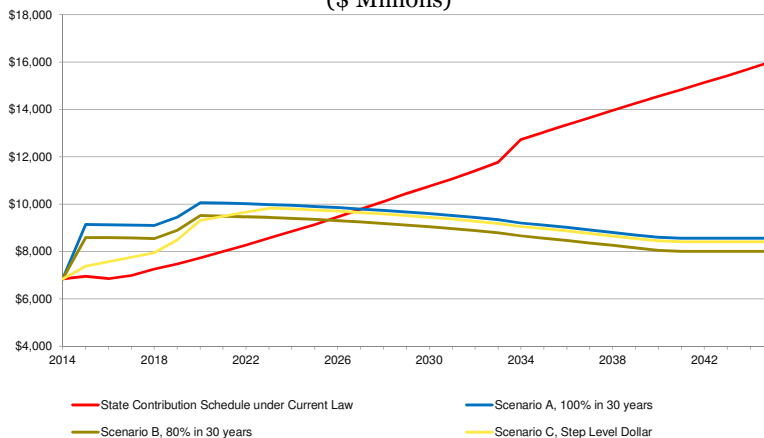
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## SOLUTION PART 1

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



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## SOLUTION PART 2 MORE TAX REVENUE IS NEEDED

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- ❖ Expand the sales tax base to include consumer services  
= \$2.1 B
- ❖ Increase income tax rates  
(5% personal = \$4.5 B, and  
6% corporate = \$387 M)
- ❖ Tax some retirement income  
= \$1.2B

An Aside: Taxing  
Internet Sales?  
\$212 M FY2013



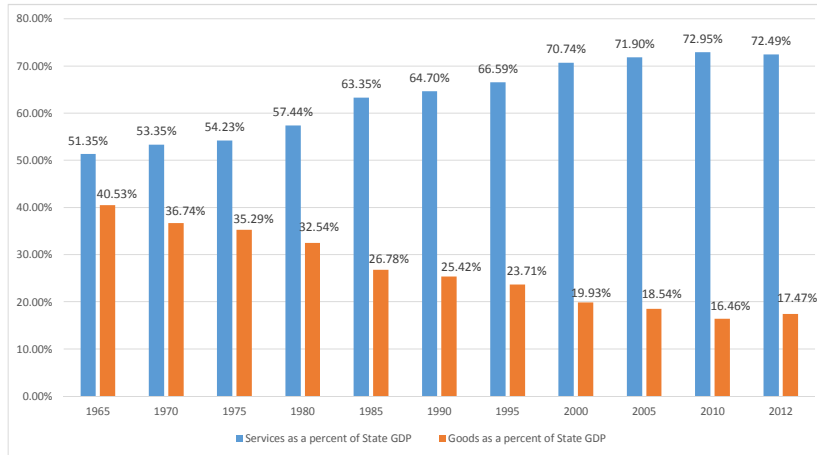
**THAT'R RIGHT —A TAX INCREASE!**

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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>

## BUT WAIT.....

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WON'T TAX INCREASES KILL THE ECONOMY?



## NOPE:

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### Economic Growth

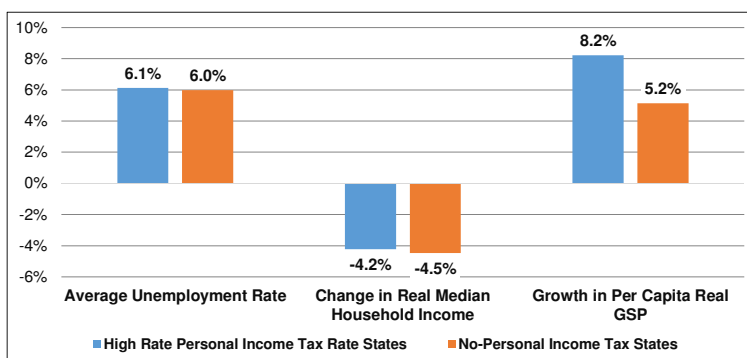
- A rigorous 2012 study commissioned by the U.S. Small Business Administration (SBA) found:
  - “No evidence of an economically significant effect of state tax portfolios on entrepreneurial activity.”  
*Can State Tax Policy be Used to Promote Entrepreneurial Activity, Small Business Economics, 2012.*
  - The Harry S. Truman Institute @ University of Missouri found that when benefit of a tax break is measured against the economic loss generated by spending cuts—there is always a **NET ECONOMIC LOSS**.
  - The CBO found no correlation between tax policy & job creation. . . . Private sector demand is what counts.

## 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**

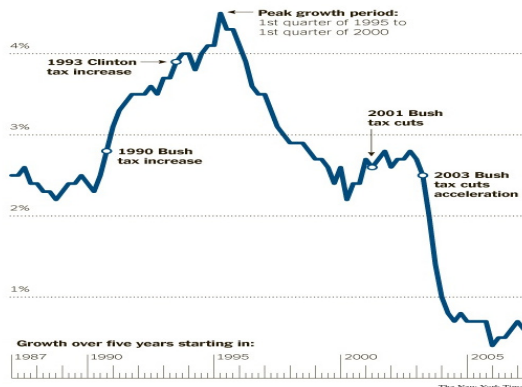


Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2, 3 & 4.

## Economic Growth Isn't Stymied by a Well-Designed and Needed Tax Increase

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Economic Growth Rates Following Periods of Tax Increases and Tax Cuts



Source: Bureau of Economic Analysis, via Haver Analytics  
 Henry Blodget, Bombshell: New Study Destroys Theory That Tax Cuts Spur Growth, September 21, 2012 <http://www.businessinsider.com/study-tax-cuts-dont-lead-to-growth-2012-9>

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## For More Information

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