CTBA | Center for Tax and Budget Accountability

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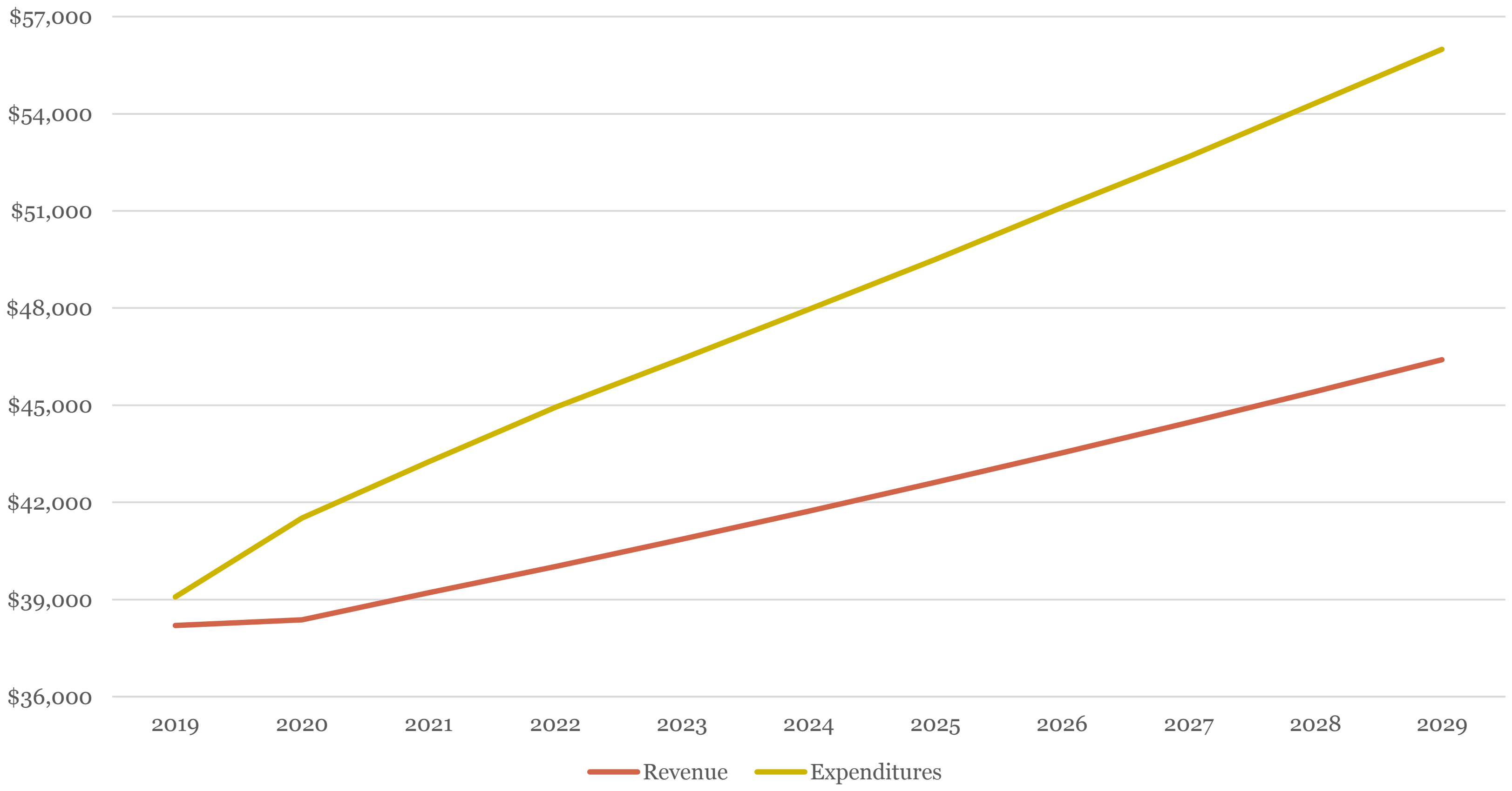
Moving Illinois Toward Fiscal Sustainability

TUESDAY, APRIL 23, 2019
REPRESENTATIVE TERRA COSTA HOWARD
TOWN HALL
LOMBARD VILLAGE HALL
255 E. WILSON, LOMBARD IL

Presented by:
Ralph M. Martire, Executive Director, Center for Tax and Budget Accountability
and Arthur Rubloff Endowed Professor of Public Policy at Roosevelt University

The Problem Remains: Illinois has a Structural Deficit (Full Funding of EBF)



Source: CTBA analysis of COGFA figures. Assumes expenditures keep pace with inflation and funding of the Evidence Based Formula as required under P.A. 100-0465, a total increase of $7.4 billion (on a fully inflation-adjusted basis in FY2018 dollars) by FY2029 (which totals $9.17 billion in FY2029); assumes revenues grow at historic rates, and assumes no change in law.

FY2019 General Fund Budget

Category	Appropriation
1. Net General Fund Appropriations — After Unspent	**$38,643**
2. Total Hard Costs	**$13,370**
Debt Service (Pension & Capital Bonds)	$3,432
Pension Contributions	$7,478
Other Statutory Transfers Out	$434
Group Health Insurance	$2,026
3. General Fund Service Appropriations (Gross)	**$27,230**
Healthcare (including Medicaid)	$7,930
Early Childhood Education	$494
K-12 Education	$7,891
Higher Education	95% $1,789
Human Services	$5,906
Public Safety	$1,735
Other	$1,485
Unspent Appropriations	($1,050)
4. Net General Fund Service Appropriations	**$26,179**

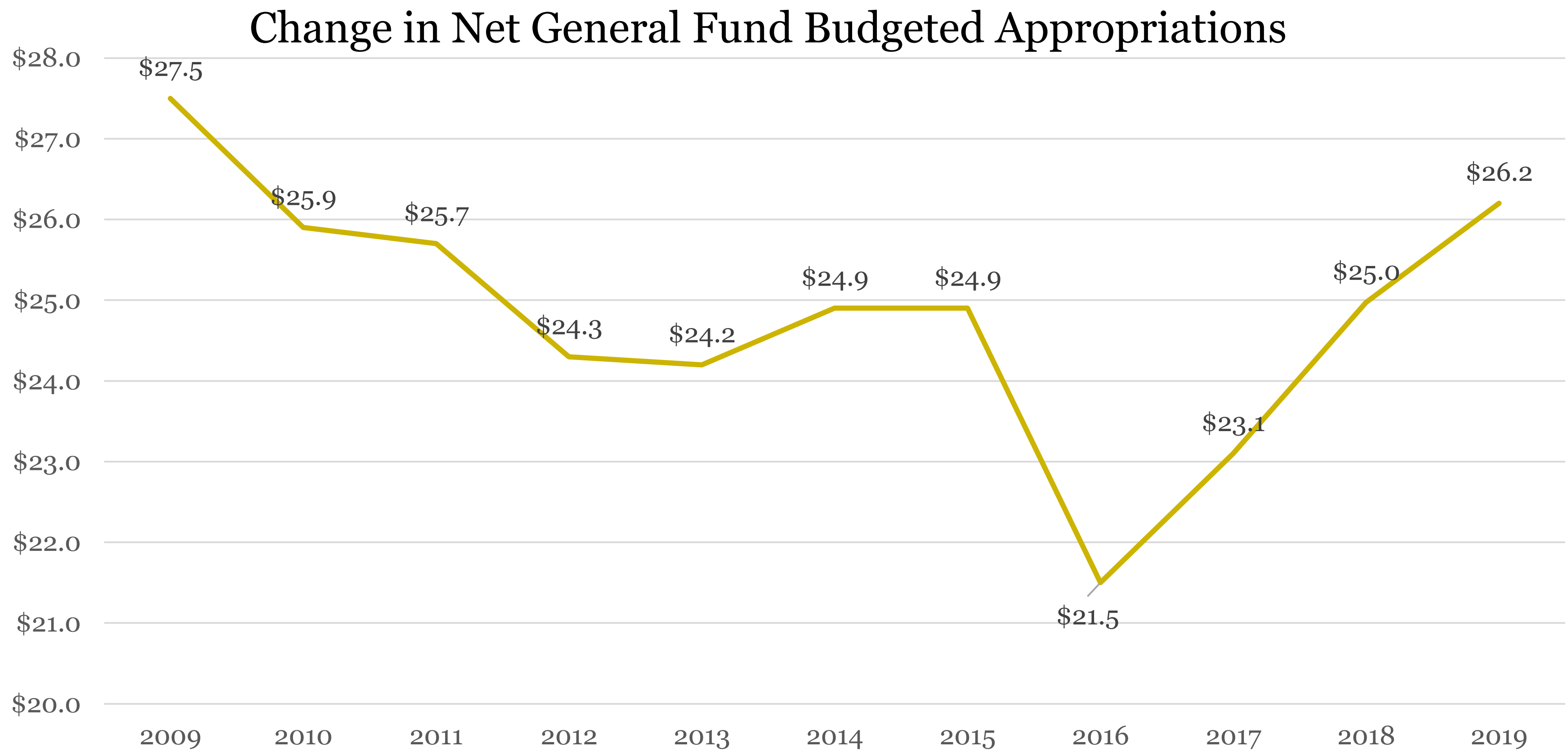
Sources: CTBA analysis of P.A. 100-0586, P.A. 100-0587, Governor Bruce Rauner's Fiscal Year 2019 Proposed Budget, COGFA, *State of Illinois Budget Summary Fiscal Year 2019*

FY2019 Estimated Accumulated Deficit

Step	Revenue	$ Millions	Spending	$ Millions	Remaining Revenue (Revenue – Spending)
(i)	FY2019 Revenue	$38,360	FY2019 Hard Costs	$13,370	$24,990
(ii)	Revenue After Hard Costs	$24,990	Accumulated Deficit Carry Forward from FY2018	($6,956)	$18,034
(iii)	Projected Net FY2019 General Fund Revenue Available for Services	$18,034	Projected Net General Fund Service Appropriations after Unspent Appropriations	$26,179	($8,145)
			Surplus/Deficit Remaining after General Fund Service Spending		($8,145)
Projected Accumulated FY2020 General Fund Deficit		**($8,145)**			
Projected Deficit as a Percentage of General Fund Service Appropriations		**-31%**			

Source: GOMB, FY2020 Operating Budget Book and FY18 Q4 Comptroller Quarterly Report. Does not include revenues or expenditures from interfund borrowing or Treasurer's investment borrowing.

Service Spending Did Not Create the Structural Deficit



Source: CTBA analysis of P.A. 100-0586 and COGFA data.

General Fund Spending on Current Services, FY2000 Compared to FY2019 ($ Millions)

Category	FY2000 Enacted General Fund Budget (Nominal)	FY2000 Enacted General Fund Budget (Adj for Inflation & Population)	FY2019 Enacted General Fund Budget	$ Difference (ECI and Pop Growth Adjusted)	% Change
K-12 Education	$4,6734	$8,094	$7,891	-$203	-2.5%
Early Childhood Education	$170	$295	$494	$199.0	67.5%
Higher Education	$2,152	$3,727	$1,789	-$1,938	-52.0%
Healthcare	$5,022	$10,329	$7,930	-$2,399	-23.2%
Human Services	$4,599	$7,965	$5,906	-$2,059	-25.9%
Public Safety	$1,350	$2,338	$1,735	-$603	-25.8%
Net General Fund Service Appropriations	$17,967	$32,747	$26,179	-$6,561	-20.0%

EBF Shortfall in Millions of Inflation-Adjusted Dollars after $350M/year New Money until Fully Funded

	FY2019	FY2020	FY2030	FY2040	FY2051
Total Funding Needed to Fund EBF Fully (infl adj)	$7,350	$7,504	$9,284	$10,522	$11,055
Total New Money Put into EBF since FY2020	--	$350	$3,850	$7,350	$11,200
Shortfall/Surplus (infl adj)	**-$7,350**	**-$7,154**	**-$5,434**	**-$3,172**	**$144**

Source: CTBA analysis of ISBE FY2019 EBF Calculation using Bureau of Labor Statistics ECI historical data.

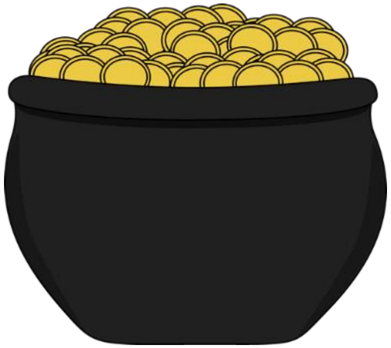
EBF Shortfall in Millions of Inflation-Adjusted Dollars, Fully Funding EBF in 10 Years

	FY2019	FY2020	FY2025	FY2030
Total Funding Needed to Fund EBF Fully (infl adj)	$7,350	$7,504	$4,371	$779
Total New Money Put into EBF since FY2020		$779	$4,676	$8,572
Shortfall/Surplus (infl adj)		**-$6,725**	**-$3,592**	**$0**

Source: CTBA analysis of ISBE FY2019 EBF Calculation using Bureau of Labor Statistics ECI historical data.

WHEN A STRUCTURAL DEFICIT EXISTS—TAX INCREASES - ARE GENERALLY NEEDED TO SOLVE THE PROBLEM LONG TERM—ESPECIALLY WHEN OVER-SPENDING IS CLEARLY NOT THE ISSUE

Which Implicate Tax Fiscal Policy Issue No. 1:



Where needs are greatest

Resources are least

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

- **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.'"

A Snapshot of Income Inequality

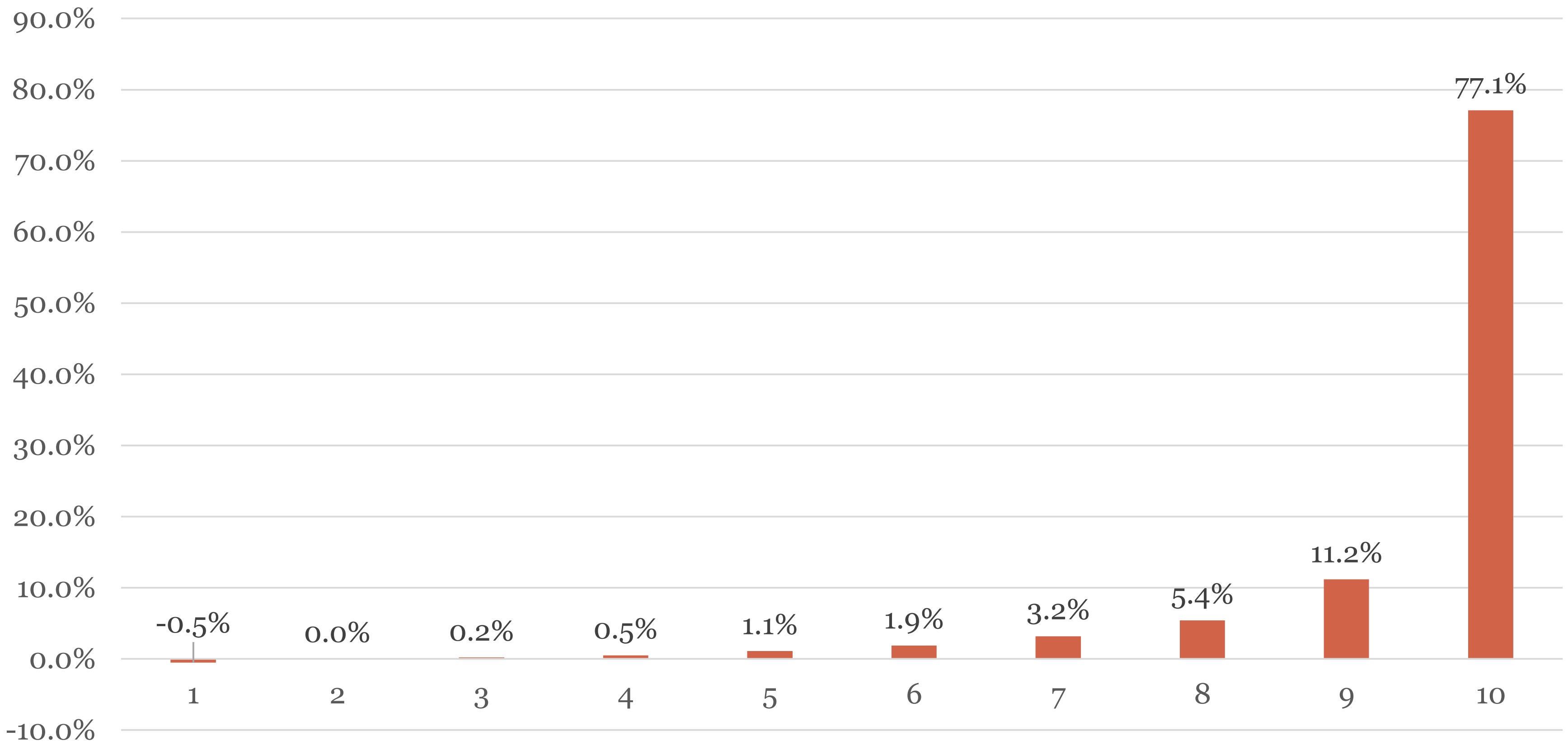
The long-term trends in income distribution in America demonstrate growing disparity.

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 — 2015
Top 10%	108.4%
Bottom 90%	-8.4%

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 2015 in Excel format, January 2013), http://eml.berkeley.edu/~saez/ .

National Wealth Held by Income Decile

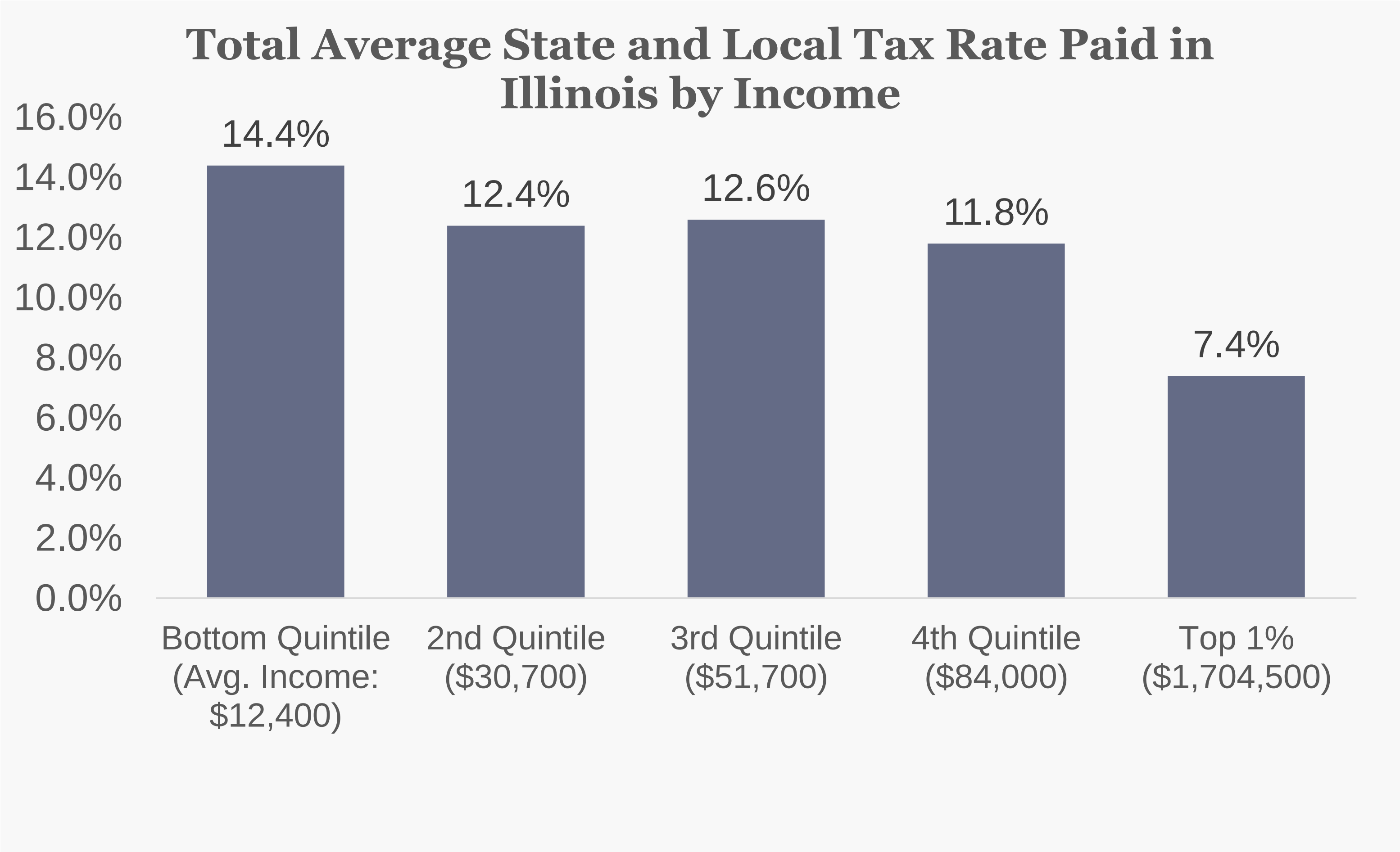


Source: Survey of Consumer Finances

Which Creates a Political Problem

Responding to core fiscal issues requires tax policy to be both progressive and redistributive—even under capitalist theory

The Illinois Tax System is Currently the Opposite



Source: ITEP, "Who Pays?"

Pritzker's Fair Tax Details

Income Above	Income Below	Marginal Rate	Percent of Taxpayers
$0	$10,000	4.75%	27.2%
$10,001	$100,000	4.90%	58.9%
$100,001	$250,000	4.95%	11.1%
$250,001	$500,000	7.75%	1.9%
$500,001	$1,000,000	7.85%	0.6%
$1,000,001	-	7.95%	0.3%

Pritzker's Fair Tax Details, continued

- Increases property tax credit from 5 percent to 6 percent of total bill
- Creates $100 per child tax credits that phase out at $80,000 (single) or $100,000 (joint)
- The top bracket is not marginal—a "recapture" provision taxes all income for earners over $1 million at 7.95 percent, similar to CT, NE, NY, and AR
- Corporate tax increases from 7.00 to 7.95 percent
- Raises $3.4 billion in net revenue

The Governor's Proposed "Fair Tax" Meets Good Government Principles

Principle	Fair Tax Proposal	Does It Meet?
Cut taxes for low- and middle-income taxpayers	Cuts taxes for 97 percent of taxpayers—only the top 3 percent see an increase	Yes
Raise at least $2 billion in revenue	Raises $3.4 billion	Yes
Keep top rates within range of neighboring states' • Minnesota – 9.85% • Iowa — 8.98% • Wisconsin — 7.9%	Top rate: 7.95%	Yes

BUT WAIT…..

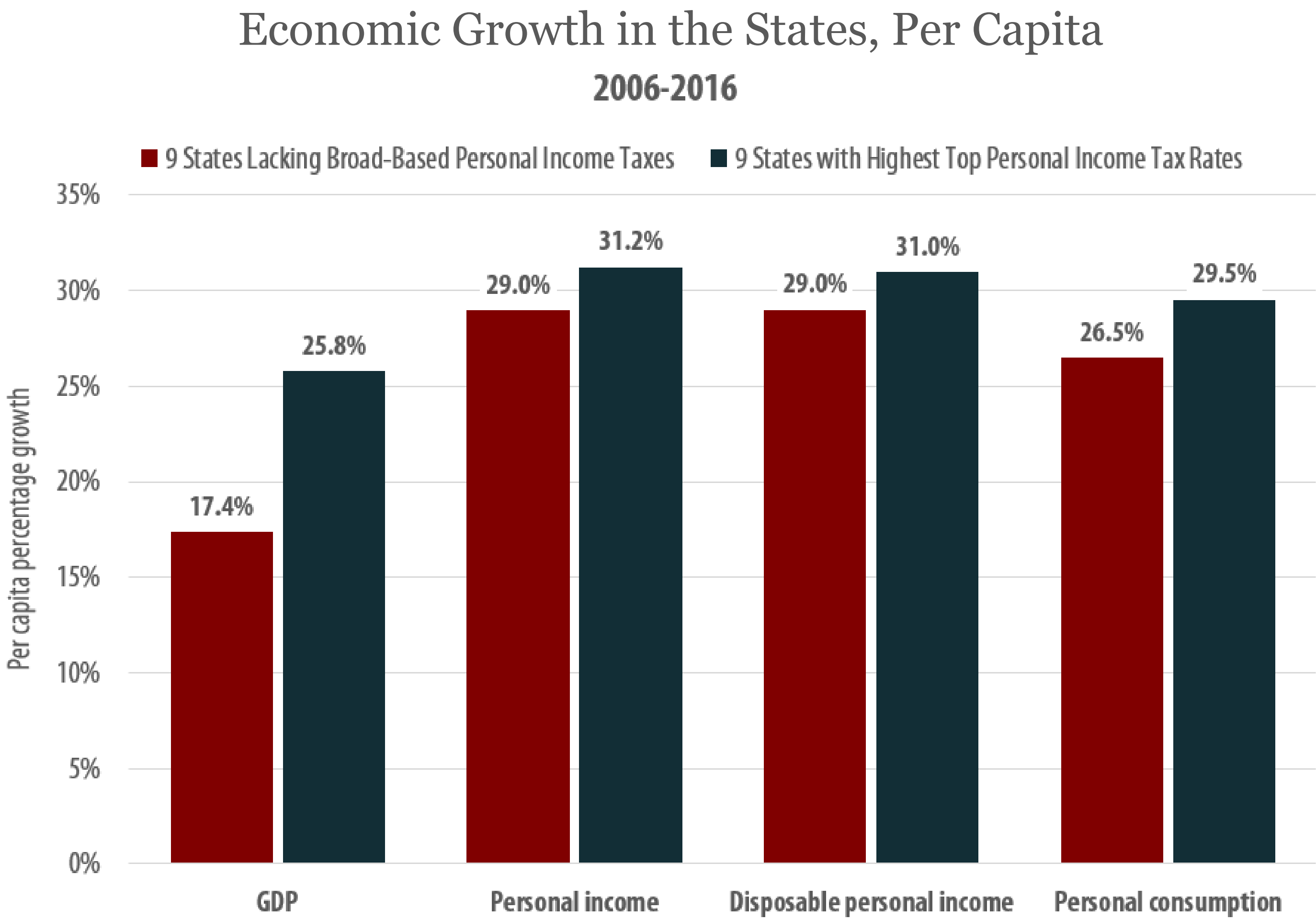
WON'T TAX INCREASES KILL THE ECONOMY?

NOPE:

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 cutes—there is always a NET ECONOMIC LOSS.
  - The CBO found no correlation between tax policy & job creation. . . . Private sector demand is what counts.

Taxing the Right Way Doesn't Hurt the Economy

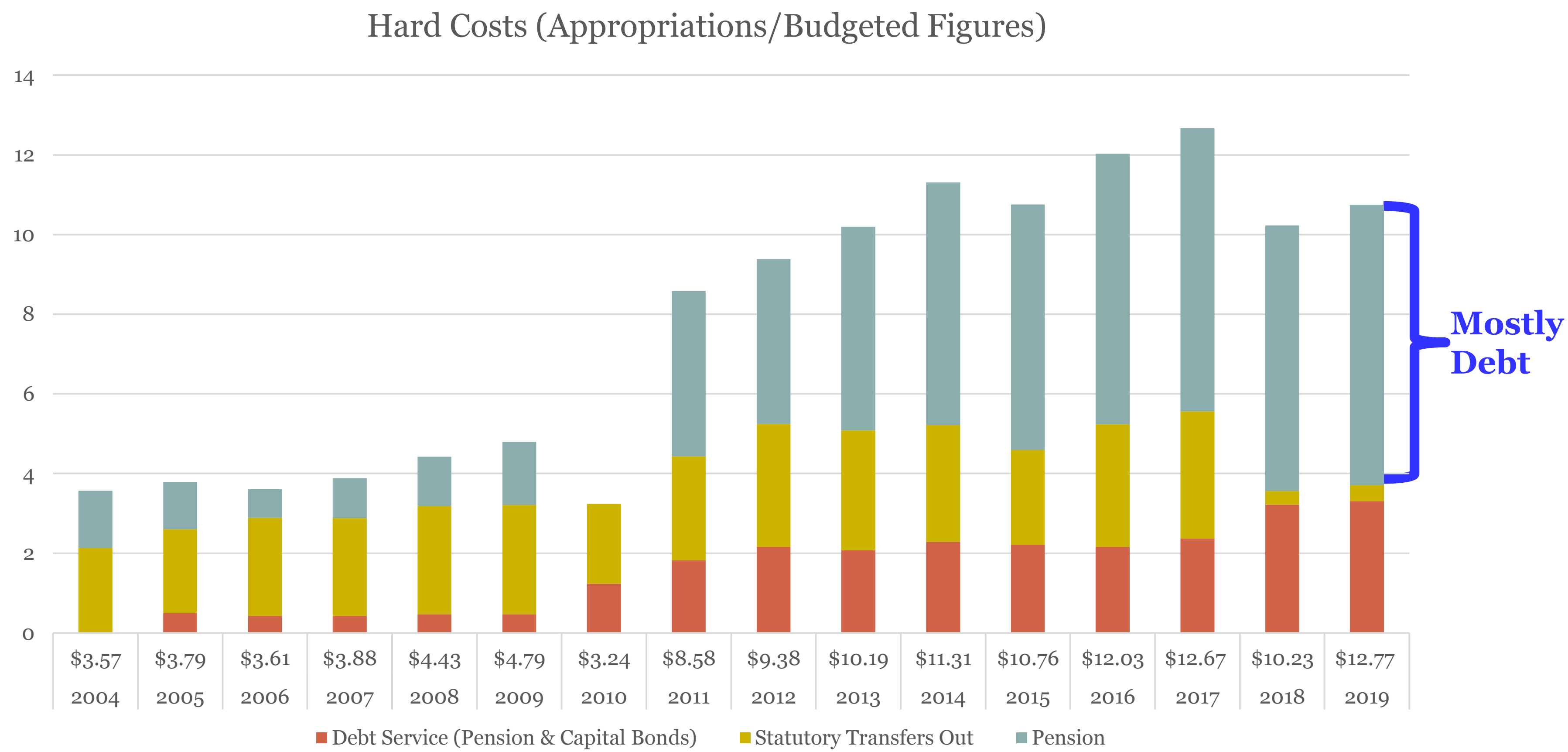


Source: ITEP calculations based on data from the Bureau of Economic Analysis. State averages are unweighted.

Oh, & When Illinois Raises Taxes

- People won't run screaming out of the state:
  - Since 1925, IL has had net outmigration every year except one
  - Illinois' outmigration rate actually declined in 2011, the first year of the temporary tax increase
  - A greater % of the populations of IN and WI moved into IL since the temporary tax increase, than vice-versa

Growth in Hard Costs, However: Primarily for Pension Debt Service

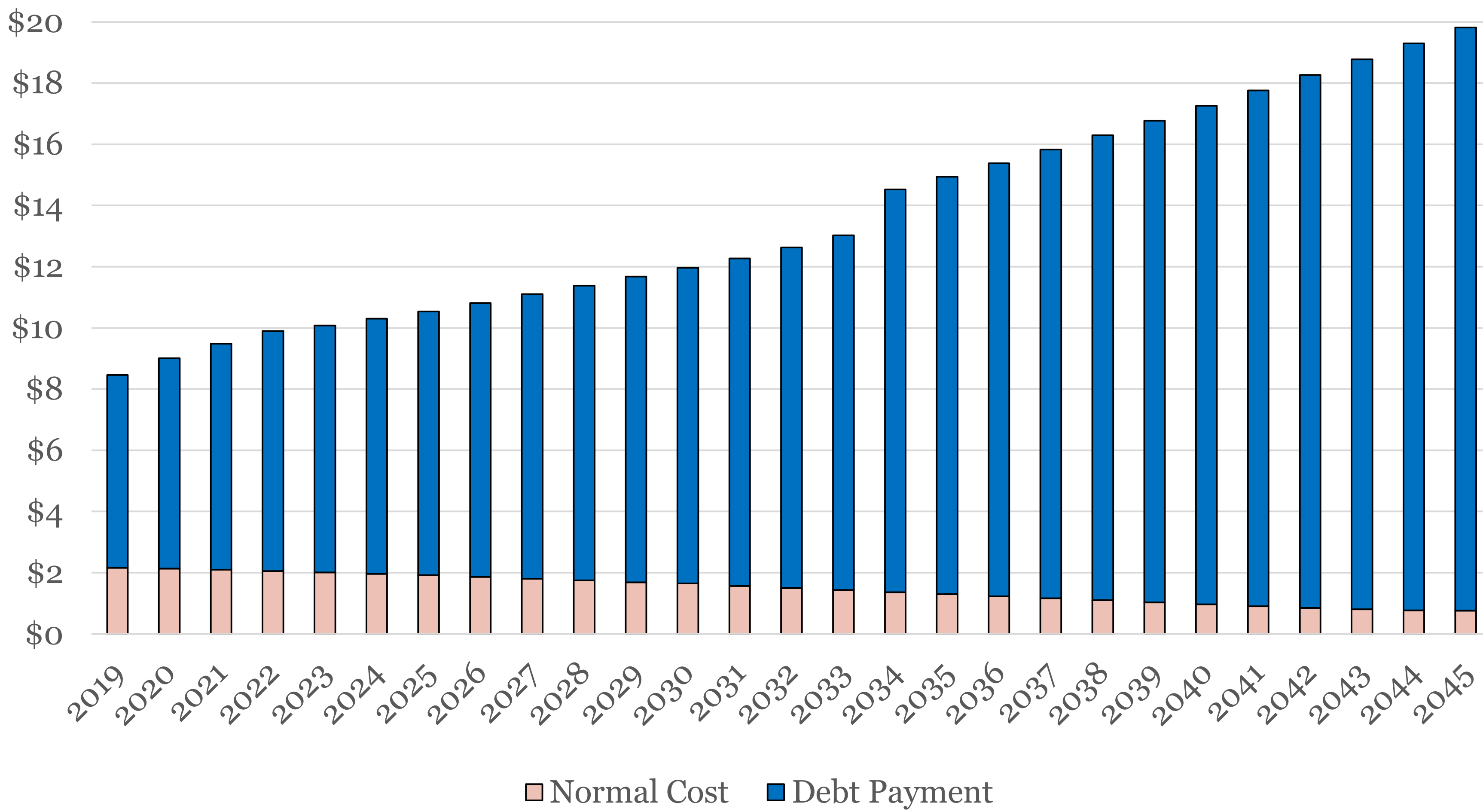


Notes:

- 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

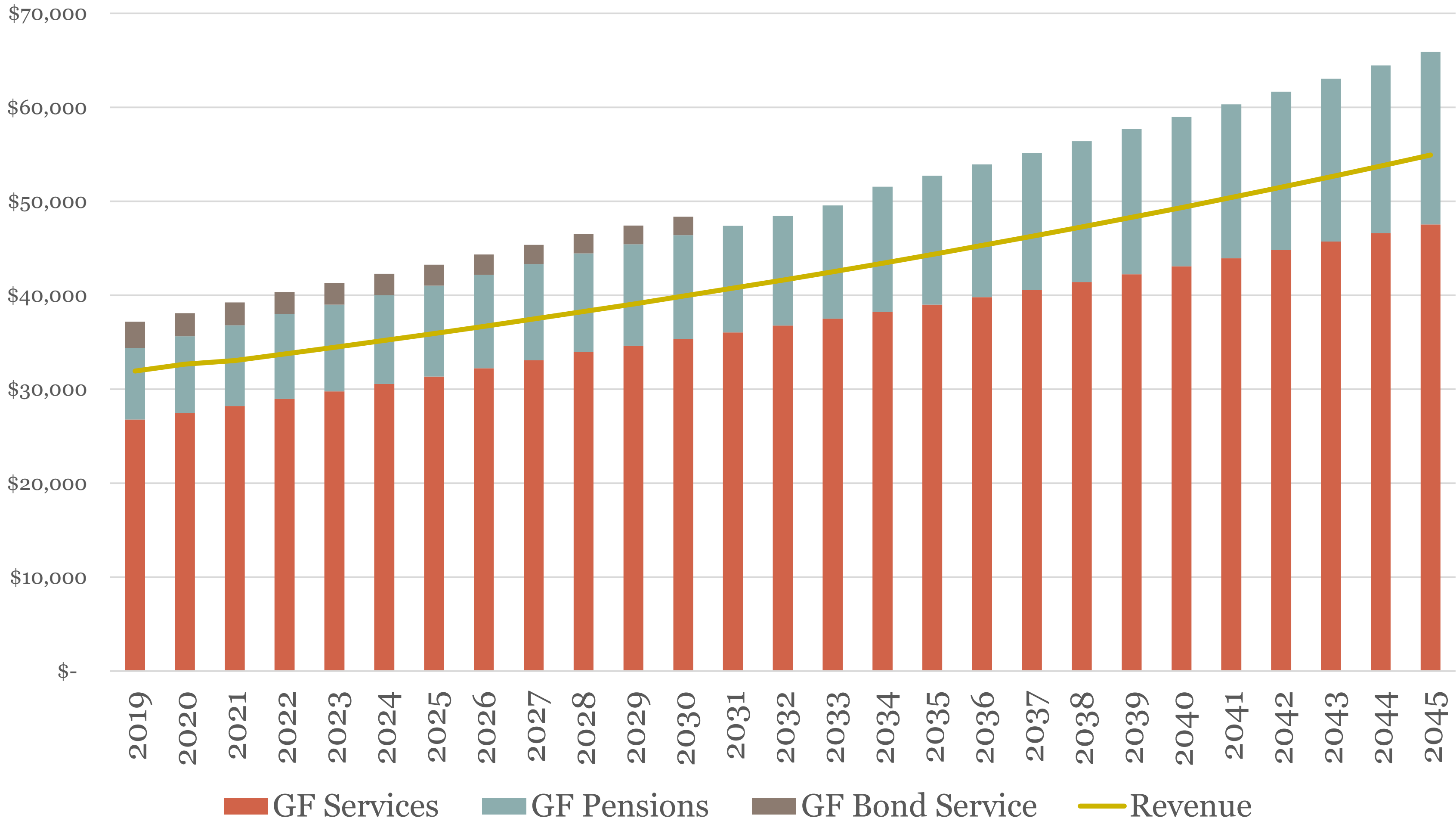
THE BOTTOM LINE: The Ramp Is a Debt Structure Problem: Normal Cost of Benefits Not the Driver

($ Billions)



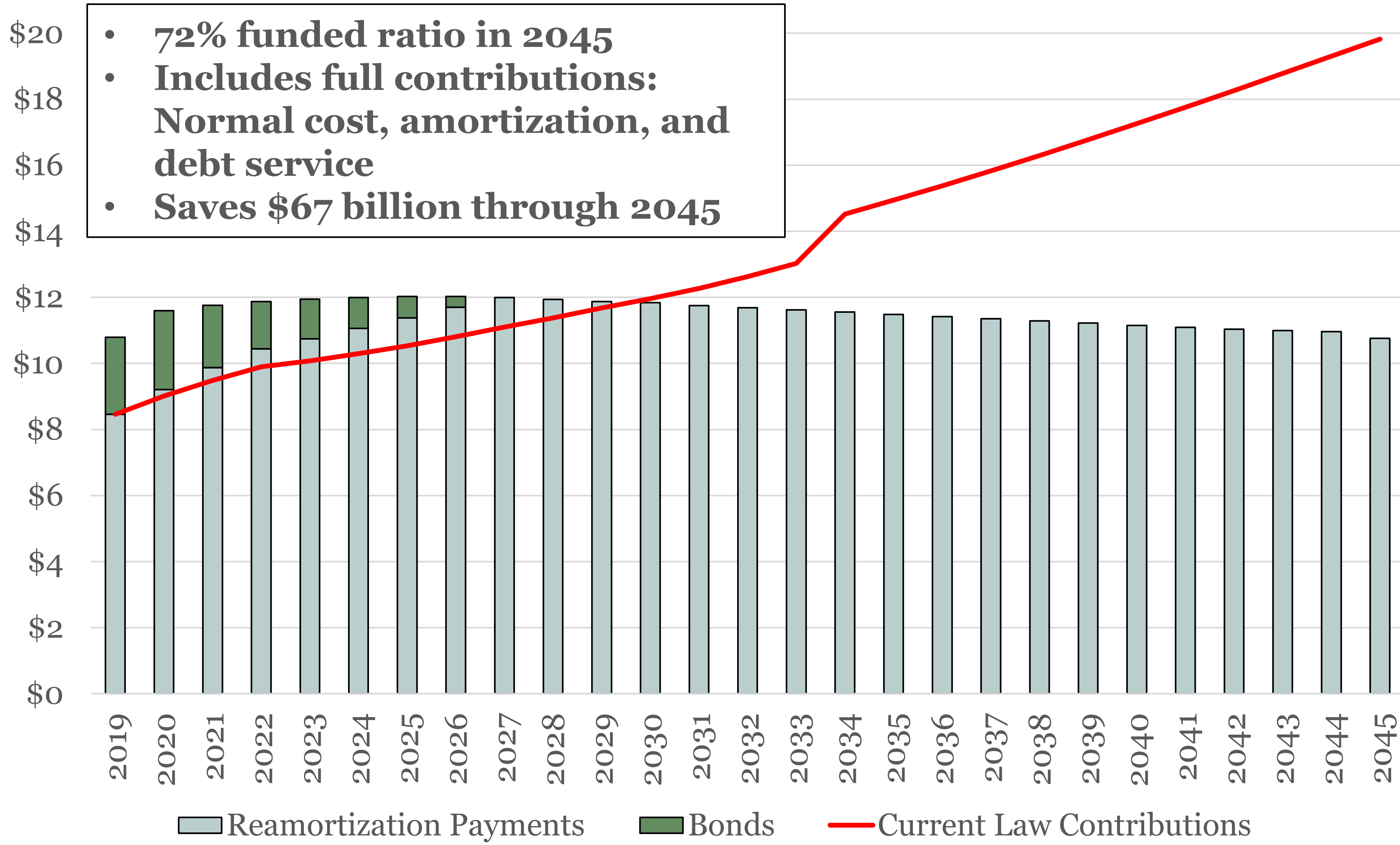
Source: State pension funds actuarial valuations

The Pension Ramp Plays a Key Role In Illinois' Structural Deficit ($ Millions)



Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.

The Rational Way to Solve Problems is to Re-Amortize Pension Debt ($ Billions)



For More Information

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