

CTBA | Center for Tax and Budget Accountability

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The Illinois State Budget

Illinois Association of School Business Officials
Alliance Leadership Summit
1 Convention Center Plaza
Springfield, Illinois

Presented by:
Ralph M. Martire, Executive Director

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Meat on the Bones: FY2015 Enacted General Fund Appropriations (\$ Billions)

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Category	Appropriation
(i) Total General Fund Appropriation	\$35.68
(ii) Total Hard Costs	\$10.76
Debt Service (Pension & Capital Bonds)	\$2.22
Statutory Transfers Out	\$2.38
Pension Contributions	\$6.16
(iv) General Fund Service Appropriations (Gross)	\$25.25
Healthcare (including Medicaid)	\$7.45
Early and K-12 Education	\$6.60
Higher Education	\$1.99
Human Services	\$4.81
Public Safety	\$1.62
Group Health Insurance	\$1.57
Other	\$1.21
(v) "Unspent Appropriations"	\$0.33
(vi) Net General Fund Service Appropriations	\$24.92

* \$600 M *

Source: CTBA analysis of House Bills 6093, 6094, 6095, 6096, and 6097 of the 98th General Assembly for FY2015 appropriations, and FY2014 appropriations from GOMB, "Operating Budget Detail," March 2014, *Excel file* and including supplemental appropriations in House Bills 3793 and 6060 of the 98th General Assembly.

FY2015 Estimated General Fund Deficit (\$ Billions)

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Category	
(i) Projected FY2015 Revenue	\$35.4
(ii) Projected FY2015 Hard Costs	\$10.8
(iii) Projected Deficit Carry Forward from FY2014	(\$6.5)
(iv) Projected Net FY2015 General Fund Revenue Available for Services	\$18.1
(v) Projected Net General Fund Service Appropriations	\$24.9
(vi) Estimated Minimum FY2015 General Fund Deficit	(\$6.8)
(vii) Estimated Deficit as a Percentage of General Fund Service Appropriations	-27.3%
Note: Numbers may not add due to rounding.	

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

5

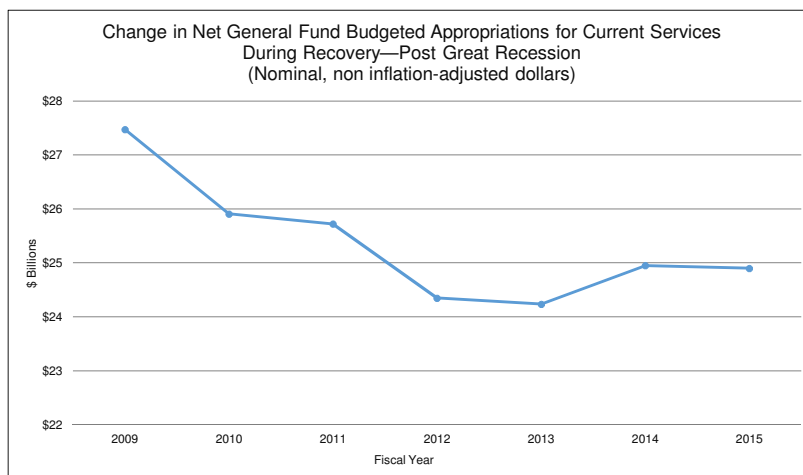
- Education
(PreK-12 plus Higher Ed) 35%
- Healthcare 30%
- Human Services 21%
- Public Safety 5%
91%

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Change in Net General Fund Budgeted Appropriations

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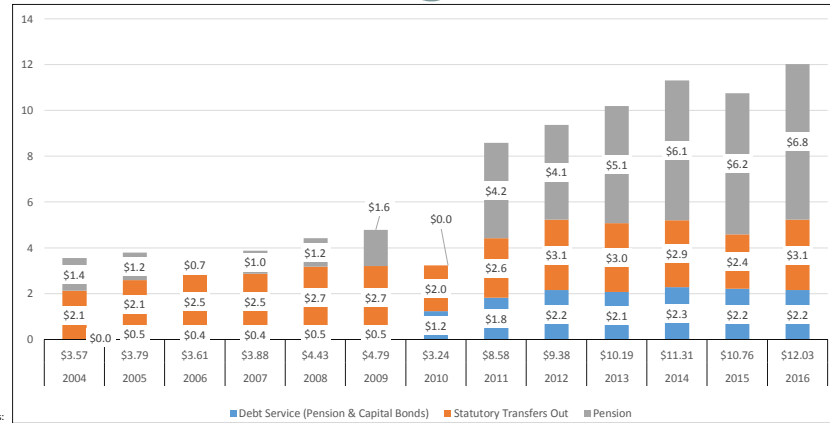


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Hard Costs (Appropriations/Budgeted Figures)

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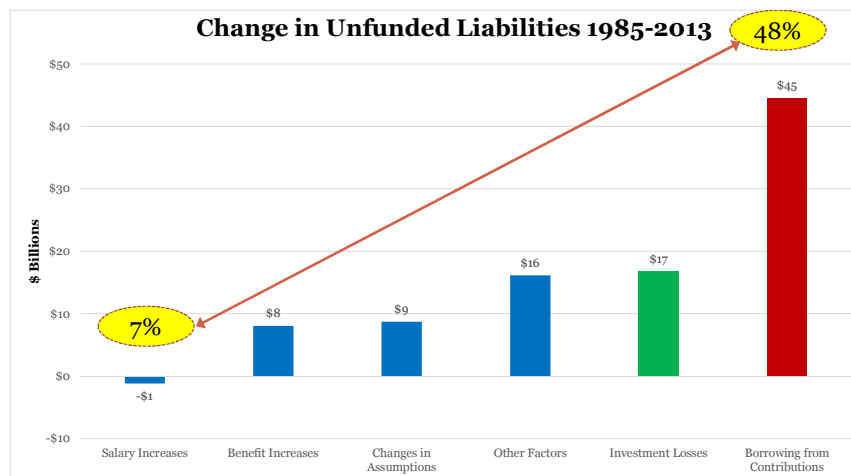
- Notes:
- Legislation passed in 2005 cut the state's pension contributions for fiscal years 2006 and 2007
 - In 2010 the state used Pension Obligation Bonds to pay its pension contribution
 - In 2011, the state also used Pension Obligation Bonds. AS such, while the state budgeted for \$4.2 billion in 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

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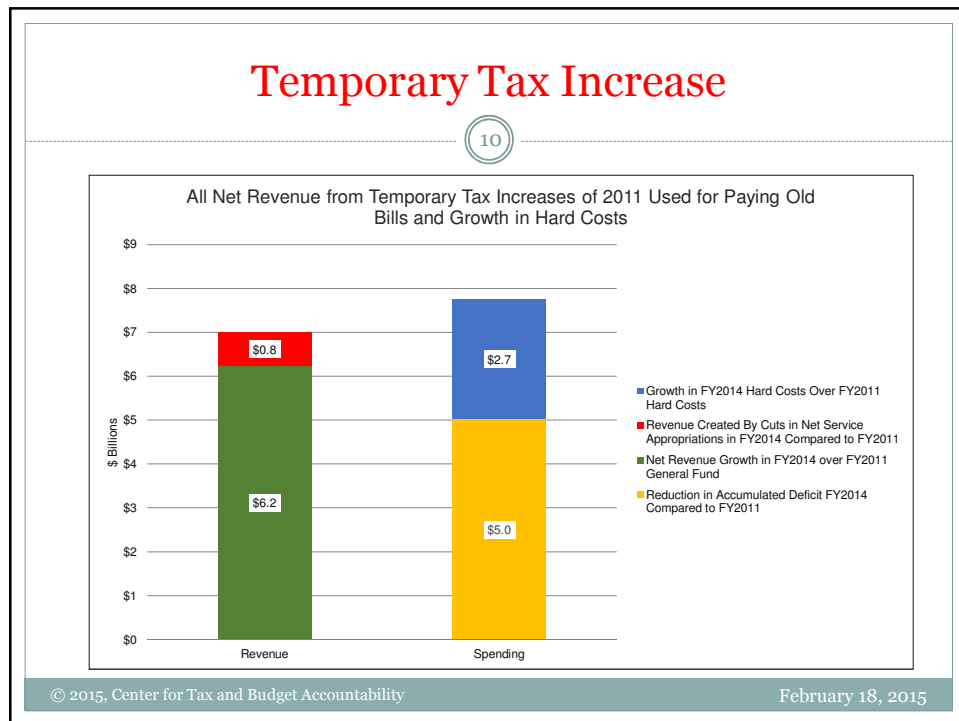
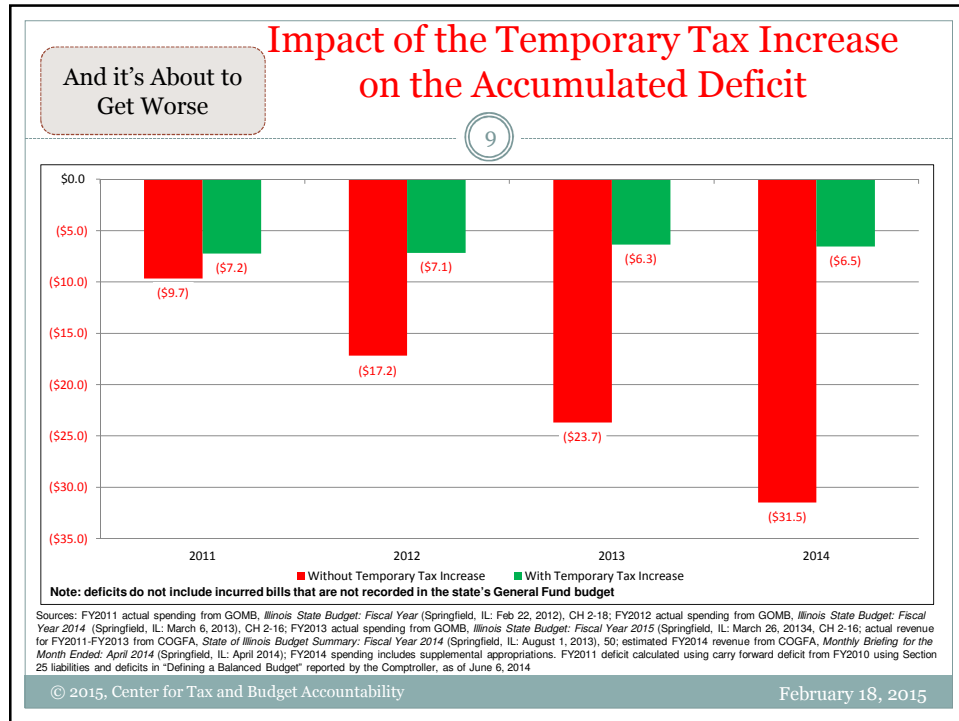
What About Pension Benefits? Not the Problem

8



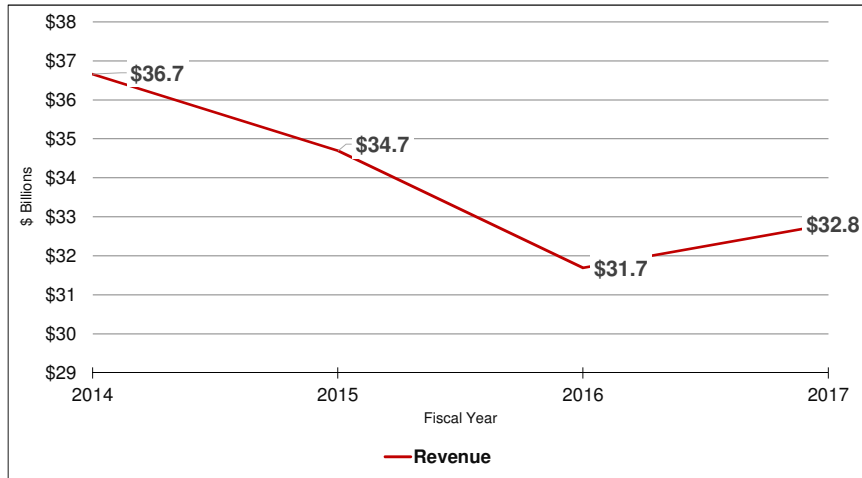
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Temporary Tax Increases Phase Down: Illinois' Fiscal Cliff

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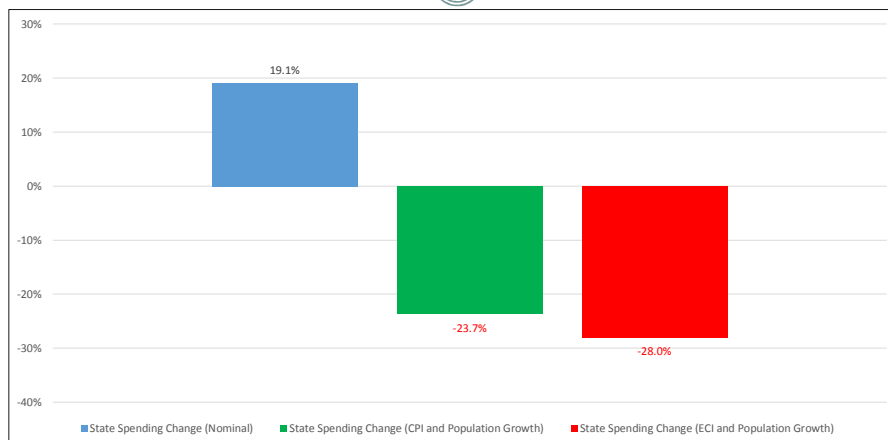
Source: GOMB, 2014 Three Year Projection (Springfield, IL: January 1, 2014).

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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 98th 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%
Total Spending (Gross)	\$19.72	\$23.68	\$32.60	(\$8.92)	-27.4%

* 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 2012, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 12th highest state GDP per capita in the nation.
- Despite that, in FY2012 Illinois ranked 28th in General Fund spending on services per capita, and 36th in General Fund spending on services as a share of GDP.
- In 2011, (the most recent year for which there is data) Illinois ranked 49th, 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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FY2014, FY2015 and FY2016 General Fund Comparison (\$ Millions)

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	FY2014	FY2015 (Enacted)	FY2016 (Projected)
Revenue			
Total Recurring General Fund Revenue	\$36,718	\$34,702	\$31,710
One-time, Non-recurring Revenue	\$0	\$650	\$0
Total Revenue	\$36,718	\$35,352	\$31,710
Spending			
Net General Fund Spending on Services	\$24,950	\$24,919	\$24,919
Hard Costs (pensions, bonds, statutory transfers)	\$11,910	\$10,756	\$12,031
Repayment of Inter-Fund Borrowing	\$0	\$0	\$650
Carry Forward Deficit from Prior Fiscal Year			
	(\$6,336)	(\$6,478)	(\$6,800)
Projected Fiscal Year-End Deficit			
	(\$6,478)	(\$6,800)	(\$12,690)

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The Net Result:

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If Spending is Held Constant, the Accumulated General Fund Deficit in FY2016 will Almost Double from FY2015 Levels

Category	Amount
Projected FY2016 Revenue	\$31.71
Projected FY2016 Hard Costs	\$12.03
Inter-Fund Borrowing Repayment	\$0.65
Projected Deficit Carry Forward from FY2015	(\$6.8)
Net FY2016 General Fund Revenue Projected to be Available for Current Services	\$12.23
FY2016 General Fund Service Appropriations (if kept level in nominal dollars with FY2015)	\$24.92
Estimated Minimum FY2016 General Fund Deficit	(\$12.69)
Estimated Deficit as a Percentage of General Fund Service Appropriations	-50.9%

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Now: The Economic Context

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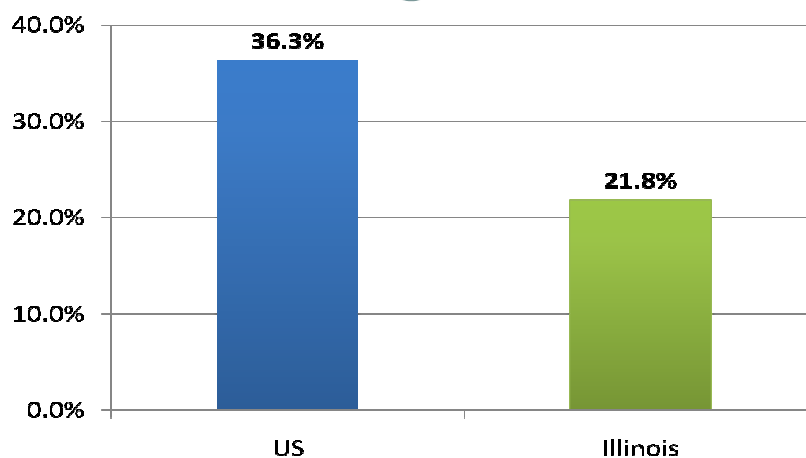
- In 2013, Illinois ranked fifth nationally with a Gross State Product in excess of \$695 billion (BEA).
- That would be the 19th largest economy of any nation in the world-greater than Egypt, Saudi Arabia, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.

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

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Source: BEA

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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, during 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 th
Michigan	16.9%	12 th
Wisconsin	16.6%	16 th
Indiana	16.6%	17 th
Ohio	16.1%	26 th
Illinois	14.2%	42nd
Missouri	13.5%	47 th

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

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Total State and Local Tax Burden as a Percentage of Income in 2010, with Temporary Tax Increase

21

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	15.6%	27th
Missouri	13.5%	47 th

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

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But Despite Being Low Tax. . . .

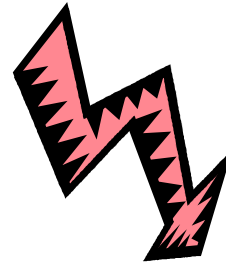
22

- 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%



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Is State Corporate Income Tax Policy Killing the Economy?

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Illinois: 7% until 2015, then 5.25%	
<u>Midwest</u>	<u>Other Big States</u>
Iowa: 6% – 12% (12% @ \$250,000)	Pennsylvania: 9.99%
Indiana: 8.5%	New Jersey: 9%
Wisconsin: 7.9%	California: 8.84%
Missouri: 6.25%	New York: 7.1%
Kentucky: 4% - 6% (6% @ \$100,000)	Florida: 5.5%
Michigan: 4.9%	

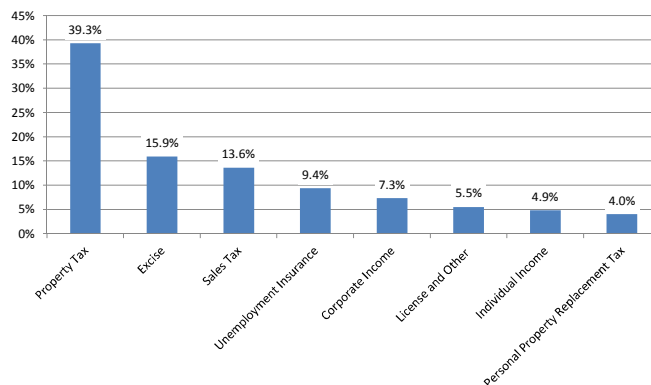
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#1 NOPE: The State's Corporate Income Tax is a Small Portion of Business Tax Burden

24

FY2012 State and Local Fees Paid by Businesses in Illinois



Sources: Andrew Phillips, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, Total State and Local Business Taxes: State-by-state estimates for fiscal year 2012 (Washington, DC: Ernst & Young and Council on State Taxation, July 2013), 10; Illinois Department of Revenue, Annual Report of Collections and Distributions 2012 (Springfield, IL: December 31, 2012), <http://www.revenue.state.il.us/Publications/AnnualReport/Annual-Report-2012-Table-1.pdf>

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Indeed—State Corporate Income Taxes Overall are Insignificant

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Corporate Tax Liability Nationally (\$ Millions)

	1998	2003	2007	2008	2009	2010
Total state corporate income taxes paid nationwide*	\$31,089	\$28,384	\$52,915	\$49,860	\$39,278	\$38,006
Net Income (before payment of income taxes) of corporations nationwide**	\$1,091,150	\$1,175,609	\$2,252,874	\$1,806,890	\$1,614,867	\$1,836,377
Effective Total State Income Tax Rate***	2.85%	2.41%	2.35%	2.76%	2.43%	2.07%

*Annual Survey of State Government Tax Collections—U.S. Census Bureau

**SOI Tax Stats—Returns of Active Corporations – Table 1 – IRS

***Simple math—line 1 divided by line 2

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#2

Very Few Businesses Pay Any State Corporate Income Tax

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Illinois Corporate Income Tax Liability
Tax Year 2010

Liability Range	Total Filers	Percent of Filers
\$0	76,868	69.52%
\$0 — \$5,000	25,604	23.15%
\$5,000 — \$10,000	2,517	2.28%
\$10,000 — \$50,000	3,106	2.81%
\$50,000 — \$100,000	796	0.72%
\$100,000 — \$500,000	1,143	1.03%
\$500,000 — \$1 M	234	0.21%
\$1 M or More	309	0.28%
Totals	110,577	100.00%
Corporations with any tax liability	33,709	30.48%

92.67%, combined

Source: CTBA analysis of data provided by the Illinois Department of Revenue (May 2013).

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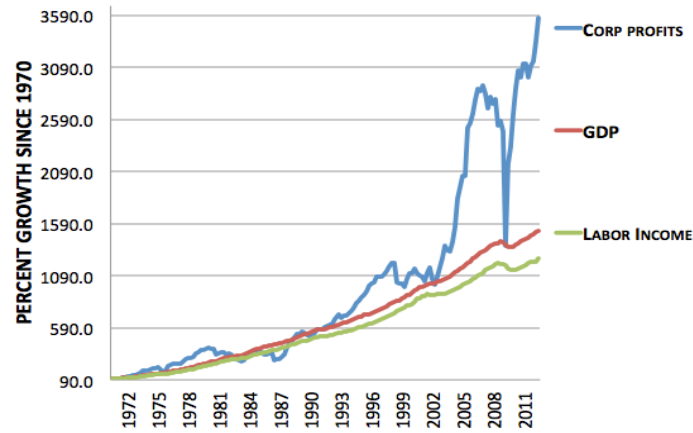
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#3

Meanwhile, Corporate Profits Are at an All Time High

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Corporate Profits vs. GDP vs. Labor Income Since 1970

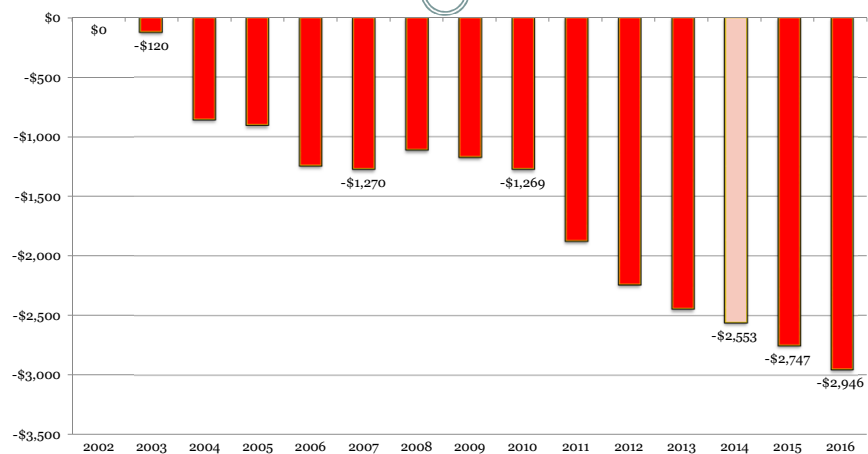


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Dollar Shortfall in State Per-Pupil K-12 Education Funding to Meet EFAB Adequate Education Standard by Fiscal Year

28



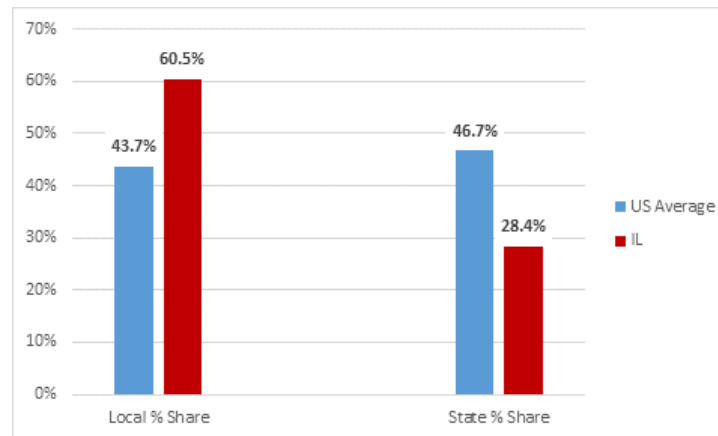
Sources: CTBA analysis of January 2013 EFAB data. Education Funding Advisory Board, *Illinois Education Funding Recommendations*, (Springfield, IL: January, 2013), p. 9. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2013, and population growth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

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Local and State Share of Education Funding Spending

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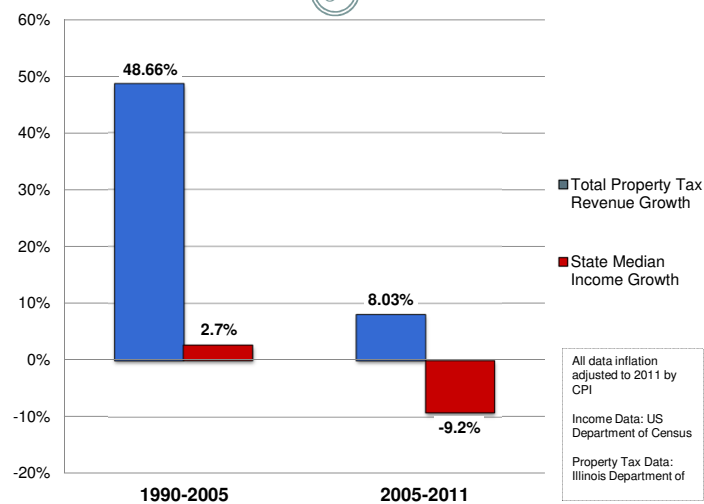
Source: National Center on Education Statistics, 2011. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-2009 (Fiscal Year 2009)."

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

30

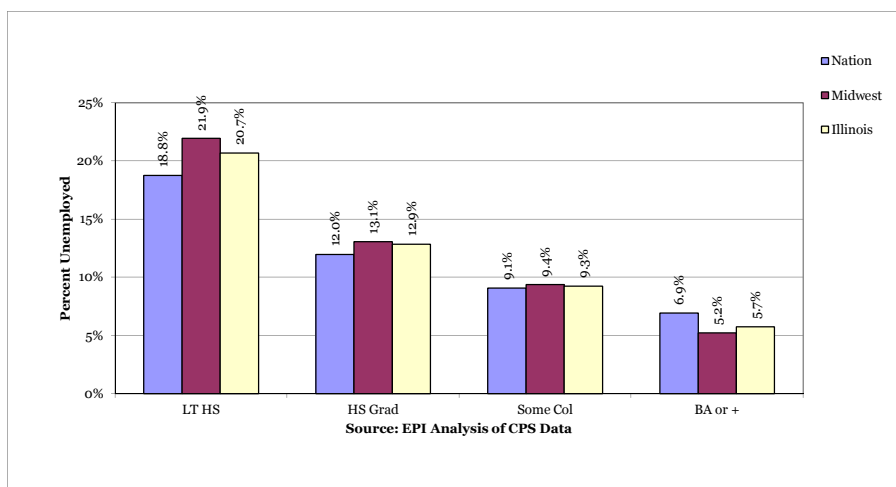


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Unemployment Highest Among Least Educated, 2010

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Wages for Minorities Lag Whites

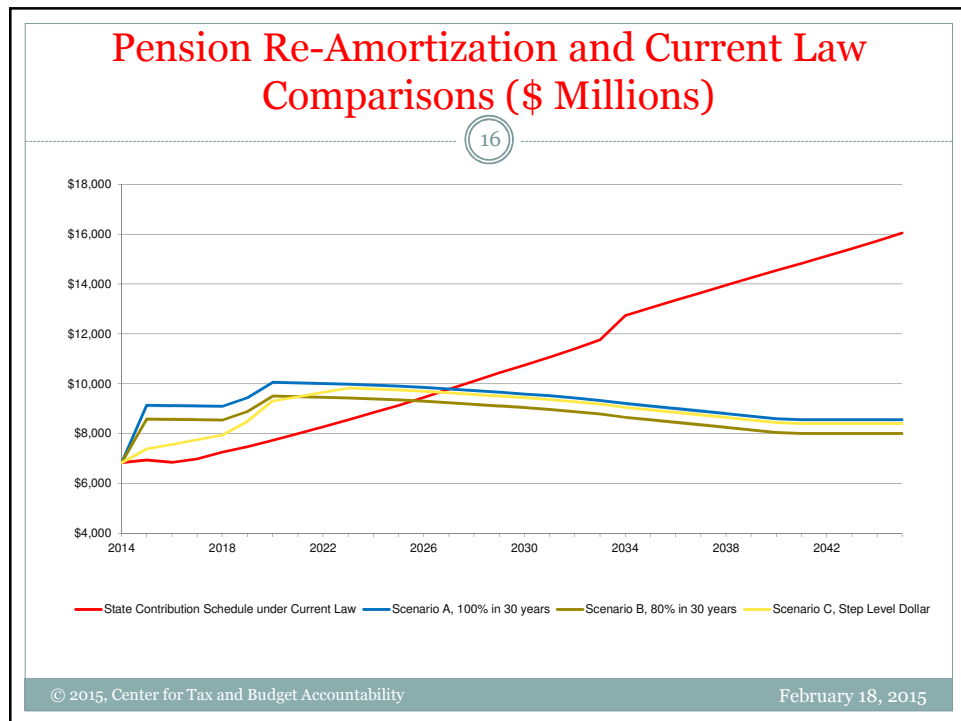
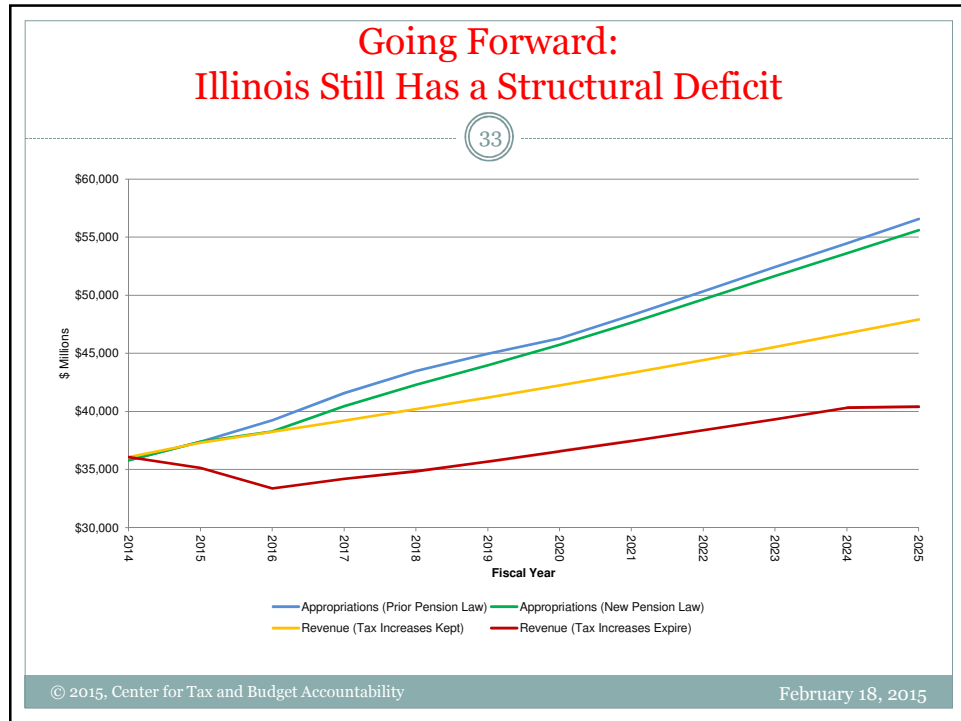
32

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

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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

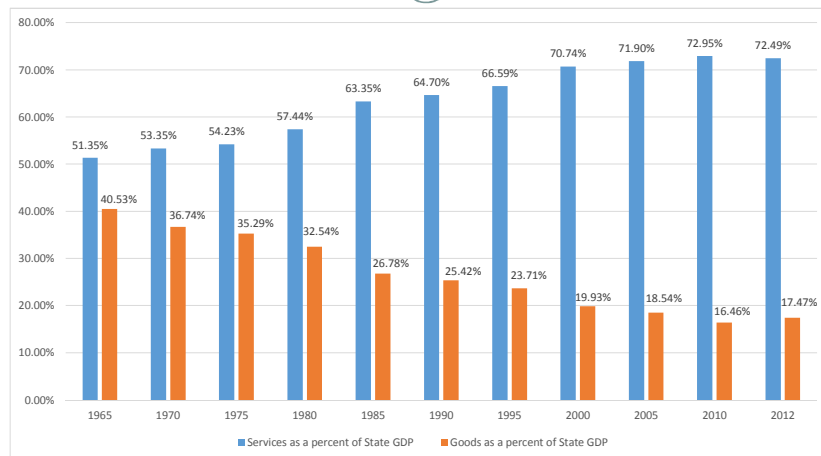
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Revenues of Goods and Services as a Percent of Gross Domestic Product: Illinois (SIC 1965-1985, NAICS: 1997-2012)

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Source: Bureau of Economic Analysis

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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
TOTAL		\$1,196,790,127

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>

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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.'"

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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 Growth Over Time	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

Change in Average US Income Growth Over Time	
Income Group	1979 — 2011
Top 10%	139.8%
Bottom 90%	-39.8%

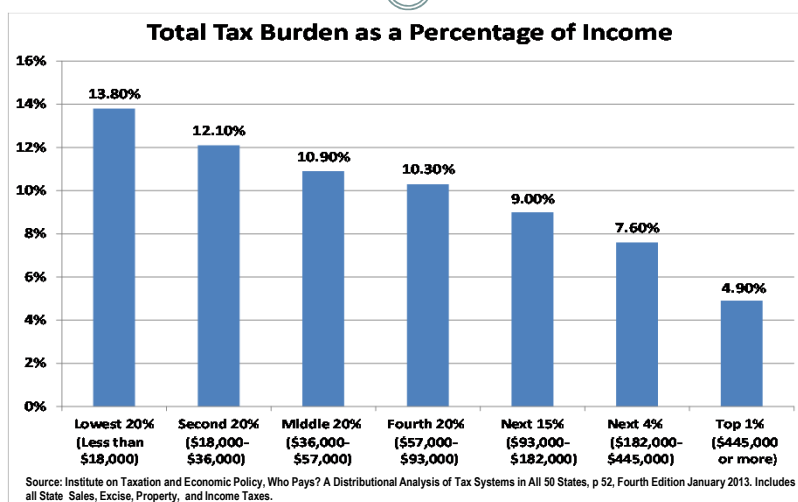
Source: Economic Policy Institute's website: <http://stateofworkingamerica.org/who-gains/> Data used is from Piketty and Saez, "Income Inequality in the United States, 1913-1998", *Quarterly Journal of Economics*, 118(1), 2003, 1-39 (Tables and Figures Updated to 2011 in Excel format, January 2013),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

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

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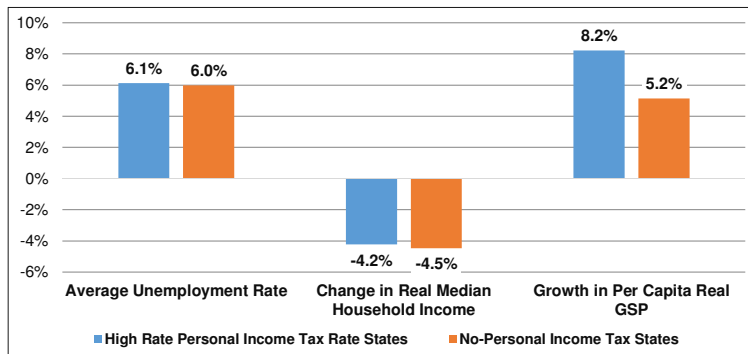
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And Increasing Taxes the Right Way Won't Hurt the Economy

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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

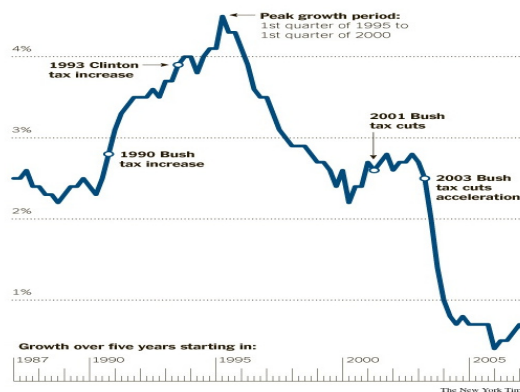
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Indeed, Even the National Economy can Take Off Post a Tax Increase

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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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The Bottom Line

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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.

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For More Information

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