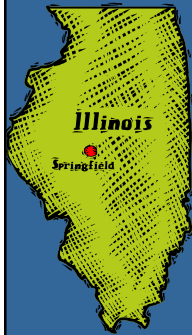


## *The Illinois Economy and the State Budget*



For:  
Thursday, March 18, 2010; 6:30 p.m.  
Kankakee Public Library  
201 E. Merchant, 4<sup>th</sup> Floor  
Chicago, Illinois 60901

Presented by:  
Ralph Martire  
Executive Director

*NOT SINCE FDR*

## THE STARTING POINT:

**ILLINOIS STATE  
GOVERNMENT IS IN THE  
WORST FISCAL CRISIS SINCE  
THE GREAT DEPRESSION**

- **THE BACKLOG OF UNPAID BILLS IS OVER \$8.7 BILLION (WHEN UNPAID BUT DUE DEBT, MEDICAID AND GROUP INSURANCE CLAIMS ARE CONSIDERED).**

## A SNAPSHOT OF WHAT IS ILLINOIS STATE & LOCAL REVENUE

- **IN 2006 (THE MOST RECENT NATIONAL COMPARISON AVAILABLE), STATE AND LOCAL REVENUE CAME FROM THE FOLLOWING SOURCES:**

PROPERTY TAX	38%
SALES TAX	17%
EXCISE TAX	17%
INDIVIDUAL INCOME TAX	16.2%
OTHER	7.4%
CORPORATE INCOME TAX	4.4%

SOURCE: FEDERAL TAX ADMINISTRATORS DATA

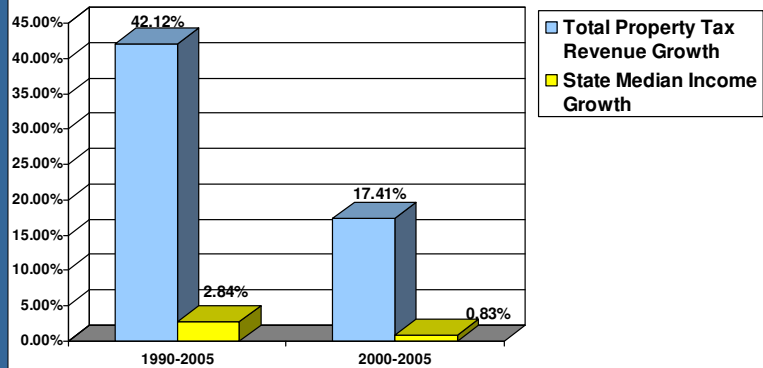
- **THIS MAKES ILLINOIS THE 6<sup>TH</sup> MOST RELIANT STATE ON PROPERTY TAX REVENUE IN THE NATION.**
- **ILLINOIS IS MORE RELIANT ON PROPERTY TAXES THAN FLORIDA, NEVADA, TENNESSEE, ALASKA, SOUTH DAKOTA, WASHINGTON AND WYOMING – WHICH ALSO DON'T HAVE INCOME TAXES.**

## WHY – EDUCATION

- ILLINOIS RANKS 49<sup>TH</sup> OUT OF 50 STATES IN THE PORTION OF EDUCATION FUNDING COVERED BY STATE – VERSUS LOCAL – REVENUE → **JUST 28% OF THE COST.**
- ILLINOIS IS THE MOST RELIANT STATE ON PROPERTY TAXES TO FUND SCHOOLS IN THE NATION.

(NATIONAL EDUCATION ASSOCIATION DATA)

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



All data inflation adjusted to 2008  
Income Data: US Department of Census  
Property Tax Data: IL Department of Revenue

## THE CONTEXT:

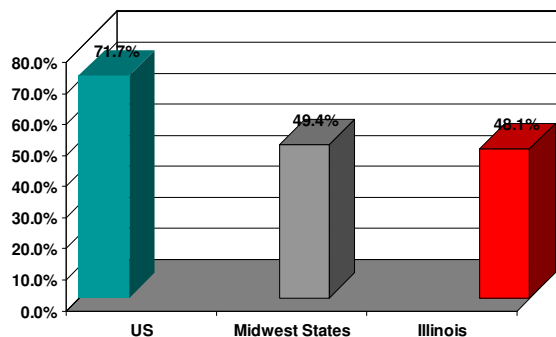
### BIG 'N RICH



- IN 2008, ILLINOIS RANKED FIFTH NATIONALLY WITH A GROSS STATE PRODUCT IN EXCESS OF \$633 BILLION (BEA).
- THAT WOULD BE THE 27<sup>TH</sup> 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.

## ILLINOIS GDP GROWTH LAGS

But, IL Gross State Product Grew Less than U.S. or Midwest States, 1990-2007

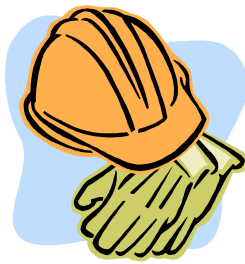


Source: Bureau of Economic Analysis, US Dept. of Commerce

**MANUFACTURING  
DECLINE**

**BUT THAT'S NOT THE WHOLE  
STORY:**

- **BETWEEN 1990 AND JANUARY 1, 2008, ILLINOIS LOST 27% - 249,000 - OF ITS MANUFACTURING INDUSTRY JOBS.**
- **THIS LOSS WAS WORSE THAN BOTH THE MIDWEST (-23.2%) AND THE NATION (-23.9%).**



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**LOW-END SERVICE  
JOBS GROW**

**FOR OVER TWO DECADES NOW:**

- **ALL JOB GROWTH IN ILLINOIS CAME IN THE SERVICE SECTOR.**



- **FOR THE MOST PART, SERVICE SECTOR JOBS THAT PAY LESS THAN MANUFACTURING**
- **ON AVERAGE, MOST OF THESE SERVICE JOBS PAY 29% LESS THAN THE MANUFACTURING JOBS THEY REPLACE**

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## EMPLOYER-PROVIDED BENEFITS

- **EMPLOYER-PROVIDED HEALTH INSURANCE BENEFITS HAVE BEEN STEADILY DECLINING IN ILLINOIS SINCE 1980.**
- **BY 2006, OVER 40% OF THE WORKFORCE DIDN'T HAVE EMPLOYER PROVIDED INSURANCE**
- **HISPANICS ESPECIALLY HARD HIT—OVER 57% DO NOT HAVE EMPLOYER-PROVIDED INSURANCE**
- **TODAY, 30% OF THE ILLINOIS POPULATION IS EITHER ON MEDICAID OR UNINSURED**



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## PENSION EROSION

- **IN 1981, 55.6% OF THE STATE'S WORKERS WERE COVERED BY PRIVATE SECTOR EMPLOYER-PROVIDED PENSION PLANS.**



- **BY 2007, ONLY 43.8% OF THE WORKFORCE HAD PRIVATE RETIREMENT BENEFITS.**

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IS ILLINOIS PROFLIGATE?

## WHY THE ECONOMIC PROBLEMS? —NOT WASTEFUL SPENDING

Changes in General Fund Spending Adjusted for Inflation and Population Growth  
FY2000 - FY 2010

Category	FY2000 Actual	FY2000 Adj to FY2010 (MW CPI)	Adjusted for MW CPI and Population Growth <sup>1</sup>	FY2000 Adj to FY 2010 (ECI)	Adjusted for ECI Population Growth	FY2010 Enacted	Diff FY2000 Adj - FY2010 (MW CPI)	Diff FY2000 Adj - FY 2010 MW CPI and Pop Growth	Diff FY2000 Adj - FY2010 (ECI) <sup>2</sup>	Diff FY2000 Adj - FY2010 ECI and Pop Growth
General Fund Including Pensions	\$21,294	NA	NA	NA	NA	\$29,551	NA	NA	NA	NA
Pension	\$1,230	NA	NA	NA	NA	\$3,587	NA	NA	NA	NA
General Fund Excluding Pensions	\$20,064	\$24,928	\$26,608	\$26,282	\$28,053	\$25,964	\$1,036	(\$644)	(\$318)	(\$2,089)
K-12	\$5,543	\$6,887	\$7,351	\$7,261	\$7,751	\$7,308	\$421	(\$43)	\$47	(\$443)
Higher Ed	\$2,379	\$2,956	\$3,155	\$3,116	\$3,326	\$2,001	(\$954)	(\$1,153)	(\$1,115)	(\$1,325)
Health Care <sup>3</sup>	\$5,022	\$6,240	\$6,660	\$6,579	\$7,022	\$7,886	\$1,656	\$1,236	\$1,317	\$874
Human Services <sup>2</sup>	\$4,599	\$5,714	\$6,099	\$6,024	\$6,430	\$5,446	(\$268)	(\$653)	(\$578)	(\$994)

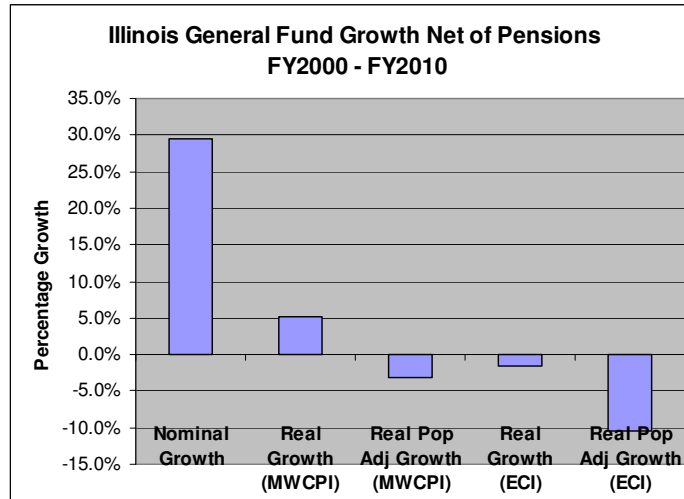
Notes:  
1) DPH and HFS (Public Aid in 2000)  
2) Aging, DCFS and DHS  
3) Employee Cost Index of total compensation for all civilian employees. Index value for FY 2000 has been approximated by ECI for 2001Q1  
4) IL DCEO population projections.

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NOT SO MUCH!



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**ILLINOIS IS LOW TAX  
OVERALL**

- **Why the Economic Problems?**  
– NOT TAX BURDEN
- **Illinois' total state *AND* local tax burden, as a percentage of personal income ranks only 46<sup>th</sup> in the nation.**
- **The second lowest tax burden in the Midwest to Missouri (Missouri is all of one-tenth of one percent lower).**
- **Illinois also ranks only 45<sup>th</sup> in state spending as a percentage of GDP among the states (BEA data)**

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**EXHIBIT "A" IS EDUCATION**

**EDUCATION NOW MATTERS MORE  
THAN EVER TO ECONOMIC  
PROSPERITY:**



- **GENERALLY: UNEMPLOYMENT RATES ARE HIGHEST FOR THOSE WITH THE LEAST EDUCATION.**

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## IMPACT OF EDUCATION ON WAGES

**IN REAL (2006) DOLLARS, BETWEEN 1980 AND 2006, ONLY THOSE WITH AT LEAST A COLLEGE DEGREE EXPERIENCED ANY GAIN IN HOURLY INCOME, WITH GROWTH OF 14.3%**

- **REAL MEDIAN HOURLY WAGES FOR ALL OTHER EDUCATION CATEGORIES DECLINED**
- **LESS THAN A HIGH SCHOOL DIPLOMA FELL BY 28.7%**
- **ONLY A HIGH SCHOOL EDUCATION DECLINED 8.7%**
- **SOME COLLEGE BUT NO DEGREE DECLINED 4.3%**
- **YOU GOTTA LEARN TO EARN!**

## WAGES FOR MINORITIES LAG WHITES

**REAL WAGES FOR WHITES INCREASED MODESTLY BETWEEN 1980 AND 2007, BUT :**

- **THE WHITE-HISPANIC WAGE GAP IS LARGER IN AMOUNT, BUT INCREASED BY A SMALLER PERCENTAGE, GROWING FROM \$3.82 IN 1980 TO \$5.34 IN 2007, AN INCREASE OF 39.7% OVER 1980**
- **REAL WAGES FOR AFRICAN-AMERICANS DECLINED. THE HOURLY WAGE GAP BETWEEN WHITES AND AFRICAN-AMERICANS GREW FROM \$1.52 IN 1980 TO \$3.44 IN 2007, AN INCREASE OF 126.3% OVER 1980**

## STILL SEPARATE. . . .

- **ILLINOIS IS THE THIRD MOST SEGREGATED STATE IN K-12 EDUCATION FOR BLACKS**
- **82% OF BLACK CHILDREN ATTEND MAJORITY/MINORITY SCHOOLS**
- **90% OF WHITE CHILDREN ATTEND VIRTUALLY ALL WHITE SCHOOLS**

(\*SOURCE: 2006 EDUCATION TRUST STUDY ON SEGREGATION)

## . . . . STILL UNEQUAL

- **MINORITY SCHOOL DISTRICTS START OUT WITH \$1,154 *LESS* PER CHILD TO SPEND ON EDUCATION**
- **THAT'S THE SECOND WORST GAP IN THE NATION**

(\*SOURCE: 2006 EDUCATION TRUST STUDY ON SEGREGATION)

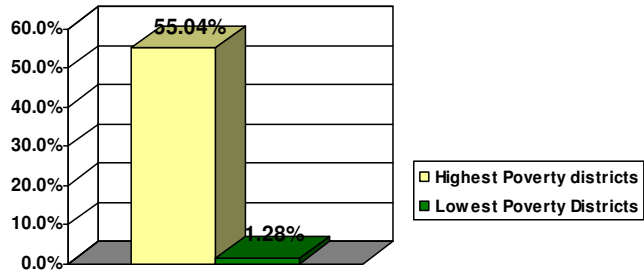
## CURRENT BASIS FOR FOUNDATION LEVEL

- THE ILLINOIS STATE “FOUNDATION LEVEL” IS THE MINIMUM PER CHILD GUARANTEED EXPENDITURE FOR K-12
- DOES NOT INCLUDE: POVERTY, SPECIAL ED, TRANSPORTATION, ETC.
- FOR FY2009: \$5,935 – BUT NOT TIED TO ANY MEASURABLE STANDARD

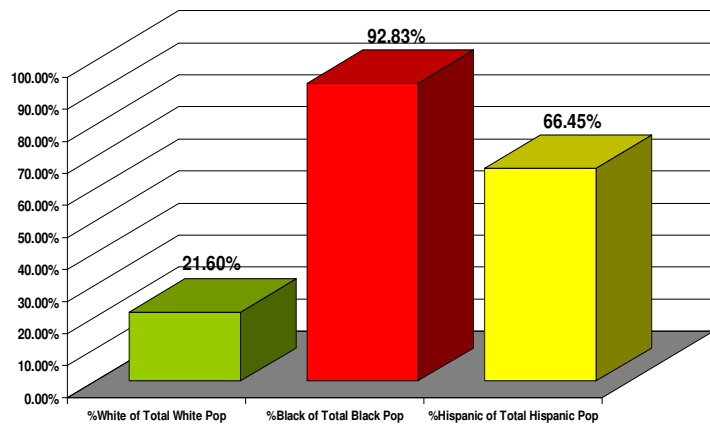
## EDUCATION FUNDING ADVISORY BOARD (“EFAB”)

- CHANGE BASIS TO A MEASURABLE OUTCOME STANDARD, PREDICATED ON COSTS AND TEST RESULTS
- FOUNDATION LEVEL SHOULD BE AT LEAST \$7,330 (AFTER ADJUSTING FOR INFLATION)
- TOTAL COST: \$2.1 BILLION

Percentage of African-American Students in High and Low Poverty Schools

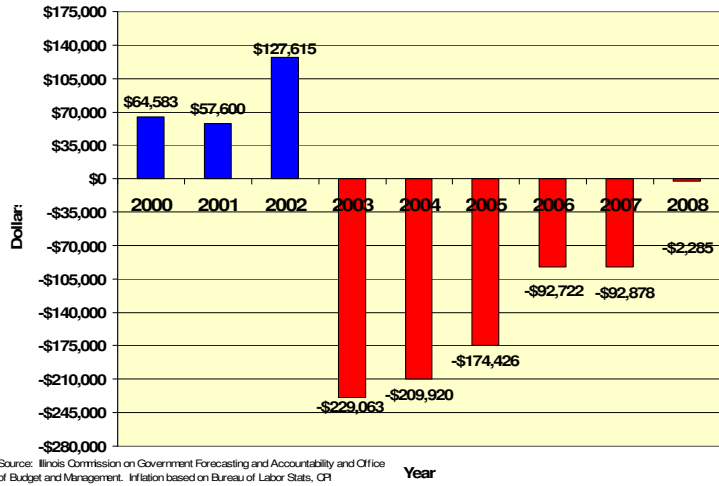


Percentage of Students in Districts with Poverty Rate of 30% or Greater



HIGHER ED INVESTMENTS

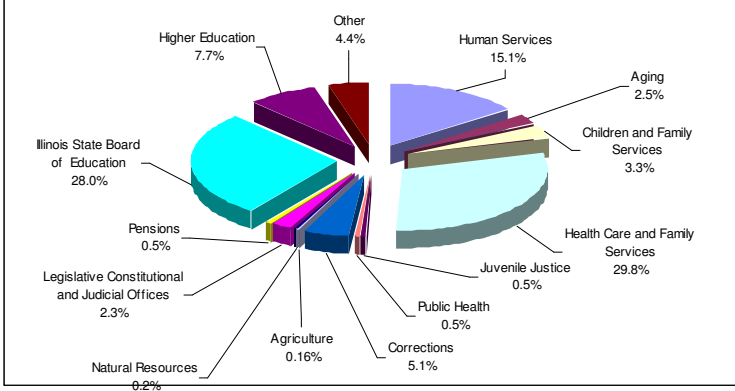
Higher Education Appropriations Have Failed to Keep Pace With Inflation Since 2003



Source: Illinois Commission on Government Forecasting and Accountability and Office of Budget and Management. Inflation based on Bureau of Labor Stats, CPI

STATE BUDGET

FY2010 GRF Appropriations by Agency as a Percent of Total  
TOTAL GRF: \$26.085 Billion



THINGS LOOK BAD IN 2010.....

Illinois' State FY2010 Budget Breakdown	
APPROPRIATIONS	\$26.08 B*
ONE-TIME, NONRECURRING REVENUES	
Debt Proceeds from issuance of five-year Pension Notes	\$3.466 B
Federal Stimulus	\$1.966 B
Fund Sweeps	\$.352 B
Debt Restructuring	\$.475 B
<b>TOTAL NONRECURRING REVENUE</b>	<b>\$6.259 B**</b>

\* Note: The FY2010 budget figure does NOT include at least \$4.0 B in past due, unpaid bills carried forward from FY2009. The Appropriation figure also does not include the \$3.466 B in Pension Note proceeds used to fund state pensions though pension payments have historically been included in General Fund appropriations.

\*\*Note: That means over 21% of the \$29.55 B FY2010 budget (\$26.08 B plus \$3.466 B in Pension Fund payments) is covered with one-time, nonrecurring revenues not available in FY2011.

\*Now add a projected revenue shortfall of \$900 million for FY2010.

AND WORSE IN 2011.....

Illinois' FY2011 Starting Budget Shortfall—Minimum	
Replacement of one-time FY2010 revenues and debt	\$6.259 B
First installment of five-year Debt Service on Pension Notes	\$.800 B
Carry Forward of Operating Deficits from FY2009/2010*	\$4.0 B
Estimated revenue decline in FY2010	\$.900 B
Increase in required pension contribution under the Pension Ramp**	\$1.2 B
<b>TOTAL MINIMUM FY2011 STARTING DEFICIT***</b>	<b>\$13.159 B</b>

\* The Illinois State Comptroller's Quarterly of January 2010 estimates that the state will have a backlog of \$8.75 B in unpaid bills by the start of FY2011, and \$5.1 B as of December 2010. However, many of these bills are presumably for items that are covered in FY2010 budget appropriations. We estimate that a \$4.0 B backlog of unpaid bills not covered by FY2010 appropriations will be carried in FY2011.

\*\* Note: In 1995, Illinois passed a pension ramp bill requiring significant, annual increases in the state's contribution to its public employee retirement systems, to make up for a decades long practice of failing to make the full, employer contribution into the system. That is why the pension contribution escalates by \$1.2 billion next year. It is also why Illinois has an unfunded liability in excess of \$74 billion today.

\*\*\*The Starting Deficit for FY2011 is over 45% of the \$29.55 B FY2010 on-line and off-line Appropriation.

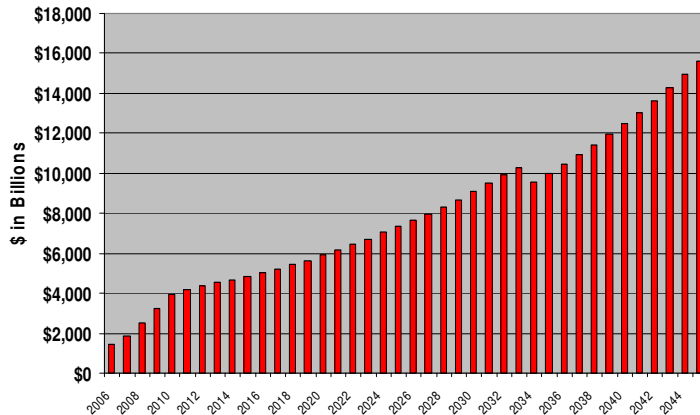
\*Don't forget the FY2010 shortfall!

**THE MULTIPLIER**

<b>Government Action</b>	
<b>Tax Cuts</b>	<b>Associated Multiplier</b>
Non-Refundable lump-sum tax rebate	1.02
Refundable lump-sum tax rebate	1.26
<b>Temporary Tax Cuts</b>	
Payroll Tax Holiday	1.29
Across the board tax cut	1.03
Accelerated Depreciation	0.27
<b>Permanent Tax Cuts</b>	
Extend alternative minimum tax patch	0.48
Make Bush income tax cuts permanent	0.29
Make dividend/cap gains tax cuts permanent	0.37
Cut in corporate tax rate	0.30
<b>Spending Increases</b>	
Extending Unemployment Insurance Benefits	1.64
Temporary increase in food stamps	1.73
General aid to state governments (for spending on items such as education, public safety, health and human services)	1.36
Increased infrastructure spending	1.59

**THE RAMP**

**The "Ramp" before the 2008 Economic meltdown!  
Required Yearly Pension Payments:  
FY 2006 - FY 2045**



## WHAT SHOULD BE:

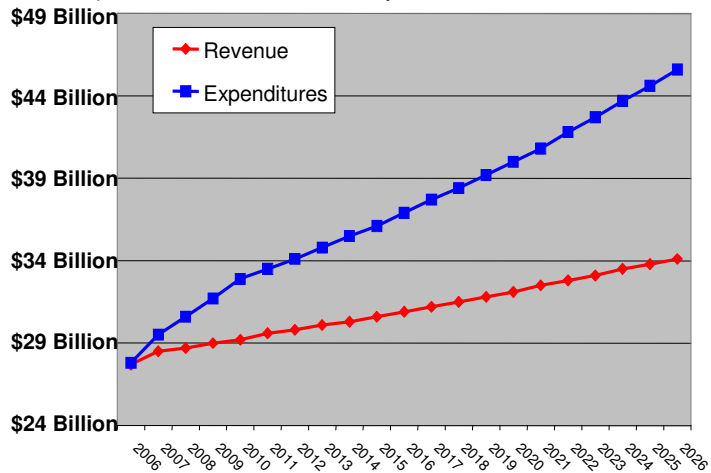
- FAIR → PROGRESSIVE
- RESPONSIVE → TO MODERN ECONOMY
- STABLE → DURING POOR ECONOMIES
- EFFICIENT → DOESN'T DISTORT PRIVATE MARKETS

**BUT ISN'T**

## WHICH CREATES:

### The Illinois Structural Deficit

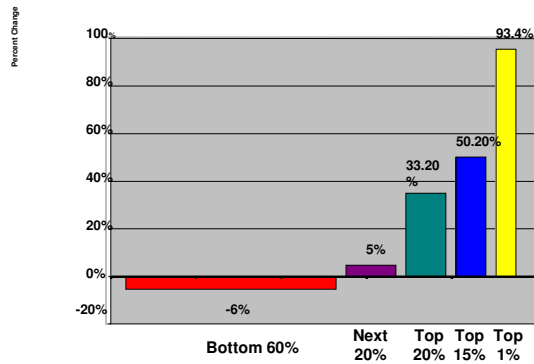
(How Revenue Growth Will Not Keep Pace With The Cost of Current Services)



\*Adjusts solely for historic rates of inflation and population growth, and assumes normal economic growth.

## FAIR? RESPONSIVE?

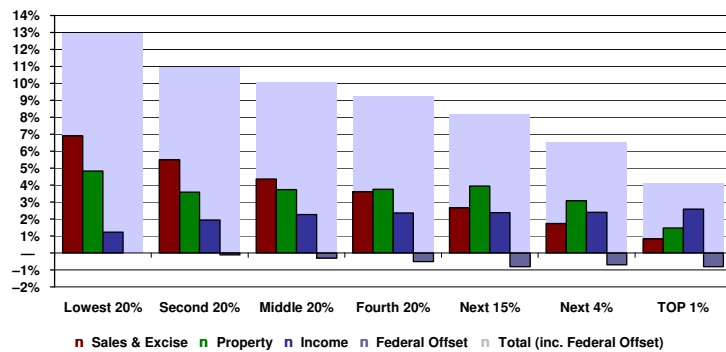
Income Growth in the United States 1979-1999  
(Real 1999 Dollars)  
\*Source U.S. Census Data



## Illinois

### State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



**MORE REGRESSIVE**

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$18,000	\$18,000 – \$36,000	\$36,000 – \$58,000	\$58,000 – \$95,000	\$95,000 – \$196,000	\$196,000 – \$500,000	\$500,000 or more
Average Income in Group	\$10,100	\$26,600	\$47,000	\$74,700	\$128,900	\$300,700	\$2,084,700
<b>Sales &amp; Excise Taxes</b>	<b>6.9%</b>	<b>5.5%</b>	<b>4.4%</b>	<b>3.6%</b>	<b>2.7%</b>	<b>1.7%</b>	<b>0.8%</b>
General Sales—Individuals	3.5%	3.0%	2.5%	2.2%	1.7%	1.1%	0.5%
Other Sales & Excise—Ind.	1.7%	1.0%	0.7%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.7%	1.4%	1.1%	0.9%	0.6%	0.4%	0.2%
<b>Property Taxes</b>	<b>4.8%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>3.1%</b>	<b>1.5%</b>
Property Taxes on Families	4.7%	3.4%	3.6%	3.5%	3.7%	2.7%	0.6%
Other Property Taxes	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.8%
<b>Income Taxes</b>	<b>1.2%</b>	<b>1.9%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.6%</b>
Personal Income Tax	1.2%	1.9%	2.2%	2.3%	2.3%	2.3%	2.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.4%
<b>TOTAL TAXES</b>	<b>13.0%</b>	<b>11.0%</b>	<b>10.4%</b>	<b>9.7%</b>	<b>9.0%</b>	<b>7.2%</b>	<b>4.9%</b>
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-0.8%	-0.7%	-0.8%
<b>TOTAL AFTER OFFSET</b>	<b>13.0%</b>	<b>10.9%</b>	<b>10.1%</b>	<b>9.2%</b>	<b>8.2%</b>	<b>6.5%</b>	<b>4.1%</b>

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

**SB750**

**INCOME TAX INCREASE**

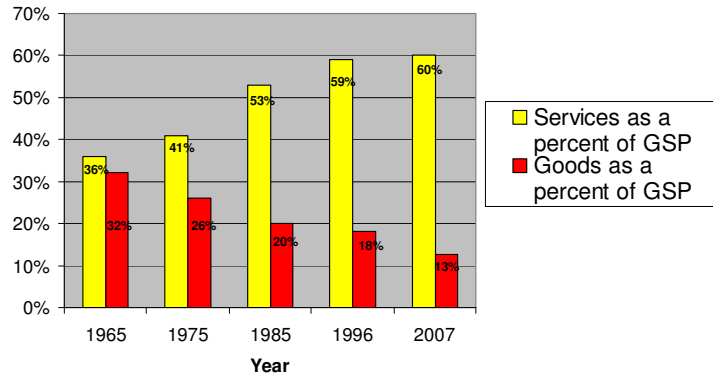
**3% → 5%**

**3% + 2% = 5%**

**2/3 = 67%**

**\*NOTE, CORPORATE RATE GOES UP FROM 4.8% TO 8%, BUT—OVERALL CORPORATE TAX BURDEN GOES DOWN!**

**Revenues of Goods and Services as a Percent of  
Gross State Product: Illinois  
(SIC: 1965 - 1996, NAICS: 2007)**



## FOR MORE INFORMATION:

**CENTER FOR TAX AND BUDGET ACCOUNTABILITY**

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