

**CENTER FOR TAX AND BUDGET ACCOUNTABILITY**

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*Solving Illinois' Budget Crisis*



For:  
 Thursday, November 4, 2010; 10:00 am  
 Housing Matters! Plenary Session  
 Housing Action Illinois  
 Parke Hotel & Conference Center  
 1413 Leslie Drive, Bloomington, IL

Presented by:  
 Ralph Martire  
 Executive Director

**THE REAL PROBLEM**

<b>(i) Revenue Needs in FY 2011</b>	
• Carry Forward of Unpaid Bills from FY 2010	\$ 6.0 B
• Repayment of Debt/Prior Fund Transfers	\$ 4.61 B
• Required Pension Payment	\$ 3.52 B
• Initial General Fund Approps FY2011	\$26.32 B
<b>• Total Revenue Initially Needed in FY 2011</b>	<b>\$40.45 B</b>
<b>(ii) Anticipated FY 2011 Recurring Revenue</b>	
• Estimated 2011 Own Source Gen Fund Revenue	\$21.26 B
• Estimated 2011 Federal Transfers	\$ 5.30 B
• Total Recurring Revenue	\$26.56 B
<b>(iii) Initial FY 2011 Operating Deficit</b>	<b>(-\$13.89 B)</b>
• Initial Operating Deficit as % of Initial GF Approps	<b>(-52.8%)</b>
<b>(iv) Cuts From Initial GF Approps</b>	
• Initial FY2011 Spending Cuts Announced in July 2010	\$1.42 B
<b>(v) FY2011 General Fund Approps Remaining after July 2010 Cuts</b>	
	\$24.9 B
<b>(vi) FY2011 Operating Deficit After July 2010 Cuts</b>	<b>(-\$12.47B)</b>
• Remaining Operating Deficit as % of Revised GF Approps	50.1%
<b>(vii) One-Time, Nonrecurring Revenue/Debt Created for FY2011 GF</b>	
• Securitization of Tobacco Litigation Proceeds	\$1.20 B
• Tax Amnesty Program	\$ 0.25 B
• Raiding Special Funds	\$1.00 B
• Carry Forward of Federal ARRA Transfers	\$0.55 B
<b>• Total One-Time Nonrecurring Revenue</b>	<b>\$3.00 B</b>
• One-Time Revenue as % of Revised FY2011 GF Approps	12.0%
<b>(viii) Remaining FY 2011 Deficit</b>	<b>(-\$9.47 B)</b>
• As Percentage of GF Approps (After July 2010 Cuts)	<b>(-38.0%)</b>

**ILLINOIS FY2011  
 GENERAL FUND  
 BUDGET  
 UNDER HB859,  
 SA 1, 2 AND 3**



**STORY OF EDUCATION**

## CONSIDER THE STORY FOR EDUCATION

CATEGORY	FY2000 Actual	FY2000 Adj to FY2011 CPI and Population	FY2011 Enacted	DIFF	FY2000 Adj to FY2011 ECI and Population	DIFF
<b>K-12 Ed</b>	<b>\$4.844 B</b>	<b>\$6.342 B</b>	<b>\$7.067 B*</b>	<b>\$725 M</b>	<b>\$7.250 B</b>	<b>(-\$183 M)</b> <b>-2.5%</b> <b>(-\$783 M)</b> <b>-14%</b>
<b>HIGHER ED</b>	<b>\$2.379 B</b>	<b>\$3.115 B</b>	<b>\$2.120 B</b>	<b>(-\$995 M)</b>	<b>\$3.560 B</b>	<b>(-\$1,440 B)</b> <b>-40.5%</b>

\*Note, K-12 and other critical funding will be subject to a \$600 M 'hold back' in FY2011, that will result in a cut if the state does not pass new revenue.

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**HUMAN SERVICES**

## HUMAN SERVICES

CATEGORY	FY2000 Actual	FY2000 Adj to FY2011 CPI and Population	FY2011 Enacted	DIFF	FY2000 Adj to FY2011 ECI and Population	DIFF
<b>HUMAN SERVICES</b>	<b>\$4.599 B</b>	<b>\$6.021 B</b>	<b>\$4.929 B</b>	<b>(-\$1,092 B)</b>	<b>\$6.883 B</b>	<b>(-\$1,953 B)</b> <b>-28.0%</b>

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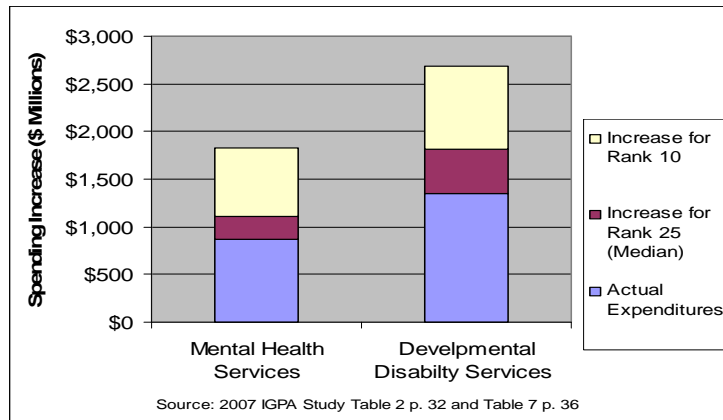
## BUT THAT DOESN'T TELL THE WHOLE STORY...

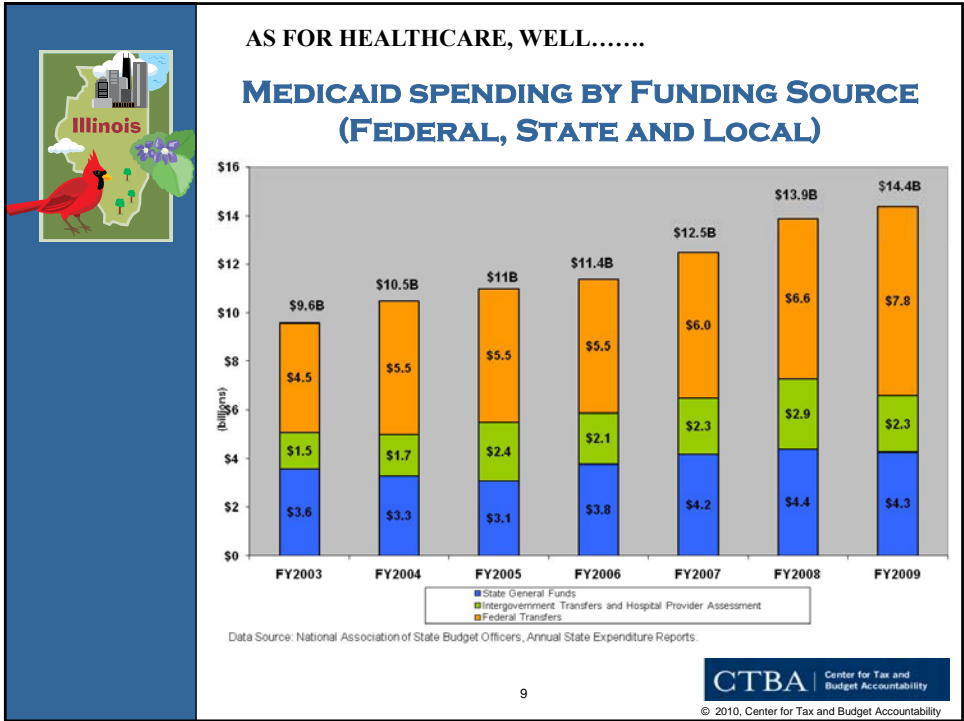
### ILLINOIS STATE GENERAL FUND APPROPRIATION CUTS TO HUMAN SERVICES FUNDING, ADJUSTING FOR BOTH INFLATION AND POPULATION GROWTH, FY 2002 - FY 2010 (IN MILLIONS OF CURRENT \$)

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY 2010	Average	Total
<b>Total Human Services Appropriations in Current \$</b>	\$4,971.2	\$4,666.3	\$4,785.4	\$4,942.0	\$5,047.1	\$5,196.6	\$5,491.6	\$5,655.1	\$5,446.0		
<b>Real Value of 2002 Appropriation Adjusted for Inflation and Population Growth</b>	\$4,971.2	\$5,092.0	\$5,265.9	\$5,430.3	\$5,649.0	\$5,837.0	\$6,161.1	\$6,093.8	\$6,133.5		
<b>Total Shortfall</b>		-\$425.7	-\$480.5	-\$488.3	-\$601.9	-\$640.4	-\$669.5	-\$438.7	-\$687.5	-\$554.1	-\$4,432.5
<b>% Total Shortfall</b>		-9.1%	-10.0%	-9.9%	-11.9%	-12.3%	-12.2%	-7.8%	-12.6%	-10.5%	

Source: CTBA calculations based on Commission on Government Forecasting and Accountability, Budget Summaries for FY2002 to FY2008, and Illinois OMB data for FY2009 and FY2010. Population growth estimates based on Illinois Department of Commerce and Economic Opportunity 2000 to 2010 Illinois population projection.

### ILLINOIS SPENDING INCREASES NECESSARY TO ACHIEVE HIGHER PER INCOME RANKINGS IN FY 2002 HUMAN SERVICE FUNDING





### THE CONTEXT:

#### BIG 'N RICH

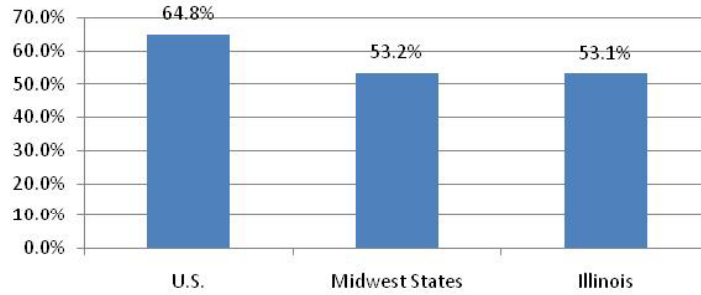
- **IN 2008, ILLINOIS RANKED FIFTH NATIONALLY WITH A GROSS STATE PRODUCT IN EXCESS OF \$633 BILLION (BEA).**
- **THAT WOULD BE THE 27<sup>TH</sup> LARGEST ECONOMY OF ANY NATION IN THE WORLD- GREATER THAN EGYPT, SAUDI ARABIA, COLOMBIA, BELGIUM, SWEDEN, GREECE, IRELAND, PORTUGAL, NORWAY AND NIGERIA, TO NAME A FEW.**

**ILLINOIS' ECONOMY IS LARGE**

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## ILLINOIS GDP GROWTH LAGS

IL Gross State Product Grew Less Than U.S. or Midwest States, 1990 - 2007 (\$ 2000)



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

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- **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 2008, OVER 43% OF THE WORKFORCE DIDN'T HAVE EMPLOYER PROVIDED INSURANCE**
- **HISPANICS ESPECIALLY HARD HIT—OVER 57% DO NOT HAVE EMPLOYER-PROVIDED INSURANCE**
- **BY 2009, 30% OF THE ILLINOIS POPULATION IS EITHER ON MEDICAID OR UNINSURED**



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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 44<sup>TH</sup> IN THE NATION (THROUGH 2008).**
- **THIS IS THE SECOND LOWEST COMPREHENSIVE TAX BURDEN IN THE MIDWEST (JUST THREE-TENTHS OF ONE PERCENT GREATER THAN MISSOURI).**
- **ILLINOIS ALSO RANKS ONLY 43<sup>RD</sup> IN STATE SPENDING AS A PERCENTAGE OF GDP AMONG THE STATES (2008 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!

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## 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

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## 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)

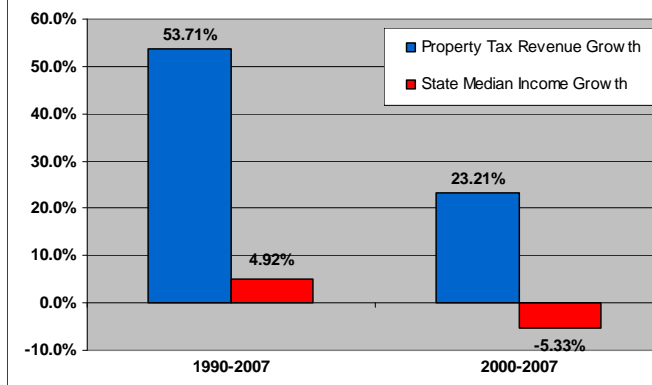
## A SNAPSHOT OF WHAT IS ILLINOIS STATE & LOCAL REVENUE

- IN 2007 (THE MOST RECENT NATIONAL COMPARISON AVAILABLE), STATE AND LOCAL REVENUE CAME FROM THE FOLLOWING SOURCES:

PROPERTY TAX	37.18%
SALES TAX	16.6%
EXCISE AND UTILITIES TAXES	17.2%
INDIVIDUAL INCOME TAX	17.1%
OTHER	6.7%
CORPORATE INCOME TAX	5.3%

SOURCE: FEDERAL TAX ADMINISTRATORS DATA

Illinois Property Tax Revenue Growth vs. State Median Income Growth



\*NOTE: It's a fixed cost for business as well.

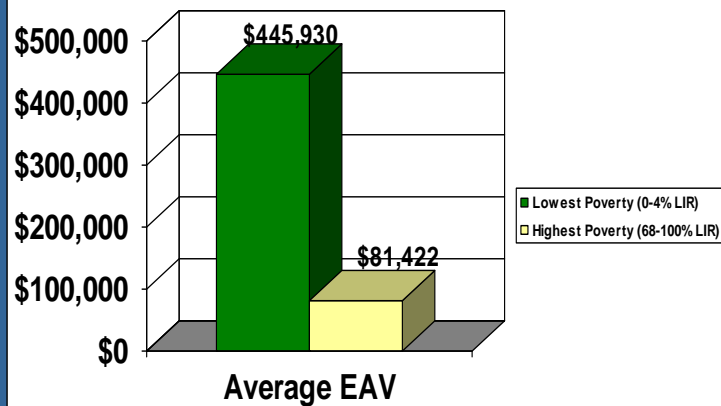
## WHY – EDUCATION

- 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)

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## Low Income Focus Equalized Assessed Valuation



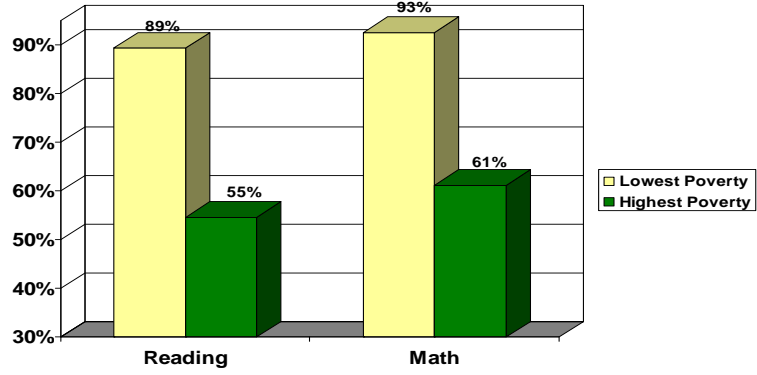
The EAV of school districts with the greatest amount of low income is 5 times less than that of the percentage of the districts with the smallest low income population.

\*LIR – means Low Income Rate

<http://www.isbe.net> "2007 Illinois Report Card"

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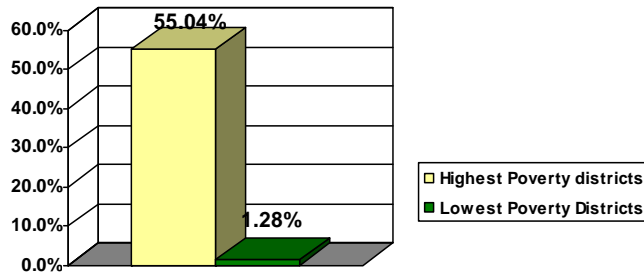
Percentage of students meeting or exceeding ISAT Standards (Grade 6, 2006)



The percentage of students meeting or exceeding ISAT standards in the districts with the lowest levels of poverty is markedly different from those districts with the highest levels of poverty.

<http://www.isbe.net> "2007 Illinois Report Card"

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



## ***WHAT SHOULD BE:***

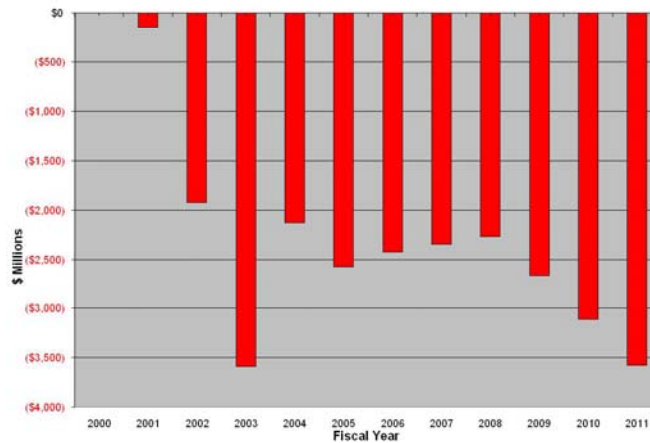
- |                   |          |  |
|-------------------|----------|--|
| <b>FAIR</b>       | <b>➔</b> | <b>PROGRESSIVE</b>                     |
| <b>RESPONSIVE</b> | <b>➔</b> | <b>TO MODERN ECONOMY</b>               |
| <b>STABLE</b>     | <b>➔</b> | <b>DURING POOR ECONOMIES</b>           |
| <b>EFFICIENT</b>  | <b>➔</b> | <b>DOESN'T DISTORT PRIVATE MARKETS</b> |

***BUT ISN'T***

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## **WHICH CREATES:**

**ILLINOIS STRUCTURAL DEFICIT  
ASSUMING FY2000 TO FY2008 ECONOMIC CONDITIONS  
AND FY 2000 BALANCED BUDGET APPROPRIATION  
(ADJUSTED FOR INFLATION AND POPULATION GROWTH)**



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## GIVEN THE ILLINOIS ECONOMY:

- **LONG-TERM LOSS OF GOOD JOBS**
- **GREAT RECESSION LOSS OF OVER 413,000 NON-FARM JOBS**

**ISN'T THIS THE WORST TIME TO RAISE TAXES?**

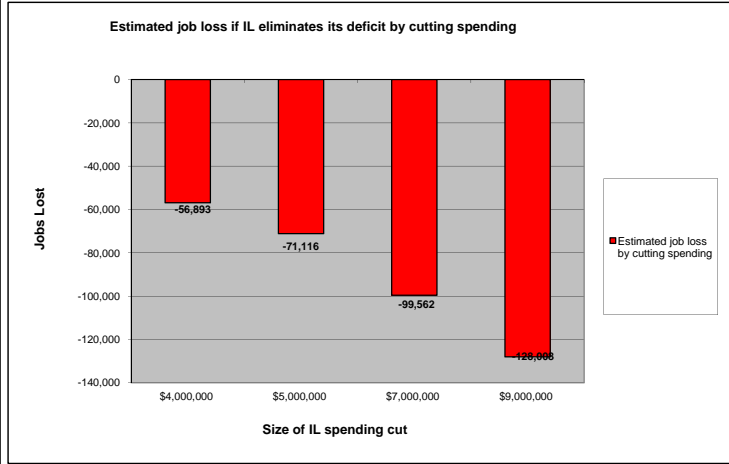
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## NO, NO & NO

Government Action	
Tax Cuts	Associated Multiplier
Non-Refundable lump-sum tax rebate	1.02
Refundable lump-sum tax rebate	1.26
Temporary Tax Cuts	
Payroll Tax	1.29
Across the board tax cut	1.03
Accelerated Depreciation	0.27
Permanent Tax Cuts	
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
Spending Increases	
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

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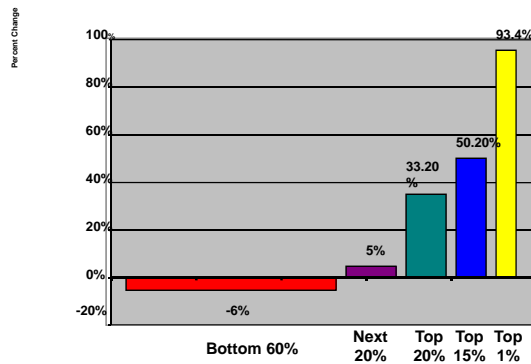
**JOB LOSS**



**INCOME INEQUALITY**

**FAIR? RESPONSIVE?**

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



## ILLINOIS TAX BURDEN 2007

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.

## INCOME TAX INCREASE

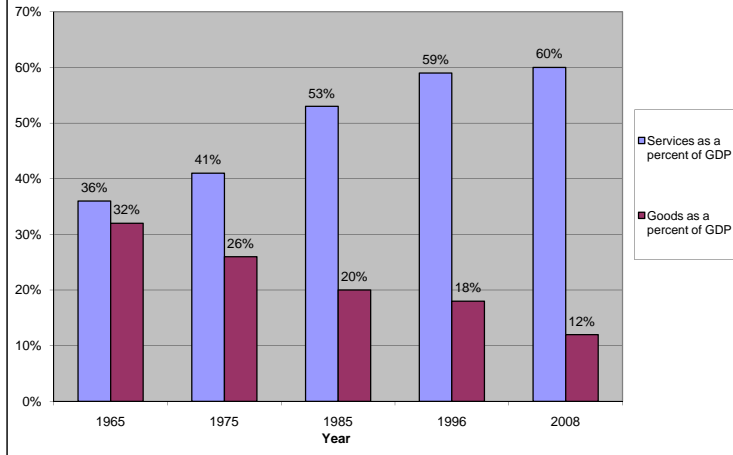
**3% → 5%**

**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 Domestic Product: Illinois (SIC:1965-1996, NAICS: 2008)**



## FOR MORE INFORMATION:

**CENTER FOR TAX AND BUDGET ACCOUNTABILITY**

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