

**CTBA**

Center for Tax and  
Budget Accountability

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# *Illinois Fiscal System And Education Funding*

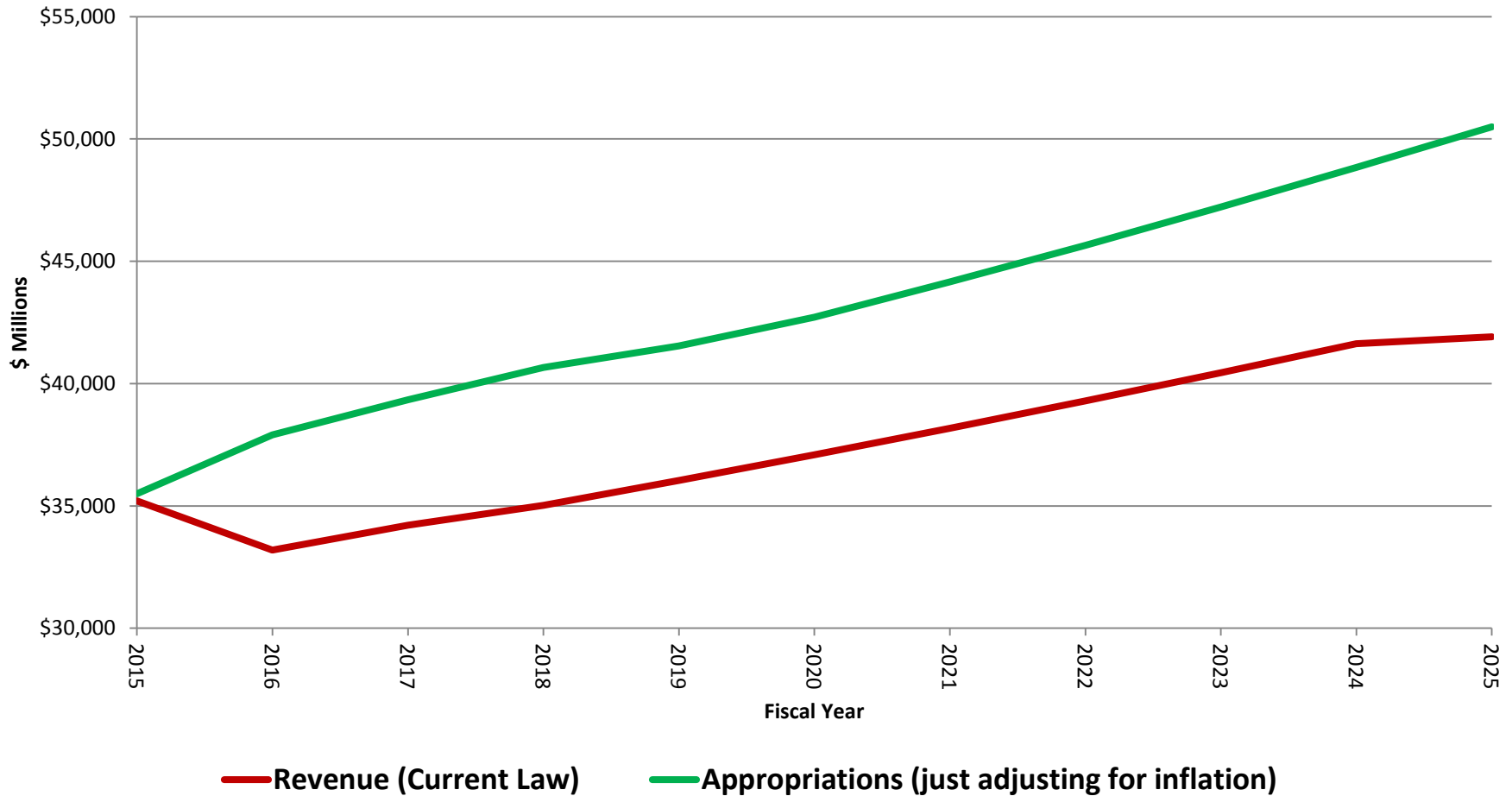
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**TUESDAY, FEBRUARY 21, 2017  
ALLIANCE LEADERSHIP SUMMIT  
PRAIRIE CAPITAL CONVENTION CENTER  
1 CONVENTION CENTER PLAZA  
SPRINGFIELD, IL 62701**

Presented by:  
Ralph M. Martire, Executive Director

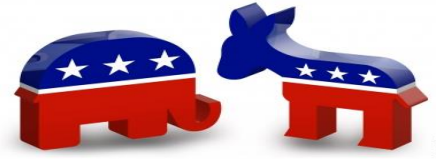
# The Fiscal Policy Challenge Illinois Has a Structural Deficit

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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.

# The Illinois General Fund

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FY2015  $\approx$  \$35 B Overall

Two Primary Elements:		
(i)	Hard Costs—No Discretion	Approx. % of Total
	Debt Service	26%
	Pension Contributions	56%
	Statutory Transfers Out	18%
(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%
		100%

$\approx$  \$11 B

$\approx$  \$24 B

\$5.97 or 25% Deficit Spending

# 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>

# 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>			

# FY2017 Maximum Authorized Spending (\$ Billions)

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Category	FY2017 Authorized Spending
Healthcare	\$6.910
Early Childhood Education	\$.394
K-12 Education	\$6.814
Higher Education	\$.726
Human Services	\$3.677
Public Safety	\$1.977
Group Health	\$0
Other	\$1.238
Legal Authorization Total	\$21.736

# FY2017 Projected General Fund Deficit Walk-Down

## (\$ Billions)

8

Step	Revenue	\$ Billions	Spending	\$ Billions	Remaining Revenue (Revenue – Spending)
<b>(i)</b>	Estimated FY2017 Revenue	\$30.88	FY2017 Hard Costs (Current Law)	\$12.67	\$18.21
<b>(ii)</b>	Revenue After Hard Costs	\$18.21	Estimated Accumulated Deficit Carry Forward from FY2016	(\$9.41)	\$8.80
<b>(iii)</b>	Projected Net FY2017 General Fund Revenue Available for Services	\$8.80	General Fund Service Spending (Net)	\$21.74	(\$12.94)
<b>(iv)</b>	Surplus/Deficit Remaining after General Fund Service Spending (Net)	(\$12.94)	FY2017 Group Health Liability	(\$1.81)	(\$14.75)
<b>Projected Accumulated FY2017 General Fund Deficit</b>		<b>(\$14.75)</b>			
<b>Projected Deficit as a Percentage of General Fund Service Appropriations</b>		<b>-67.8%</b>			



# Governor's FY2018 General Fund Budget Proposal

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Category	FY2018 Authorized Spending
Healthcare	\$7.134
Early Childhood Education	\$.444
K-12 Education	\$6.781
Higher Education	\$1.825
Human Services	\$5.947
Public Safety	\$1.823
Group Health	\$1.415
Other	\$1.172
<b>SUBTOTAL</b>	<b>\$26.541</b>
Hard Costs	\$11.385
<b>GRAND TOTAL</b>	<b>\$37.926</b>
Revenue	\$32.744
<b>ON BUDGET DEFICIT</b>	<b>(-\$5.182 B)</b>

## DEFICIT MAGIC

DEFICIT MAGIC	
Savings from "Working Together on Grand Bargain"	\$4.572 B
Below the Line Adjustments	\$1.109 B
	<b>\$5.681 B</b>

Of Fiscal Unicorns & Pixie Dust

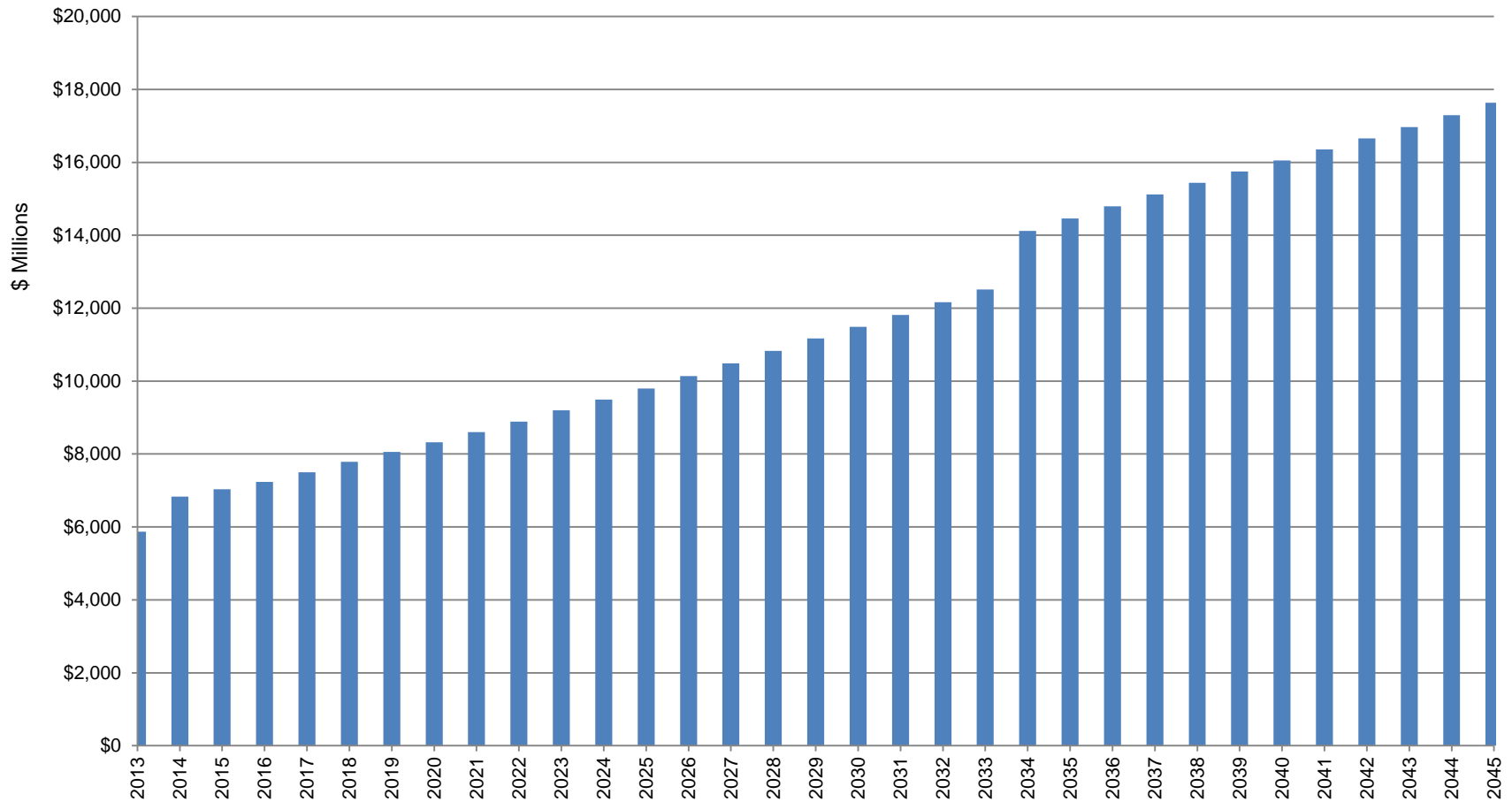
# FY2018 Projected General Fund Deficit Walk-Down (SANS MAGIC)

10

Step	Revenue	\$ Billions	Spending	\$ Billions
(i)	Estimated FY2018 Revenue	\$32.744	FY2018 Hard Costs (Gov's Estimate)	\$11.385
(ii)	Revenue After Hard Costs	\$21.359	Estimated Accumulated Deficit Carry Forward from FY2017	(\$14.75)
(iii)	Projected Net FY2018 General Fund Revenue Available for Services	\$6.609	FY2018 General Fund Service Spending	\$26.541
(iv)	Surplus/Deficit Remaining after General Fund Spending	(\$19.932)	FY2018 Group Health Adjustment	(\$.395)
Projected Accumulated FY2018 General Fund Deficit		<b>(\$20.327 B)</b>		
Projected Deficit as a Percentage of General Fund Service Appropriations		<b>-76.6%</b>		

# Current Pension Ramp, FY2013 - 2045

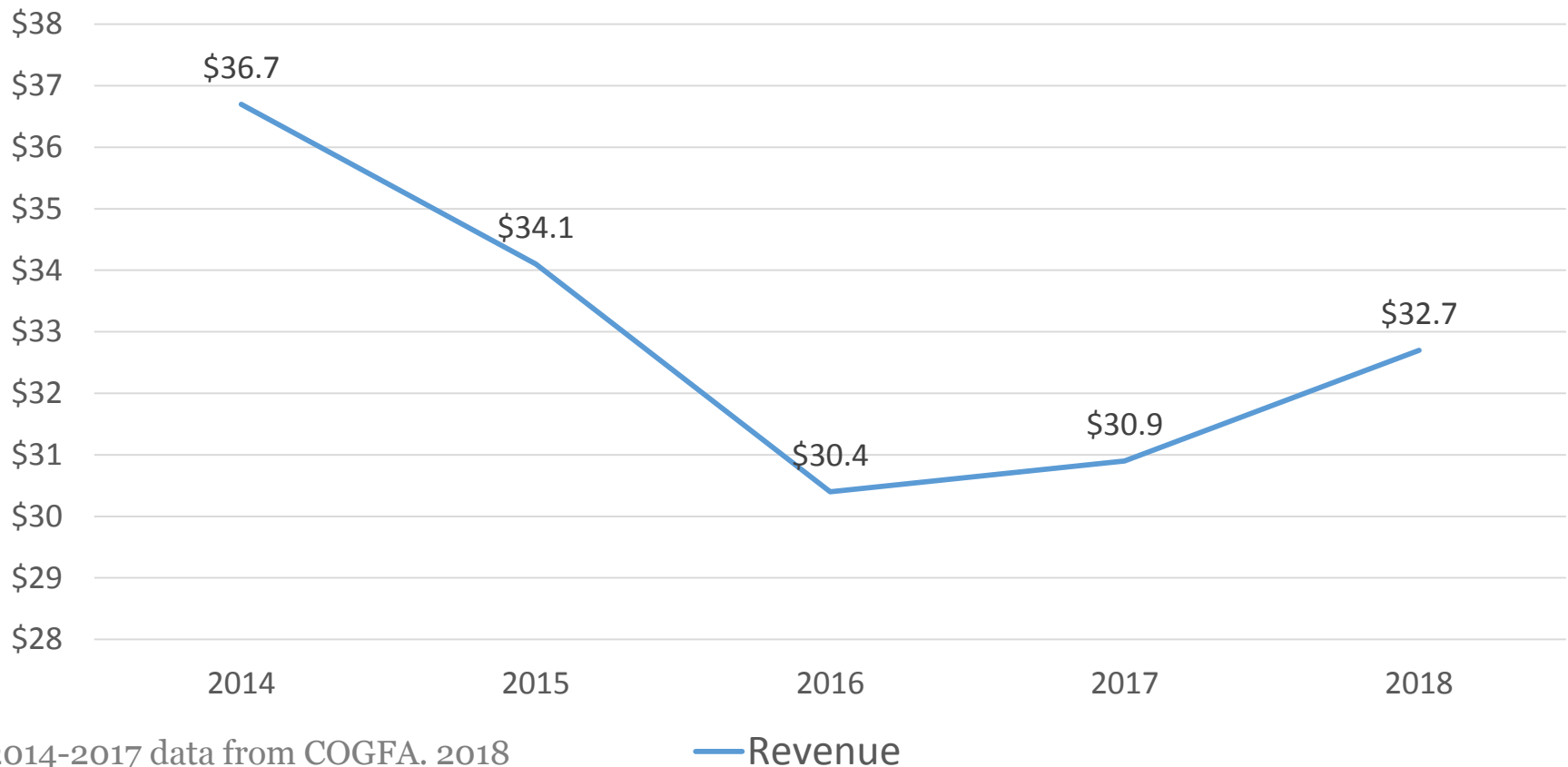
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Source: COGFA, "November 2012 Special Pension Briefing".

# Temporary Tax Increases Phase Down: Illinois' Fiscal Cliff

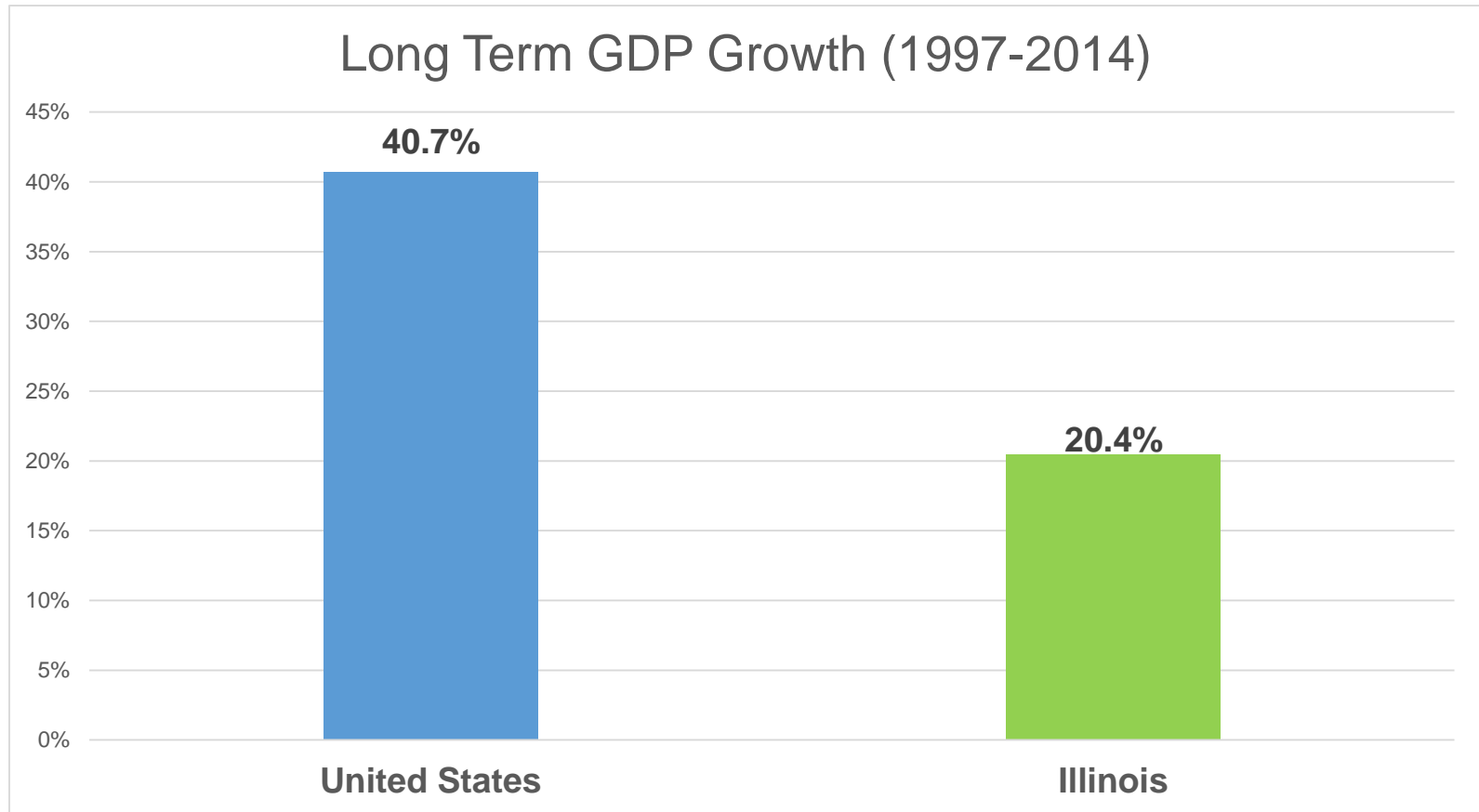
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2014-2017 data from COGFA. 2018  
from Governor's proposed budget.

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

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Source: Bureau of Economic Analysis

# BUT: 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.



# HB2808 – The Evidenced-Based Model

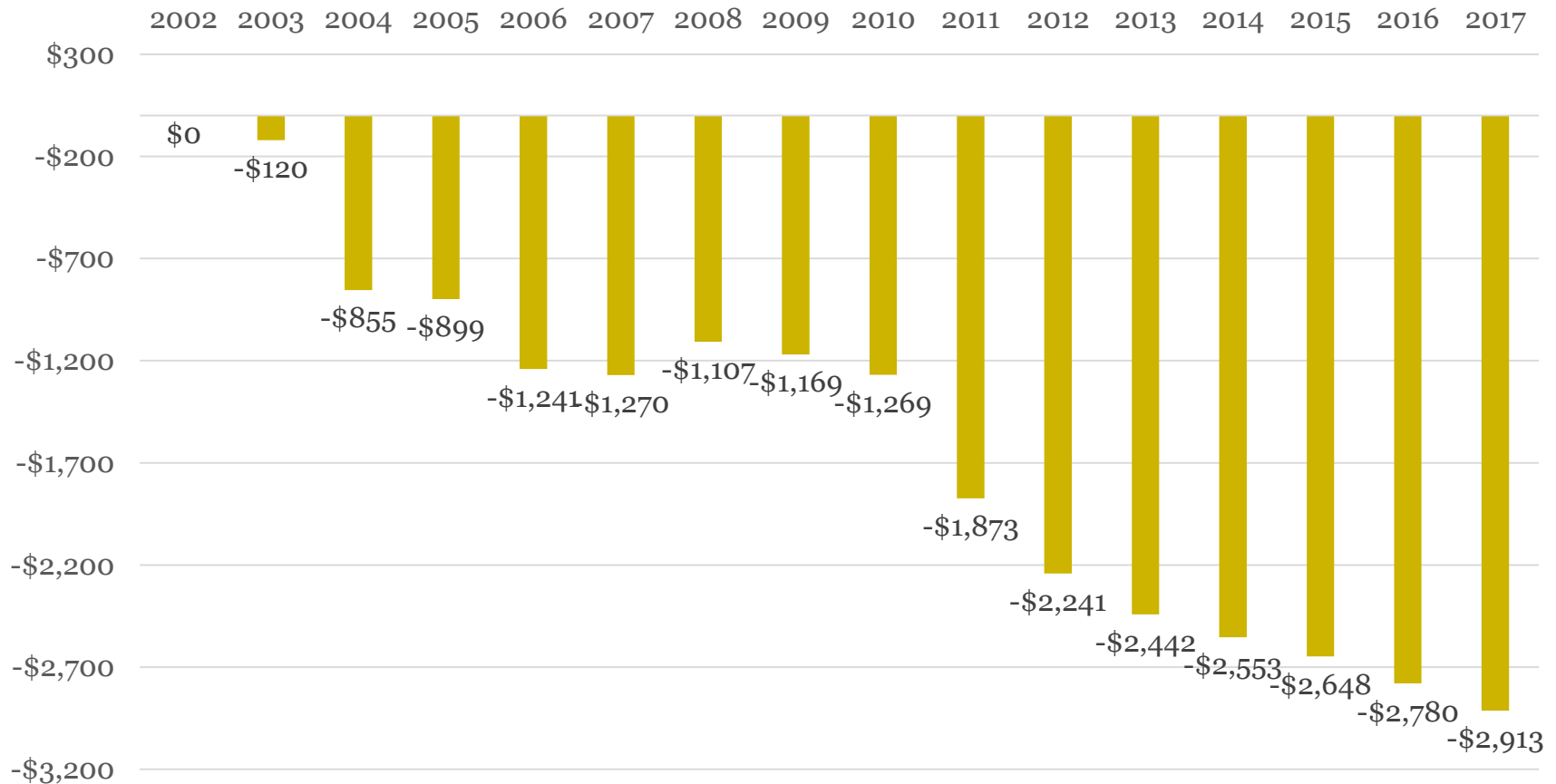
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- Created by Drs. Odden and Picus it:
  - ties funding to those educational practices which the evidence and/or research show have a statistically meaningful correlation to enhancing student achievement.
  - creates an “Adequacy Level” of education funding for each school district that adjusts for demographics.

# Why Switch from Current Model: NO FISCAL ACCOUNTABILITY

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



Sources: CTBA analysis of January 2013 EFAB data. Education Funding Advisory Board, *Illinois Education Funding Recommendations*, (Springfield, IL: January, 2017).

# No Real Increase in School Funding for Poverty

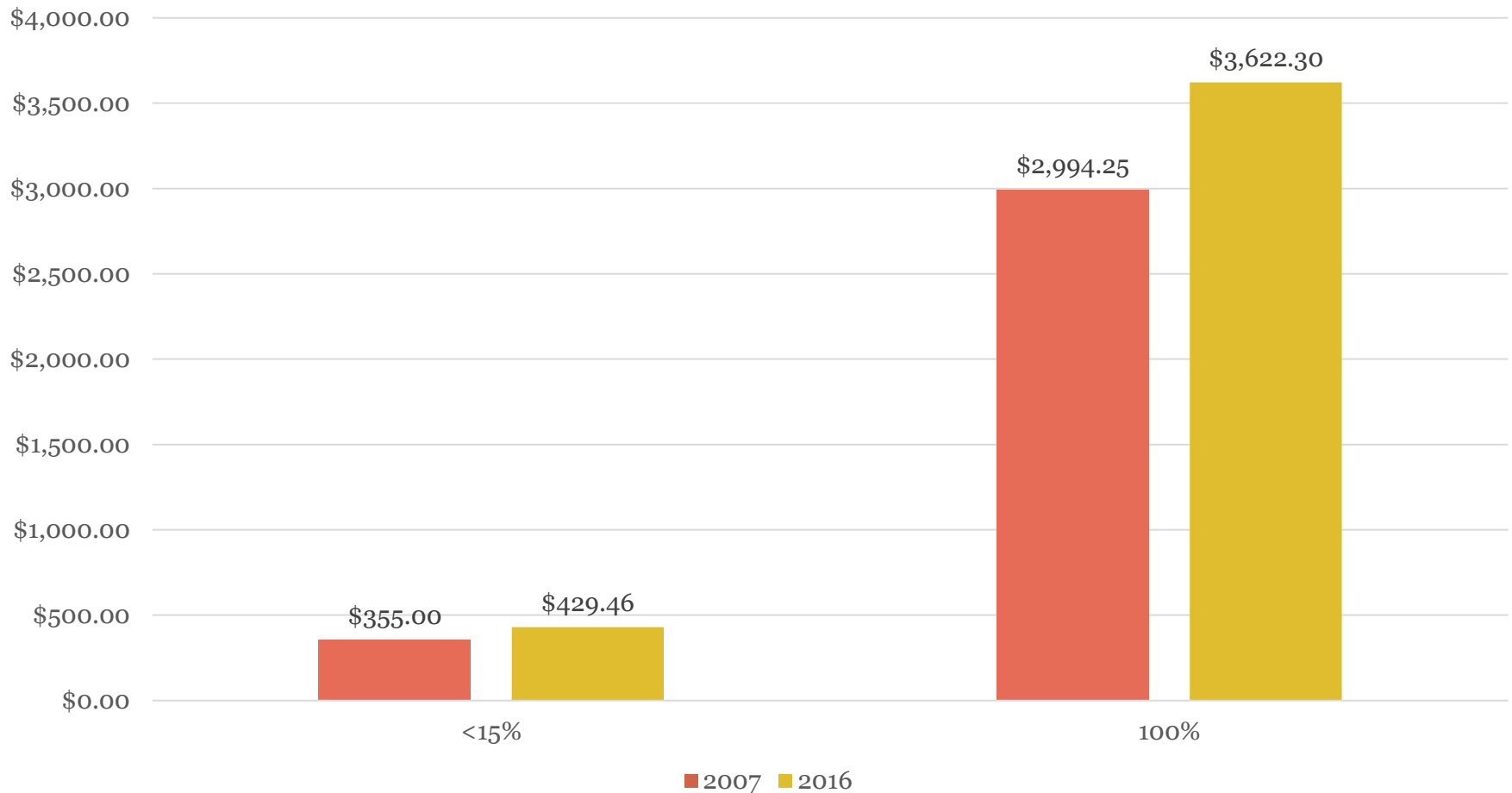
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Changes in GSA Spending, FY2008-FY2016  
(\$ in Millions, Inflation Adjusted)



# If Supplemental GSA had kept up with inflation...

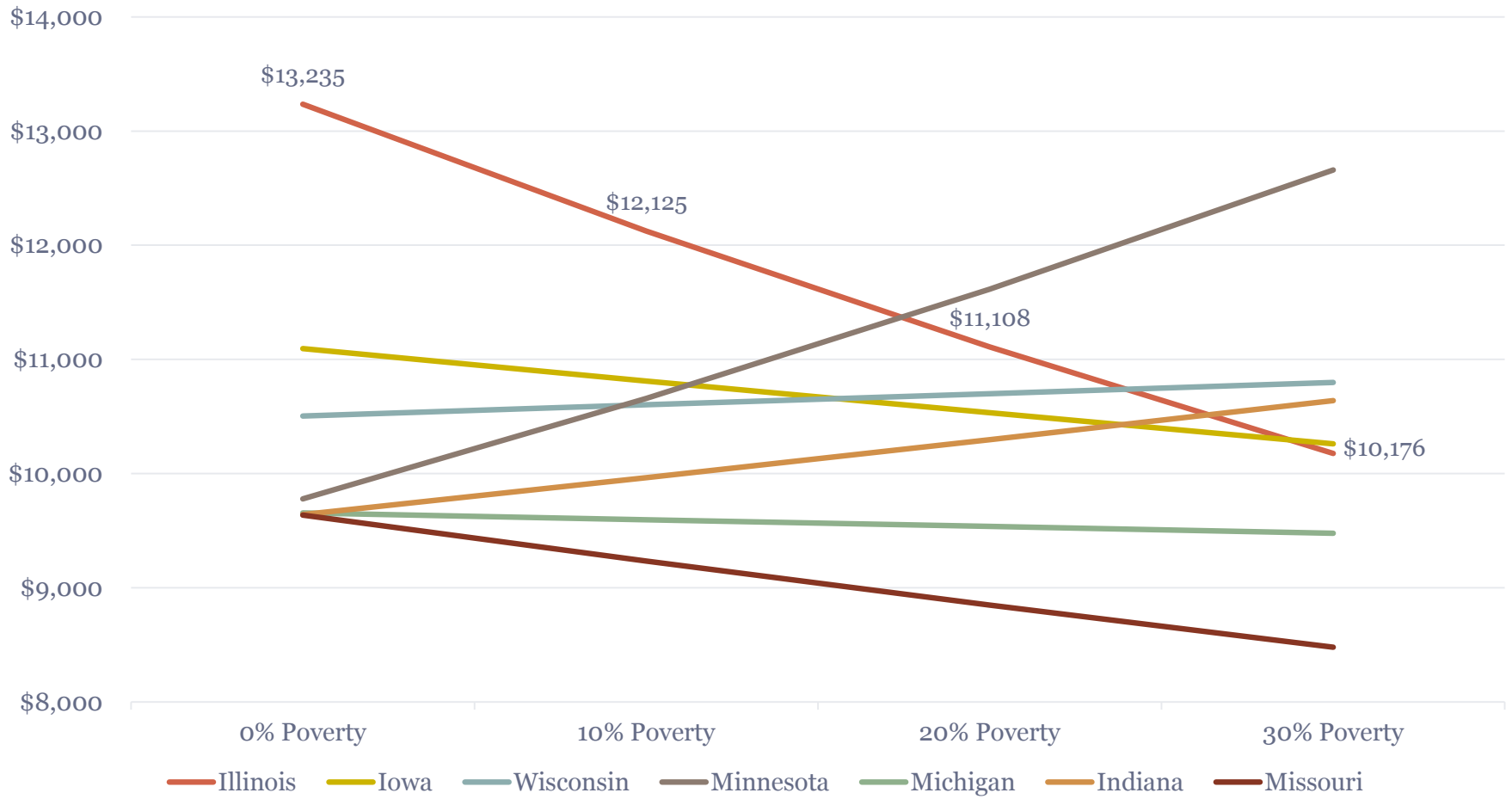
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Note: \$ in real terms, using ECI. Source: ISBE, CTBA analysis

# Funding Distribution Relative to Student Poverty (2014)

21

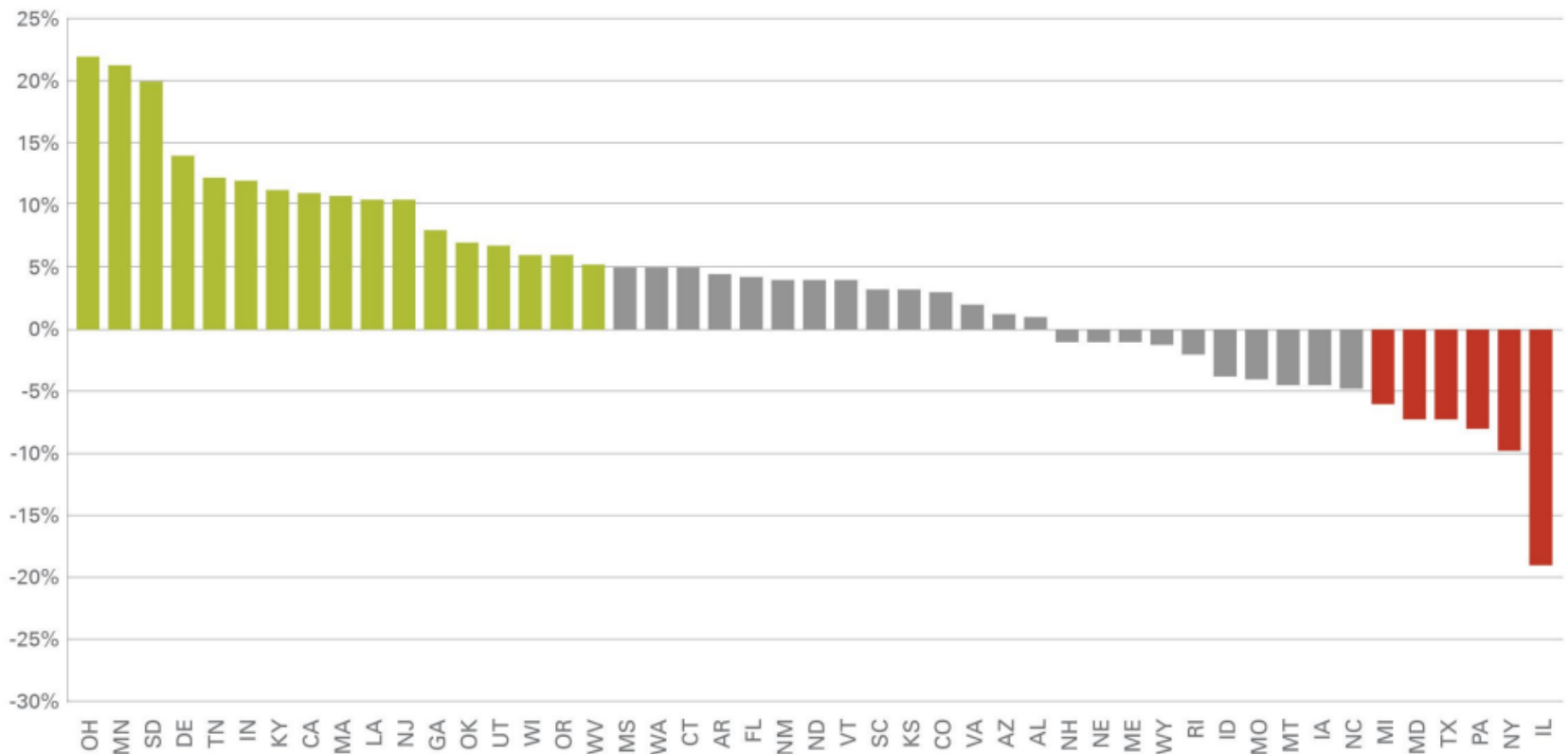


Source: Education Law Center, "Is School Funding Fair? A National Report Card" (Sixth Edition), January 2017.

# Bottom Line: Bottom Feeder Funding Gaps

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Figure 1: Gaps in State and Local Revenues per Student Between Districts Serving the Most and the Fewest Students in Poverty<sup>11</sup>



Source: Funding Gaps 2015, The Education Trust

“By far the largest gap is in Illinois, where the highest poverty districts receive nearly 20% less state and local funding than the lowest poverty districts.”

# Key Features

## of the Formula

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- ① Evidence-Based Adequacy Model
- ② Local Contribution Target
- ③ Resource Ratio
- ④ Funding Tiers
- ⑤ Accountability & Updates

# Adequacy Model Highlights

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## Calculates Core Instructional Cost / Student

- Ratios for staffing and expenses
- Additional Ratios for Staffing/Expenses for
  - ✦ Low Income students
  - ✦ English Learning students
  - ✦ Special Education students (mild/moderate)
- State Average Salaries



# Allocation of New GSA Funds

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Incorporates a Hold Harmless

- ◉ Previous year's disbursement/student

Based on Funding Target = 90% of Adequacy

- ◉ Hold Harmless calculation
- ◉ Local Contribution Target  
(based on EAV)



<b>Recommended Strategy</b>	<b>Effect Size</b>
Full Day Kindergarten	0.77
Class Size of 15 in Grades K-3	
Overall	0.25
Low Income and Minority Students	0.50
Multi-age Classrooms	
Multi-grade Classrooms	-0.1 to 0.0
Multi-age Classrooms	0.0 to 0.50
Professional Development with Classroom Instructional Coaches	1.25 to 2.70
Tutoring with Tier 2 Intervention Teachers, 1-1 and small group	0.4 to 2.5
English Language Learners Direct Intervention Support	0.45
Structured Academic Focused Summer School	0.45
Embedded Technology	0.30 to 0.38
Gifted and Talented	
Accelerated Instruction or Grade Skipping	0.5 to 1.0
Enrichment Programs	0.4 to 0.7

# Hold Harmless/Base Funding

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- To start, each District receives prior year's per pupil state funding for:
  - GSA (w/ Equity Grant and/or Tier Funding)
  - Supplemental Poverty Grant
  - Bilingual
  - PTEL Adjustment
  - Special Ed Personnel
  - Special Ed Child Funding
  - Special Ed Summer School
- Base Funding will be:
  - Sum of per pupil funding for above grants, multiplied by Average Student Enrollment

# Distribution

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- Districts in one of 4 Tiers based on current adequacy %
- Adequacy % =  $(\text{Adeq} - \text{Local Share} - \text{CPPRT} - \text{Base Funding Min}) / \text{Adeq}$ 
  - Tier 1 (50% of funds) = all districts where 50% of new state appropriation can cover 50% of Tier 1 gap. Dynamic Adeq %
  - Tier 2 (40% of funds) = all districts with less than 90% Adequacy (*special override so all Tier 2 receive more than any Tier 3 districts*)
  - Tier 3 (.9% of funds) = all districts between 90 and 100% Adequacy
  - Tier 4 (.1% of funds) = all districts over 100% Adequacy

# Why More Cuts Really Aren't the Answer

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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)

Category	FY2000 (Nominal)	FY2015	FY2000 (Adj. for Inflation and Pop)	\$ Differenc e	% 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:

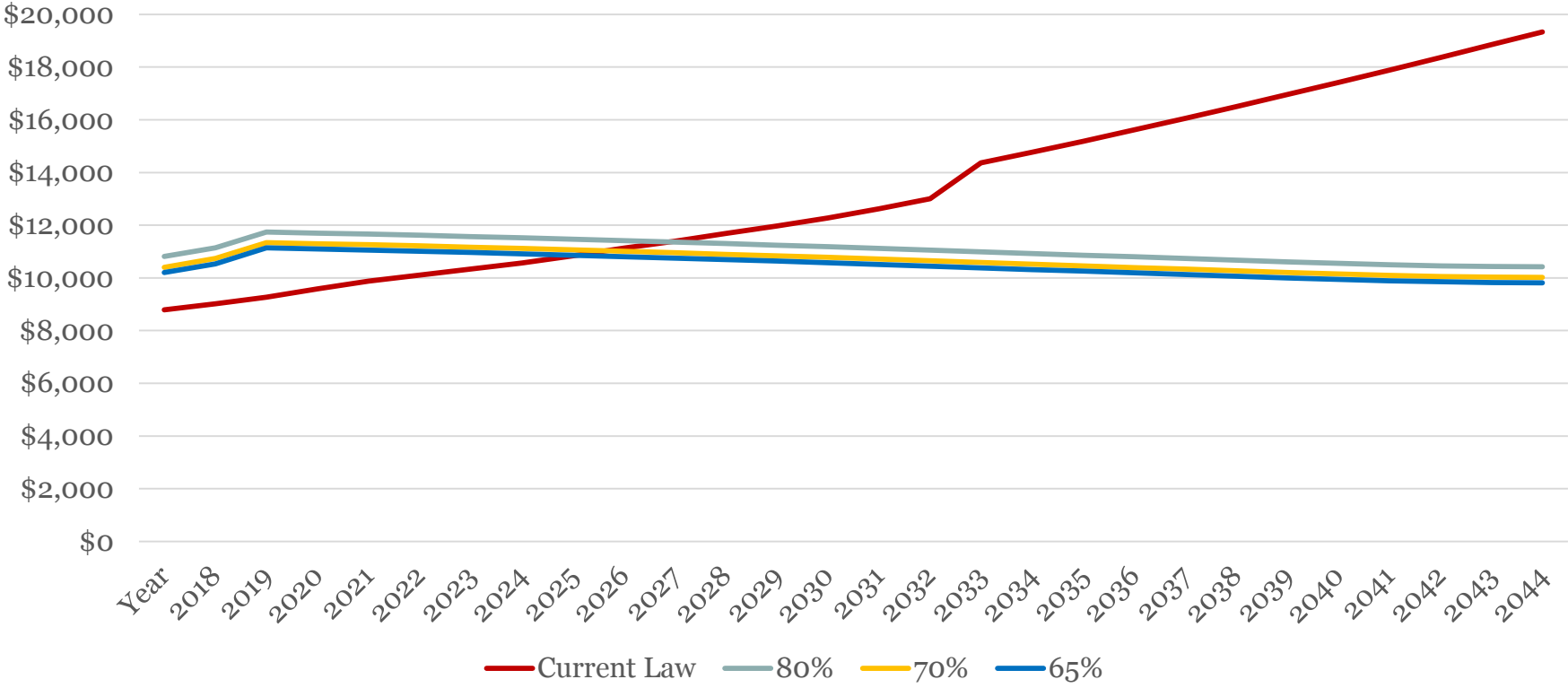
- In calendar year 2014, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 15<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2014 Illinois ranked 31<sup>st</sup> in General Fund spending 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> 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.

# Solution #1

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Reamortizing the State Pensions  
Total Annual State Payments (Normal Cost and Debt), \$ Millions  
Current Law v. Level Dollar to 80%, 70%, and 65% Funded Ratios in 2045



# SOLUTION PART 2

## MORE TAX REVENUE IS NEEDED

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- ❖ Expand the sales tax base to include consumer services  
= \$2.0 B
- ❖ Increase income tax rates  
(5.25% personal = \$5.33 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!**



**BUT WAIT.....**

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**WON'T TAX INCREASES KILL THE ECONOMY?**



# NOPE:

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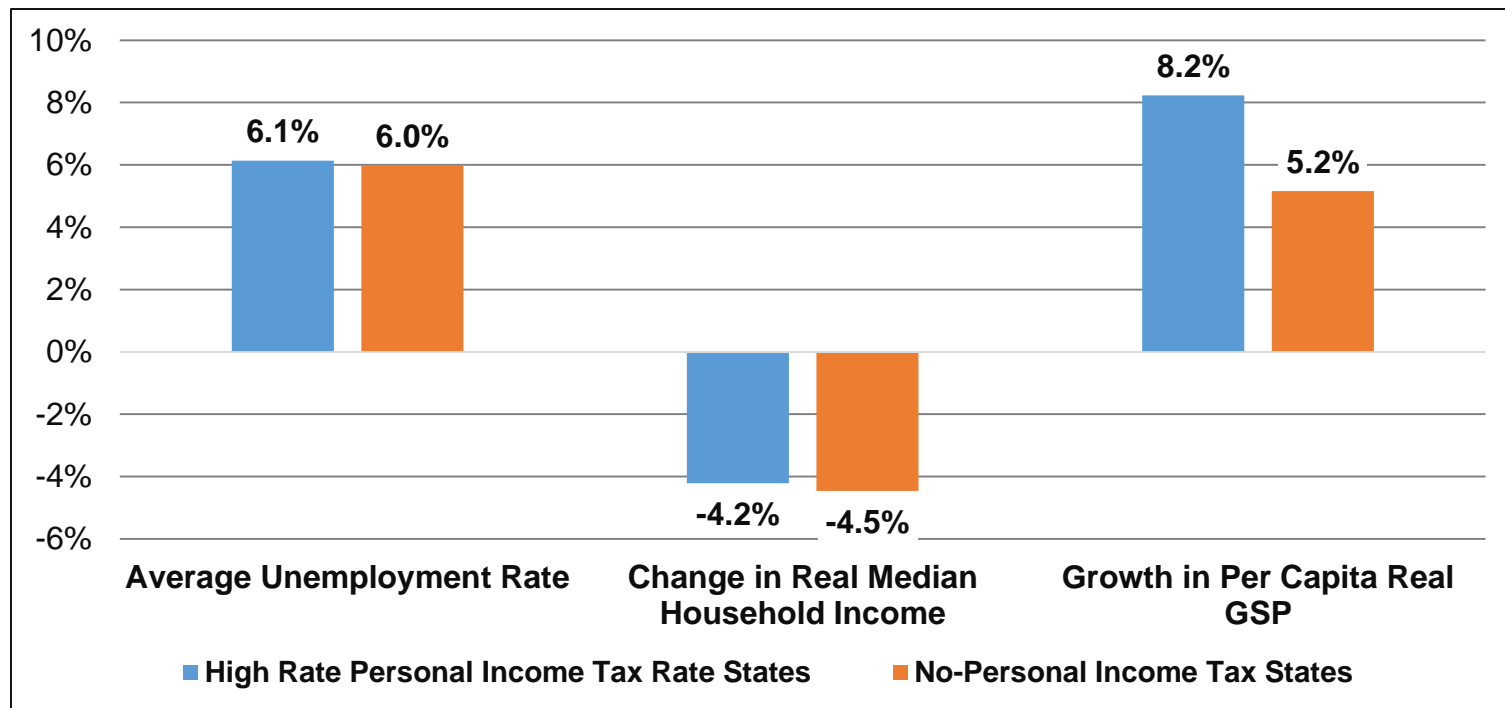
## Economic Growth

- 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

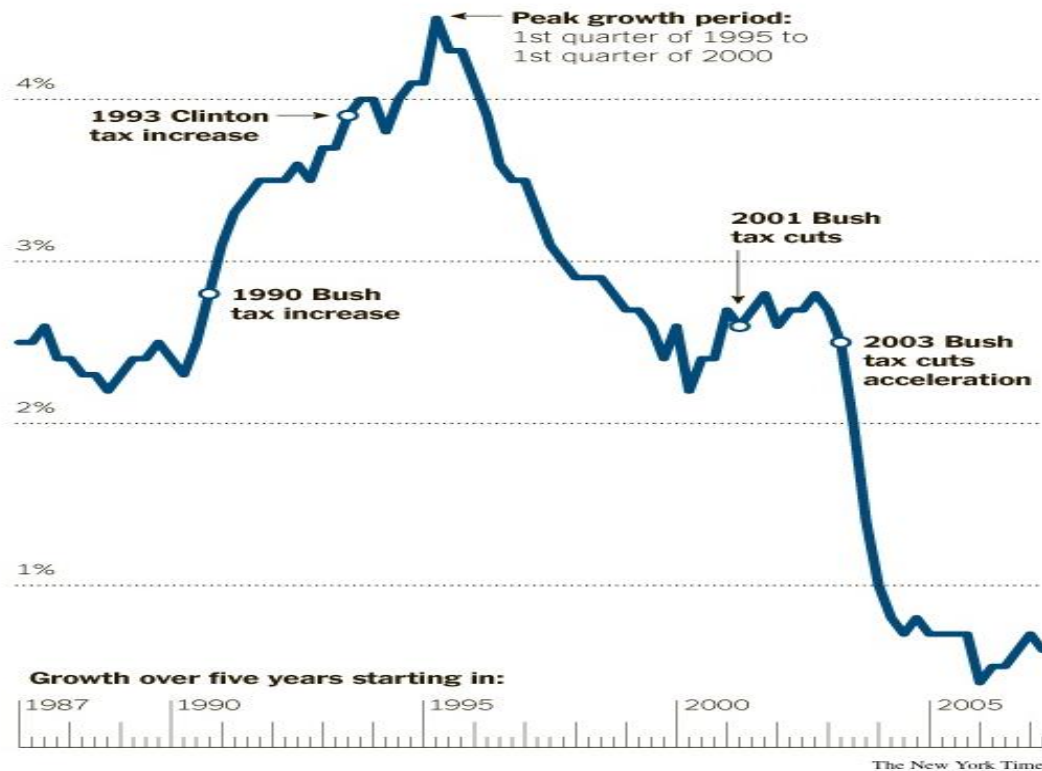


Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2,3 & 4

# 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>

# For More Information

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