

## ISSUE BRIEF

### Analysis of Bruce Rauner's "Bring Back Blueprint"

August 31, 2014

#### 1. General Overview

On July 17, 2014, Bruce Rauner, the Republican nominee for Governor, released his long anticipated position paper on fiscal policy, dubbed the "Bring Back Blueprint: Jobs and Growth Agenda" (the "**Blueprint**"). The Blueprint represents candidate Rauner's most complete policy statement on how to resolve the very real and serious fiscal problems that have plagued Illinois state government for decades.

In summary, those fiscal problems start with a projected deficit of **\$6.5 billion** in the General Fund budget that was enacted for the state's current fiscal year, FY2015, which began on July 1, 2014 and will end on June 30, 2015. (CTBA's analysis of the FY2015 budget that passed into law is available at CTBA's website [www.ctbaonline.org](http://www.ctbaonline.org) or by [clicking here](#) and CTBA's analysis of the FY2015 budget proposed by Governor Quinn which did not pass the General Assembly is available by [clicking here](#)). For context, the projected FY2015 General Fund deficit of **\$6.5 billion** represents 26.4 percent of all spending scheduled for public services this year.<sup>1</sup> Unfortunately, running a General Fund deficit is nothing new in Illinois. According to the state Comptroller, this is the 25<sup>th</sup> consecutive year the state has run a General Fund deficit. That is a problem because \$9 out of every \$10 of General Fund spending goes to education (Pre-K through higher education, 34 percent), healthcare (29 percent), human services (19 percent), and public safety (7 percent).

Moreover, without a change in law, the General Fund deficit will worsen materially in FY2016. That is because the temporary state income tax rate increases passed as part of the Taxpayer Accountability and Budget Stabilization Act of 2011 (**TABSA**) are scheduled to phase-down, from 5 percent to 3.75 percent for the personal income tax, and from 7 percent to 5.25 percent for the corporate. Both state income tax rates will phase-down commencing on January 1, 2015, which is halfway through the state's current fiscal year. This means the revenue loss from the rate phase-down is somewhat mitigated this year, as it will only pertain for six months. In FY2016, however, the lower income tax rates will be fully in effect for the whole year, causing significantly greater revenue loss. The net result will be that in FY2016, the state will realize a loss of revenue of around \$3 billion from FY2015 levels—on top of the extant **\$6.5 billion** deficit.<sup>2</sup>

Hence, candidate Rauner's plan for bringing the state to fiscal solvency will determine whether his administration will have the fiscal capacity to invest in the core services of education, healthcare, human services, and public safety or will have to cut those service areas due to the state's ongoing fiscal shortfalls. Unfortunately, the fiscal policy proposals outlined in the Blueprint are quite sketchy on details, making a thorough analysis somewhat difficult. That said, from a fiscal standpoint, the proposal primarily focuses on the following core initiatives:

- First, state income tax rates—both personal and corporate—would be reduced from current levels (5 percent personal rate and 7 percent corporate rate) to 3 percent and 4.8 percent respectively. Collectively, these income tax rate cuts will cause the state to lose approximately **\$7.8 billion** in annual income tax revenue from FY2014 levels.<sup>3</sup>
  - The Blueprint does not specify how or when this rate reduction would occur—only that it would be implemented "over four years".<sup>4</sup>
  - However, under TABSA, the state income tax rates are already scheduled, by law, to decline from 5 percent to 3.75 percent for the personal income tax and from 7 percent to 5.25 percent for the corporate on January 1, 2015, which is before candidate Rauner would be sworn in as Governor should he win. Hence, it is unclear if he would initially support doing away with the income tax rate reductions currently scheduled under TABSA and attempt to maintain the 5 percent personal and 7 percent corporate income

tax rates in the first year of his term—and then create some new, as of yet unspecified phase-down period over the course of his initial term—or if he would allow the scheduled phase-down under TABSA to take place, and then reduce rates further from there. This ambiguity makes it virtually impossible to calculate the exact impact of the candidate's tax policy in a given fiscal year, since the Blueprint fails to specify a timetable for implementation.

- Given the lack of detail regarding the timing of the candidate's proposed income tax rate cuts, the fiscal impact of his proposal is analyzed in this study as if fully implemented in FY2016.
- Second, the Blueprint calls for offsetting a portion of the revenue loss stemming from the candidate's proposed income tax cuts, by expanding the state's sales tax base to include more services than it currently does. The Blueprint estimates this sales tax base expansion will generate \$603 million in new revenue. This is a needed reform that would help modernize the Illinois fiscal system and comports with sound tax policy.
- Third, the Blueprint avers that by lowering income tax rates, an environment will be created that is more conducive to job creation. **Unfortunately, the Blueprint provides no statistically meaningful way to analyze this claim. Indeed, the Blueprint is completely silent on the number of jobs the proposed income tax cuts will generate. There is a good reason for this silence.** The overwhelming body of evidence from academic and peer reviewed research on this very subject indicates that tax cuts do not in fact generate long term job or economic growth.<sup>5</sup> In fact, according to the Institute of Public Policy at the Harry S. Truman School of Public Affairs at the University of Missouri, when the economic cost of spending cuts needed to offset the revenue loss generated by tax cuts are factored in, the result is typically a net loss of economic activity.<sup>6</sup>
  - The Blueprint does note that (i) according to a column from 2010 in Crain's,<sup>7</sup> each job in Illinois generates \$4,484 in net income and sales tax revenue annually (without identifying whether that is net revenue to the state or includes both state and local revenue), (ii) based on that, if the state's unemployment rate is reduced from its current level of 7.5 percent to the national average of 6.1 percent, that would mean the creation of 91,913 jobs, generating \$412 million in combined income and sales tax revenue annually, and (iii) if Illinois' unemployment rate were reduced even further to Iowa's 4.4 percent unemployment rate, that would mean creation of 203,521 jobs generating \$913 million in new revenue annually. There are a number of fundamental flaws with the preceding roadmap of revenue generation through job creation set forth in the Blueprint. First and foremost, **nowhere does the Blueprint outline how or even if candidate Rauner's proposals to reduce state income tax rates will result in the job creation needed to reduce the state's unemployment rate to the indicated levels. In fact, the Blueprint never makes the claim that its proposed income tax cuts will generate any specific number of new jobs.** It just claims that an unspecified number of new jobs will be created. **Without delineating any nexus whatsoever between proposed fiscal policy initiatives on the one hand—i.e., cuts to the state's individual and corporate income tax rates—and the number of jobs those cuts will generate on the other, there is no credible way to determine how much, if any, new revenue will be generated therefrom.**
  - The Blueprint similarly provides theoretical examples of how much state revenue could be generated if rate of growth in Illinois' population were greater than it currently is. The Blueprint does not, however, provide any authority for this proposition so it is not possible to evaluate it. Moreover, even if there were some rationale that supported this contention, it still could not be evaluated. That is because the Blueprint makes no claim of any specific amount of population growth that would be generated by implementing candidate Rauner's proposals. Thus, once again it cannot credibly be assumed that any new revenue from purely theoretical population growth will ever materialize.
- **The bottom line: since the Blueprint itself fails to identify any specific amount of job or population growth that will be created by candidate Rauner's proposals, all revenue estimates that it suggests can be associated with either job or population growth are purely theoretical and cannot be evaluated nor measured. They also cannot be used to offset the revenue loss that can be credibly quantified to flow from his proposed income tax cuts.**
- **Of more concern, even if jobs and population were to grow in Illinois at the theoretical rates that the Blueprint suggests, the net fiscal impact of the proposals in the Blueprint would still leave the state in worse fiscal condition than it is today.**

Overall, the fiscal policy proposals set forth in the Blueprint would result in a net loss of total General Fund revenue of **\$5 billion** from FY2015 levels—or **\$2 billion** more than is already projected to occur under current law.<sup>8</sup> Given that the accumulated General Fund deficit is already **\$6.5 billion**, it does not seem mathematically possible that the loss of another **\$5 billion** in annual revenue will do anything but worsen the state’s already poor fiscal condition. In fact, if service spending is simply held constant with FY2015 levels—in nominal dollars with no adjustment for inflation—the deficit created by the fiscal policy proposals in the Blueprint would total **\$12.5 billion**,<sup>9</sup> representing 50.8 percent of all projected General Fund spending on services in FY2016.

**Figure 1**  
**FY2016 Accumulated Deficit<sup>10</sup> (\$ in Billions)**

Category		FY2016
(i)	Projected FY2016 General Fund Revenue under the Blueprint (based on revenue loss from income tax cuts and revenue gains from sales tax expansion)	\$29.7
(ii)	Projected FY2016 Hard Costs (including repayment of FY2015 borrowing from other state funds)	\$11.1
	Projected Deficit Carry Forward from FY2015	<b>-\$6.5</b>
(iv)	Projected Net FY2016 General Fund Revenue Available for Services	\$12.1
(v)	General Fund Service Appropriations (spending is kept at FY2015 levels)	\$24.5
(vi)	Estimated Minimum FY2016 General Fund Deficit	<b>-\$12.5</b>
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	<b>-50.8%</b>

True, those revenue losses could theoretically be countered with spending cuts, but as illustrated in Section 6 below, the spending cuts which to date have been proposed by candidate Rauner do not come anywhere near saving \$5 billion in annual General Fund revenue. In fact, far from suggesting spending cuts, the Blueprint contends that fully implementing the income tax cuts and sales tax base expansion identified therein “will allow us to continue investing in key priorities, like education.”<sup>11</sup> This seems to indicate that substantial service cuts are not being proposed by the candidate. How investments in education will be maintained is unclear, since the state already has a \$6.5 billion General Fund deficit, and the Blueprint proposes initiatives that would reduce General Fund revenue by another \$5 billion annually. Vague references to eliminating “waste, fraud and abuse” simply do not hold water, especially, when 90 percent of the General Fund goes to the core areas of education, healthcare, human services, and public safety.

## **2. Roll Back of the State Income Tax Rates**

The Blueprint calls for rolling back the state income tax rates from 5 percent to 3 percent for individuals, and from 7 percent to 4.8 percent for corporations over four years. However, it is likely that when the next governor takes office, the state’s income tax rates will already have been reduced to 3.75 percent for individuals and 5.25 percent for corporations, due to the phase-down of those tax increases currently scheduled under TABSA.

Fiscal Year 2016, which begins on July 1, 2015, would be the first budget that a Rauner Administration would have to introduce. As it stands now, due to the scheduled phase-down of the state’s income taxes under TABSA, the FY2016 budget will have to be created with **\$3.1 billion** less in income tax revenue than what was available in the current fiscal year when total General Fund expenditures on services are scheduled to be \$24.5 billion, and the accumulated deficit is estimated to be **\$6.5 billion** by year-end.<sup>12</sup> However, rolling back the personal and corporate income tax rates to pre-2011 levels (3 and 5 percent respectively) would create an even larger revenue loss, an estimated **\$2.6 billion** above the income tax revenue loss that will already occur under TABSA.<sup>13</sup> Figure 2 compares estimated income tax revenue for FY2014-FY2016 under current law and under the reduced tax rates proposed in the Blueprint.

**Figure 2**  
**Income Tax Revenue Comparison (\$ in Billions)**

Fiscal Year	Total Income Tax Revenue (Projected)	Comparison to FY2014	Comparison to FY2015
<b>2014</b>	\$19.7	N/A	N/A
<b>2015</b>	\$17.7	(\$2.1)	N/A
<b>2016 Current Law</b>	\$14.5	(\$5.2)	(\$3.1)
<b>2016 Blueprint</b>	\$11.9	(\$7.8)	(\$5.7)

Sources: FY2014 from COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014); FY2015 from House Resolution 1157 of the 98<sup>th</sup> General Assembly; FY2016 from COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12; and FY2016 Blueprint from CTBA estimate.

Although the Blueprint consistently avers that income tax cuts will help stimulate job growth and economic expansion, this contention conflicts with both the preponderance of the evidence and the conclusion reached by the significant majority of peer reviewed research. If anything, academic research has found that cutting state income taxes as a means to stimulate economic growth and address fiscal issues usually does not work. The Center on Budget and Policy Priorities found that “states that enacted major personal income tax cuts in the 2000s, before the most recent recession hit, were as likely to lose economic ground as to gain it.”<sup>14</sup> In fact, six states passed large income tax cuts prior to the 2008-2009 recession (Arizona, Louisiana, New Mexico, Ohio, Oklahoma, and Rhode Island). Three of these states (Arizona, Ohio, and Rhode Island) saw their economies fall behind the rest of the country in terms of job creation and income growth.<sup>15</sup> And while the other three states (Louisiana, New Mexico, and Oklahoma) did see their economies grow at a faster pace than the nation, it is unlikely tax policy had much to do with it, since all three of these states are major natural gas and/or oil-producers, and realized significant economic benefits from an increase in the price of those natural resources over this sequence.<sup>16</sup>

The state of Kansas is discovering this very lesson right now; cutting taxes does not pay for itself. The Governor of Kansas said that, “Our new pro-growth tax policy... will pave the way to the creation of tens of thousands of new jobs, bring tens of thousands of people to Kansas, and help make our state the best place in America to start and grow a small business.”<sup>17</sup> While there are differences between the Blueprint’s proposals and the income tax cuts that have been implemented in Kansas, that state has not realized significant job growth despite cutting tax rates back in 2012. In fact, Kansas was one of five states that lost employment in the first half of 2014, and average earnings in the state are down since 2012.<sup>18</sup> Kansas has, however, seen its revenue fall dramatically, forcing lawmakers to dip into reserves to pay for services.<sup>19</sup>

The Blueprint also contends that the Illinois tax code has “high income tax rates and a narrow sales tax base.”<sup>20</sup> It is true that Illinois has a narrow sales tax base, in fact, of the 45 states which levy a sales tax, Illinois has the 4<sup>th</sup> most narrow sales tax base.<sup>21</sup> Hence the Blueprint’s proposal to expand the sales tax base to include more services is sound tax policy and would represent a needed modernization. However income taxes in Illinois—even with the individual rate of 5 percent—are not high compared to other states. According to the Federation of Tax Administrators, when comparing the highest tax bracket of all 41 states that levy an individual income tax, only eight have an income tax rate that is lower than Illinois’ current 5 percent rate.<sup>22</sup>

Even when considering all taxes, Illinois has historically been a relatively low tax burden state. Indeed, when total state and local tax burden as a percentage of income is compared, in 2010 Illinois ranked 42<sup>nd</sup> in tax burden nationally. As Figure 3 shows, this made Illinois the second lowest taxing state in the Midwest in 2010.

**Figure 3**  
**Total State and Local Tax Burden as a**  
**Percentage of Income in 2010**

Midwest States	Percentage	National Rank
Iowa	17.0	10
Michigan	16.9	12
Wisconsin	16.6	16
Indiana	16.6	17
Ohio	16.1	26
<b>Illinois</b>	<b>14.2</b>	<b>42</b>
Missouri	13.5	47

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

The comparisons in Figure 3 are from 2010 because that is the most recent year in which there is complete state and local revenue data available from all 50 states and the income tax rates in Illinois were the same for the full fiscal year.<sup>23</sup> In Figure 4, the impact of TABSA is estimated, by allocating that temporary tax increase of 2011 back into 2010.

**Figure 4**  
**Total State and Local Tax Burden as a**  
**Percentage of Income in 2010 (With IL tax Increase)<sup>24</sup>**

Midwest States	Percentage	National Rank
Iowa	17.0	10
Michigan	16.9	12
Wisconsin	16.6	16
Indiana	16.6	17
Ohio	16.1	26
<b>Illinois</b>	<b>15.6</b>	<b>32</b>
Missouri	13.5	47

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

Even after accounting for the tax increase, Illinois remains relatively low in total state and local tax burden as a percentage of income, this despite having the fifth largest population of any state.

### 3. New Revenue Through Job and Population Growth

Since the income tax cuts outlined in the Blueprint would cause an annual loss of **\$7.8 billion** in revenue for the state's General Fund, which already has an accumulated deficit of **\$6.5 billion**, the Blueprint would have to identify some **\$14.3 billion**<sup>25</sup> in new revenue and spending cuts, to bring the state into fiscal balance. The Blueprint does suggest two ways to generate new revenue for the General Fund.

First, the Blueprint asserts that the proposed income tax cuts will make Illinois so much more competitive economically that new job growth will generate additional revenue for the state's coffers. Citing a Crain's article from 2010 as its source, the Blueprint notes that the average job in Illinois generates \$4,484 in combined income and sales taxes.<sup>26</sup> The Blueprint then goes on to suggest that if Illinois were to reduce its current unemployment rate of 7.5 percent down to the national average unemployment rate of 6.1 percent, an additional 91,913 jobs would be created, netting \$412 million in additional income and sales tax revenue annually (i.e. the 91,913 new jobs multiplied by the \$4,484 per job in annual combined income and sales tax revenue). The Blueprint further notes that, if the Illinois unemployment rate were reduced to the 4.4 percent unemployment rate that pertains in Iowa, that would mean some 203,521 jobs would be created, generating an additional \$913 million in revenue.

There are, however, a number of fundamental flaws with the preceding roadmap of revenue generation through job creation set forth in the Blueprint. First and foremost, **nowhere does the Blueprint outline how or even if candidate Rauner's proposals to reduce state income tax rates will result in the job creation needed to reduce the state's unemployment rate to the indicated levels.** In fact, the Blueprint never makes the claim that its proposed income tax cuts will generate any specific number of new jobs. It just claims that an unspecified number of new jobs will be created. **Without delineating any nexus whatsoever between proposed fiscal policy initiatives on the one hand—i.e., cuts to the state's individual and corporate income tax rates—and the number of jobs those cuts will generate on the other, there is no credible way to determine how much, if any, new revenue will be generated therefrom.**

Indeed, the Blueprint is completely silent on the number of jobs the proposed income tax cuts will generate and for good reason. The overwhelming body of evidence indicates that income tax cuts, whether personal or corporate, do not incentivize businesses to create jobs.<sup>27</sup>

The Blueprint implies that the answer to the state's fiscal dilemma is relatively simple and straight forward—rollback income tax rates to their pre-2011 levels—and watch businesses grow and create more jobs in the process. This populist appeal to rely on tax cuts to stimulate private sector growth is not credible. Indeed, the data clearly indicate that taking such an approach not only will not work, but would in all likelihood harm the state's economy.<sup>28</sup> According to researchers Noah Berger and Peter Fisher at the Economic Analysis and Research Network (**EARN**), “the preponderance of evidence has shown” that simply reducing business taxes—and paying for those tax reductions with service cuts—has been both “inefficient and ineffective at stimulating growth” in the long run.<sup>29</sup>

The Blueprint further avers that reducing the state's income tax rates, combined with other proposals outlined in the Blueprint, will “stop the economic death spiral and help Illinois grow again.”<sup>30</sup> The Blueprint cites no authority to support this contention. On the other hand, the Congressional Budget Office (**CBO**) found that federal tax policy—which is far more monetarily significant than state-level tax policy—plays a statistically inconsequential role in encouraging businesses to hire additional employees. The CBO found that private sector demand for a business's products or services is what really motivates a business to hire more workers.<sup>31</sup>

Additionally, research showing the lack of a meaningful correlation between individual and/or business income taxes on the one hand, and economic growth, hiring incentives or small business/entrepreneurial growth on the other, is abundant, compelling, and spans the ideological spectrum.<sup>32</sup> A literature review completed by the Institute of Public Policy at the Harry S. Truman School of Public Affairs at the University of Missouri found that, overall, “tax cuts do not stimulate economic growth and/or development in a state because the other side of the tax cut coin is cuts in public services.”<sup>33</sup> This conclusion was echoed during a recent joint hearing of the Illinois House State Government Administrative Committee and Revenue and Finance Committee by the Illinois Department of Commerce and Economic Opportunity, which testified that, “while incentives provide a critical set of tools for economic development, it is important to note that the core drivers for economic growth are investments in human capital, physical infrastructure, and technological innovation.”<sup>34</sup>

Next, the Blueprint makes the contention that if Illinois' population grew as fast as the national average, “tax collections would rise by an extra \$748 million per year.”<sup>35</sup> The Blueprint fails to specify how much of that would be income tax revenue versus sales tax revenue, and whether that is a combined state and local amount, or just state revenue. Of even more concern, there is no authority cited for this proposition in the Blueprint, so there is no way to evaluate the contention being made.<sup>36</sup> As with the Blueprint's discussion of tax revenue to be generated from theoretical and unspecified job growth, the Blueprint does not outline how these proposals will generate population growth in the state (although that would be interesting), nor any specific amount of population growth that the candidate's proposals would cause.

**Given that the Blueprint itself fails to identify any specific amount of job or population growth that will be created by candidate Rauner's proposals, all revenue estimates that it suggests can be associated with either job or population growth are purely theoretical and cannot be evaluated nor measured. They also cannot be used to offset the revenue loss which can be credibly quantified to flow from his proposed income tax cuts.**

Of more concern, even if jobs and population were to grow in Illinois at the theoretical rates that the Blueprint suggests, the net fiscal impact of the proposals in the Blueprint would still leave the state in worse fiscal condition than it is today. As noted previously, it is estimated that Illinois will have an accumulated General Fund deficit of **\$6.5 billion** at the end of FY2015. The Blueprint's proposal to roll back the income tax would cause the state to lose **\$7.8 billion** in income tax revenue annually. That means even if the state realizes the maximum amount of new revenue from the theoretical job and population growth the Blueprint identifies—a total of \$1.6 billion annually—and the state expands its sales tax base to include services, generating another \$603 million annually in new revenue, the sum total of new annual revenue would be



\$2.2 billion. Given that the annual revenue loss from the Blueprint's proposed income tax cuts is \$7.8 billion, that would still leave a net annual revenue loss to the General Fund of \$5.4 billion from FY2014 levels.<sup>37</sup> This in turn would worsen the state's deficit from its current level of **\$6.5 billion** to **\$10.9 billion**, or 44 percent of all current General Fund spending on services.

**Figure 5**  
**Projected FY2016 Blueprint Accumulated Deficit<sup>38</sup> (\$ in Billions)**

Category		FY2016
(i)	Projected Blueprint FY2016 Revenue (based on revenue loss from income tax cuts and revenue gains from job creation, population growth, and sales tax expansion)	\$31.3
(ii)	Projected FY2016 Hard Costs (including repayment of FY2015 borrowing from other state funds)	\$11.1
(iii)	Projected Deficit from FY2015	-\$6.5
(iv)	Projected Net FY2016 General Fund Revenue Available for Services	\$13.7
(v)	General Fund Service Appropriations (spending is kept at FY2015 levels)	\$24.5
(vi)	Estimated Minimum FY2016 General Fund Deficit	-\$10.9
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-44.2%

**The Blueprint claims that if its proposed fiscal policy changes are enacted, “Illinois will be able to grow our economy and completely roll back the... tax hike over four years”.<sup>39</sup> But as outlined above, the revenue generated from even the most optimistic economic growth suggested in the Blueprint would still fall far short of the revenue needed to continue funding services at the level currently provided to the citizens of Illinois.** As Rich Miller pointed out in the Capital Fax, the Blueprint wants to grow income tax revenue by nearly 67 percent over four years.<sup>40</sup> This is not a credible projection, give it would constitute an unprecedented and unattainable rate of revenue growth in Illinois. In fact, over the last fifteen years, personal income tax revenue growth has averaged 6.8 percent annually according to COGFA.<sup>41</sup> For the Blueprint's projections to materialize, revenue growth in Illinois—on average—would have to be nearly 2.5 times greater each year under a Rauner administration than it was during the past 15 years.

#### **4. Broadening the State's Sales Tax Base**

Sales taxes play a crucial public finance role for state fiscal systems. If properly designed, sales taxes provide a relatively stable source of state revenue. This is because consumer spending, which accounts for two-thirds of the nation's economy, remains fairly constant even during economic downturns.<sup>42</sup> Since sales taxes typically apply to what consumers purchase, a well-designed sales tax will continue producing revenue even when there is a recession.

The Blueprint proposes expanding the sales tax base in Illinois to include more services, to help recover some of the revenue loss from lowering the state's income tax rates. This is a good and needed proposal that would modernize the state's tax code while comporting with sound tax policy.<sup>43</sup> Illinois has a narrow sales tax base, meaning that the number of items it taxes is small. The main reason for this is the state sales tax applies primarily to the sale of goods; most services are exempt from Illinois sales tax. In fact, of the 168 categories of taxable service industries recognized by the Federation of Tax Administrators, Illinois taxes 17, while the national average is 56.<sup>44</sup>

Not including services significantly impedes the ability of the Illinois sales tax to perform its intended stabilizing function and creates a fiscal mismatch between the actual Illinois economy and the portion of the economy taxed to fund public services. While Illinois' economic base has shifted dramatically over the last five decades from goods to services, there has been no corresponding change in how Illinois taxes. In 1965, the sale of services accounted for 51 percent of Illinois' total economy, while the sale of goods accounted for 41 percent.<sup>45</sup> By 2012, the sale of services increased dramatically, to represent 72 percent of the state's economy, while the sale of goods dropped precipitously, losing more than half of its

value as a portion of the Illinois economy.<sup>46</sup> Put another way, today what Illinois does tax is only 17 percent of its economy, while what is not taxed is 72 percent.<sup>47</sup> The service sector is now the largest and fastest growing segment of the Illinois economy.

The Blueprint proposes expanding the sales tax to cover an additional 32 service industries including advertising, golf club membership, and travel agent services. The Blueprint estimates that this would increase General Fund revenue by \$603 million.<sup>48</sup> The sales tax expansion proposal in the Blueprint would help modernize the Illinois tax code and would help create a more stable revenue base for the state. This is a needed and sound fiscal policy initiative.

## 5. Eliminate Property Tax Increases without Taxpayer Approval

The last major fiscal proposal in the Blueprint does not involve state tax policy but instead covers local property taxes. The Blueprint's proposal calls for freezing property taxes across the state. Taxpayers would have to vote in favor of any increase in property taxes. It is unclear how this would work—either constitutionally in home rule areas or pragmatically at the local level.

From a pragmatic standpoint, this proposal is in all likelihood untenable. Consider that, the amount of property taxes a landowner pays is determined by a very simple formula:

$$R = \frac{L}{EAV}$$

Where the property tax rate (“**R**”) applied to a landowner’s property, is determined by dividing the levies made by all applicable local taxing authorities (“**L**”), by the equalized assessed value (“**EAV**”) of all local property in the area. For example, if the total property tax levy made by all local units of government in a given area is \$15 million, and the equalized assessed value of all property in that area is \$500 million, then the tax rate will be 3 percent (i.e. the total levy of \$15 million, divided by the total equalized assessed value of \$500 million, equals a rate of 3 percent). The taxpayer’s bill will then be that 3 percent rate multiplied by the equalized assessed value of the property he or she owns. However, if the assessed value of an individual’s home increases at a rate greater than his or her neighbors, then even if the overall property tax rate of 3 percent was held constant, that homeowner’s property tax bill would still grow, something that would technically be prohibited under the proposal outlined in the Blueprint. It is difficult to foresee all the implications that would flow from this initiative, other than a significant amount of litigation.

Obviously, the Blueprint’s proposal would inhibit a local municipality from increasing its levy for police and fire protection or a local school district from increasing its levy for education. Since inflation drives up the cost of providing public services virtually every year, if the property tax freeze outlined in the Blueprint became law, it would significantly constrain the ability of local communities to continue to provide current levels of public safety or to ensure their children receive a quality education.

## 6. Spending Cuts

The Blueprint does not identify any spending cuts to offset the significant General Fund deficit of **\$12.5 billion** resulting from the income tax cuts it proposes. In an earlier policy paper, entitled “Bring Back Blueprint: Government Reform and Cutting Waste” (“**Bring Back**”), candidate Rauner did propose a number of spending cuts. Collectively the spending cuts outlined in Bring Back were supposed to save Illinois \$983 million annually.<sup>49</sup> However, an analysis of those proposed cuts reveals that the actual General Fund savings therefrom would be significantly lower than what is estimated in Bring Back. As shown in Figure 6, said spending cut proposals include a number of items that either have already been reduced or eliminated, or are not part of the General Fund budget, or are one-time, past expenditures that do not impact future budgets, or require changes to the Illinois Constitution that would not be realized until a constitutional amendment was passed, which could take years.



**Figure 6**  
**Savings from Spending Cuts;**  
**Bring Back Proposals and CTBA Analysis**

Proposal	Bring Back Estimate	CTBA Analysis	Reason For Difference
<b>Wasteful Spending</b>	\$140,000,000	\$59,926,000	A number of items are not line items in the General Fund (e.g. Fitness Center, Racetrack, lost/stolen items). The savings from overtime are overstated because additional correctional officers would have to be hired to make up for the hours no longer covered by overtime. There is not savings for eliminating unused cars since the vehicles have already been purchased there is no ongoing purchase cost in the budget.
<b>Executive Shuttle</b>	\$5,000,000	\$5,000,000	
<b>Executive Shuttle (one time savings)</b>	\$5,000,000	\$5,000,000	
<b>Political Slush Funds</b>	\$29,000,000	\$29,000,000	
<b>No Salary</b>	\$177,412	\$177,412	
<b>Defined Contribution</b>	\$2,000,000	\$2,000,000	This would only affect new hires, thus the savings may be overstated.
<b>Cut in Constitutional Offices</b>	\$40,000,000	\$0	This would require a change to the Illinois Constitution and savings would not occur for a number of years if it did indeed passed.
<b>Merge Comptroller &amp; Treasurer</b>	\$12,000,000	\$0	This would require a change to the Illinois Constitution and savings would not occur for a number of years if it did indeed passed.
<b>Reform Central Management Services<sup>50</sup></b>	\$500,000,000	\$0	All of the savings would not come the General Fund.
<b>Medicaid Verification Reform</b>	\$250,000,000	\$0	The state passed the SMART Act (Public Act 97-689) which will recuperate these savings.
<b>TOTAL</b>	<b>\$983,177,412</b>	<b>\$101,103,412</b>	

## 7. CTBA Analysis of All Fiscal Policy Proposals

After taking into account both the tax policies proposed in the Blueprint and the spending cut proposals in Bring Back, the state would still be left with a **\$12.4 billion** General Fund budget hole in FY2016, as illustrated in Figure 7. It should be pointed out that the revenue estimate in Figure 7 does not include revenue attributable to job creation or population growth generated from cutting the income tax rates, because as previously stated, any new revenue associated therewith is included in the Blueprint on a purely theoretical basis.

**Figure 7**  
**CTBA Estimate of FY2016 Accumulated Deficit**  
**(\$ in Billions)<sup>51</sup>**

Category		FY2016
(i)	Projected FY2016 Revenue under the Blueprint	\$29.7
(ii)	Projected FY2016 Hard Costs (including repayment of borrowing from other state funds)	\$11.1
(iii)	Projected Deficit Carry Forward from FY2015	-\$6.5
(iv)	Projected Net FY2016 General Fund Revenue Available for Services	\$12.1
(v)	General Fund Service Appropriations	\$24.4
(vi)	Estimated Minimum FY2016 General Fund Deficit	-\$12.4
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-50.6%

The Blueprint's tax policies and spending cut proposals simply do not add up. Indeed, under the plans outlined in the Blueprint the state's accumulated General Fund deficit would balloon from **\$6.5 billion** in FY2015 to **\$12.4 billion** in FY2016—an increase of \$5.9 billion. The Blueprint's proposals are not budget neutral, either revenue would have to be increased through both additional fees and taxes or over \$5.9 billion in current spending would have to be cut just to avoid increasing the accumulated deficit.

## 8. Conclusion

Candidate Bruce Rauner's "Bring Back Blueprint: Jobs and Growth Agenda" offers a number of tax policy proposals, some of which, like the expansion of the sales tax base, would improve Illinois' fiscal system by providing a more stable revenue base. However, proposals like reducing the income tax rates and freezing property taxes would greatly reduce local and state revenue making it difficult to maintain the level of public services currently provided to Illinois citizens. At the state level alone, the proposals outlined in the Blueprint would create a net revenue loss to the state's General Fund of about **\$7 billion**.

The spending cuts outlined in the Blueprint and in Bring Back do not come anywhere close to balancing the budget. After taking into account all of those spending cut proposals, the Illinois budget would be **\$5.9 billion** short in FY2016, and that is before factoring in the projected accumulated deficit for FY2015 of **\$6.5 billion**, which would increase the total accumulated deficit to **\$12.4 billion**. The Blueprint presents no data, plan, or policy proposal that could credibly balance the budget. In short, something has to give with the Blueprint's proposals: either core services like education, healthcare, human services, and public safety have to be reduced by at least **\$5.9 billion** annually; or more revenue, most likely through increased or additional taxes, is needed. As currently proposed, the Blueprint simply does not add up.

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*Readers of this Issue Brief may also be interested in CTBA's analysis of the FY2015 budget that passed into law ([available here](#)) or an analysis of Governor Pat Quinn's proposed FY2015 budget, which is also available [online](#).*

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## ENDNOTES

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- <sup>1</sup> Center for Tax and Budget Accountability, *The High Cost of Doing Nothing* (Chicago: July 2014), [http://ctbaonline.org/sites/default/files/reports/ctbaonline.org/file/ajax/field\\_report\\_file/und/form-nA1pL5l8IU1Drc5OmrC4tcyQnrsAjTkGUeN6O8dYRp0/1406230883/FS\\_2015.07\\_The%20High%20Cost%20of%20Doing%20Nothing\\_FY2015%20Budget.pdf](http://ctbaonline.org/sites/default/files/reports/ctbaonline.org/file/ajax/field_report_file/und/form-nA1pL5l8IU1Drc5OmrC4tcyQnrsAjTkGUeN6O8dYRp0/1406230883/FS_2015.07_The%20High%20Cost%20of%20Doing%20Nothing_FY2015%20Budget.pdf).
- <sup>2</sup> Dye, Richard F. "Making the 2011 Tax Increase Permanent", *The Illinois Budget Policy Toolbox* (February 18, 2014). [http://igpa.uillinois.edu/sites/igpa.uillinois.edu/files/toolbox-budget/files/Dye-Keeping-the-Tax-Increase\\_web.pdf](http://igpa.uillinois.edu/sites/igpa.uillinois.edu/files/toolbox-budget/files/Dye-Keeping-the-Tax-Increase_web.pdf)
- <sup>3</sup> CTBA analysis using COGFA's income tax projections for FY2016 from COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12. FY2014 revenue from COGFA, Monthly Briefing for the Month Ended April 2014 (Springfield, IL: April 2014).
- <sup>4</sup> "Bring Back Blueprint: Jobs and Growth Agenda", (July 17, 2014), 7. <http://brucerauner.com/wp-content/uploads/2014/07/bring-back-blueprint-jobs-and-growth.pdf>
- <sup>5</sup> Michael Leachman, Michael Mazerov, Vincent Palacios, and Chris Mai, *State Personal Income Tax Cuts: A Poor Strategy for Economic Growth*, The Center on Budget and Policy Priorities, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3936>
- <sup>6</sup> Judith Stallman, David Valentine, and Andrew Wesemann, *Policy Brief: Public Expenditures and Economic Growth* (Columbia, MO: University of Missouri, Institute of Public Policy, Harry S. Truman School of Public Affairs, August 2013), 4.
- <sup>7</sup> Hinz, Greg. "Unemployment costs Illinois \$2 billion a year in lost tax revenue, University of Illinois study estimates", *Crain's Chicago Business*, (March 29, 2010). <http://www.chicagobusiness.com/article/20100327/ISSUE01/100033178/unemployment-costs-illinois-2-billion-a-year-in-lost-tax-revenue-university-of-illinois-study-estimates>
- <sup>8</sup> CTBA estimate using COGFA's General Fund revenue estimate, adjusted for income tax losses and sales tax gains under the Blueprint proposal. Sources: COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12; and FY2015 revenue from HR 1157 of the 98<sup>th</sup> General Assembly. Figure excludes revenue generated from job growth and/or population growth. Although the Blueprint states job growth would generate increased revenue the document does not, however, provide any specific number of new jobs that would be created by implementing the income tax cuts it sets forth.
- <sup>9</sup> Estimate uses projected hard costs and assumes that spending on services will be the same (\$24.5 billion) in FY2016 as FY2015. Hard costs in FY2016 are estimated to be \$373 million more than FY2015. FY2016 hard costs are from GOMB, *Fiscal Year 2015 5 Year Blueprint Not Recommended* (Springfield, IL: March 2014) plus \$650 million. The \$650 million is money being borrowed from non-General Funds in FY2015 that will have to be paid back.
- <sup>10</sup> Numbers do not add up due to rounding.
- <sup>11</sup> "Bring Back Blueprint: Jobs and Growth Agenda", 7.
- <sup>12</sup> Center for Tax and Budget Accountability, *The High Cost of Doing Nothing* (Chicago: July 2014).
- <sup>13</sup> CTBA analysis using COGFA's income tax projections for FY2016 from COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12. FY2014 revenue from COGFA, Monthly Briefing for the Month Ended April 2014 (Springfield, IL: April 2014).
- <sup>14</sup> Leachman, Mazerov, Palacios, and Mai, *State Personal Income Tax Cuts: A Poor Strategy for Economic Growth*, The Center on Budget and Policy Priorities, 1.
- <sup>15</sup> Leachman, Mazerov, Palacios, and Mai, *State Personal Income Tax Cuts: A Poor Strategy for Economic Growth*, The Center on Budget and Policy Priorities, 3.
- <sup>16</sup> Leachman, Mazerov, Palacios, and Mai, *State Personal Income Tax Cuts: A Poor Strategy for Economic Growth*, The Center on Budget and Policy Priorities, 1.
- <sup>17</sup> Editorial, "Kansas' Ruinous Tax Cuts", *New York Times*, July 14, 2014, A16.
- <sup>18</sup> Editorial, "Kansas' Ruinous Tax Cuts", *New York Times*, July 14, 2014, A16.
- <sup>19</sup> Barro, Josh. "Yes, if You Cut Taxes, You Get Less Tax Revenue", *The New York Times*, June 27, 2014, [http://www.nytimes.com/2014/06/29/upshot/kansas-tax-cut-leaves-brownback-with-less-money.html?\\_r=0](http://www.nytimes.com/2014/06/29/upshot/kansas-tax-cut-leaves-brownback-with-less-money.html?_r=0)
- <sup>20</sup> "Bring Back Blueprint: Jobs and Growth Agenda", 7.

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<sup>21</sup> Center for Tax and Budget Accountability, “The Illinois State Budget and Tax Primer”, March, 2013, 47, [http://ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1384883277/R\\_2013.03\\_FINAL\\_FY2013%20CTBA%20IL%20Budget%20and%20Tax%20Primer.pdf](http://ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1384883277/R_2013.03_FINAL_FY2013%20CTBA%20IL%20Budget%20and%20Tax%20Primer.pdf)

<sup>22</sup> CTBA compared the highest tax rate of each state to Illinois’ flat, 5 percent rate on all income. Most states have a graduated income tax, and every state analyzed with a graduated rate has a lowest tax rate is 5 percent or less (with the exception of Minnesota). Seven states have no income tax and two states only tax dividend and interest income.

<sup>23</sup> The FTA has the 2011 rankings for total state and local tax burden. However, the temporarily income tax rates in Illinois took effect midway through FY2011, and therefore data from that year only captures part of the impact of those temporarily increased rates.

<sup>24</sup> Estimate for Illinois state and local tax burden percentage and rank estimated by the Center for Tax and Budget Accountability using inflation adjusted FY2013 total new net revenue from tax increases as reported in COGFA, *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update* (Springfield, IL: March 12, 2013), 29.

<sup>25</sup> This figure is based on income tax revenue loss and the estimated FY2015 accumulated deficit, and it does not include the impact of FY2016 Hard Costs, which will be more than the FY2015 Hard Costs.

<sup>26</sup> Hinz, “Unemployment costs Illinois \$2 billion a year in lost tax revenue, University of Illinois study estimates”, *Crain’s Chicago Business*.

<sup>27</sup> Michael Mazerov, *Cutting Personal Income Taxes Won’t Help Small Businesses Create Jobs and May Harm State Economies* (Washington, DC: Center on Budget and Policy Priorities, February 19, 2013)

Douglas Elmendorf, Director, Congressional Budget Office, “Policies for Increasing Economic Growth and Employment in 2012, and 2013,” Testimony to the Senate Budget Committee, November 15, 2011

<sup>28</sup> Michael Mazerov, *Academic Research Lacks Consensus on the Impact of State Tax Cuts on Economic Growth: A Reply to the Tax Foundation* (Washington, DC: June 17, 2013).

<sup>29</sup> Noah Berger and Peter Fisher, *A Well-Educated Workforce is Key to State Prosperity*, (Washington, DC: Economic Policy Institute, August 22, 2013).

<sup>30</sup> “Bring Back Blueprint: Jobs and Growth Agenda”, 5.

<sup>31</sup> Douglas Elmendorf, Director, Congressional Budget Office, “Policies for Increasing Economic Growth and Employment in 2012, and 2013,” Testimony to the Senate Budget Committee, November 15, 2011; This CBO report illustrates that reducing taxes on business income would only have a very small effect on employment and any short term growth from such policies may be offset in the long term.

<sup>32</sup> Thomas A. Garrett and Howard J. Wall, *Creating a Policy Environment for Entrepreneurs*, (Washington, DC: Cato Journal, Fall 2006); Michael Mazerov, *Cutting Personal Income Taxes Won’t Help Small Businesses Create Jobs and May Harm State Economies* (Washington, DC: Center on Budget and Policy Priorities, February 19, 2013), 1; Douglas Elmendorf, Director, Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2012, and 2013, Testimony to the Senate Budget Committee*, (Washington, DC: November 15, 2011); Matthew Knittel, Susan Nelson, Jason DeBacker, John Kitchen, James Pearce, and Richard Prisinzano, *Methodology to Identify Small Businesses and Their Owners*, (Office of Tax Analysis, U.S. Department of Treasury: August 2011); Yasuyuki Motoyama and Brian Danley, *An Analysis of the Geography of Entrepreneurship: Understanding the Geographic Trends of Inc. 500 Companies Over Thirty Years at the State and Metropolitan Levels* (Kansas City, MO: Ewing Marion Kauffman Foundation, September 2012).

<sup>33</sup> Judith Stallman, David Valentine, and Andrew Wesemann, *Policy Brief: Public Expenditures and Economic Growth* (Columbia, MO: University of Missouri, Institute of Public Policy, Harry S. Truman School of Public Affairs, August 2013), 4.

<sup>34</sup> Illinois Department of Commerce and Economic Opportunity, *State Business Incentives: A Comparative Analysis* (Springfield, IL: February 4, 2014).

<sup>35</sup> “Bring Back Blueprint: Jobs and Growth Agenda”, 6.

<sup>36</sup> CTBA has reached out to the Rauner campaign for further clarification on this topic and what sources the campaign used via e-mail and phone call. As of September 4, 2014, the campaign has yet to return CTBA’s call.

<sup>37</sup> CTBA estimate using COGFA’s General Fund revenue estimate, adjusted for income tax losses, revenue from job creation and population growth, and sales tax gains under the Blueprint proposal. FY2016 revenue is compared to FY2014 revenue. Sources: COGFA, *3-Year Budget Forecast FY2015-FY2017* (Springfield, IL: March 2014), 12; and FY2014 revenue from COGFA, *Monthly Briefing for the Month Ended April 2014* (Springfield, IL: April 2014).

<sup>38</sup> Numbers do not add up due to rounding.

<sup>39</sup> “Bring Back Blueprint: Jobs and Growth Agenda”, 7.

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<sup>40</sup> Miller, Rich. "Taxes; Libertarians; Audit", Capital Fax, July 18, 2014.

<sup>41</sup> Commission on Government Forecasting and Accountability, "3-Year Budget Forecast FY 2015 – FY 2017", March, 2014, 2, <http://cgfa.ilga.gov/upload/2014threeyearbudgetforecastfy2015-fy%202017.pdf>

<sup>42</sup> Michael Mazerov, *Expanding the Sales Taxation of Services: Options and Issues* (Washington, DC: Center for Budget and Policy Priorities, July 2009).

<sup>43</sup> Hugh Stretton, *Economics: a New Introduction* (London: Pluto Press, 1999), 623.

<sup>44</sup> Federation of Tax Administrators. "Survey of Services Taxation." July 2008. <http://www.taxadmin.org/fta/pub/services/btn/0708.html>

<sup>45</sup> Source: Bureau of Economic Analysis, Gross Domestic Product by State comparing Private goods-producing industries and Private services-providing industries. For 2000-2012, the Bureau of Economic Analysis classified industries into the Private goods-producing industries and Private services-providing industries categories, but for 1963-1999, CTBA classified industries into those categories. CTBA's Classification based on BEA definition of private good-producing industries and private services-producing industries. See page 9 of Industry Economic Accounts: Results of the Comprehensive Revision Revised Statistics for 1997-2012 (Feb 2014), [http://www.bea.gov/scb/pdf/2014/02%20February/0214\\_industry%20economic%20accounts.pdf](http://www.bea.gov/scb/pdf/2014/02%20February/0214_industry%20economic%20accounts.pdf)

<sup>46</sup> Bureau of Economic Analysis, Gross Domestic Product by State comparing Private goods-producing industries and Private services-providing industries. For 2000-2012, the Bureau of Economic Analysis classified industries into the Private goods-producing industries and Private services-providing industries categories, but for 1963-1999, CTBA classified industries into those categories. CTBA's Classification based on BEA definition of private good-producing industries and private services-producing industries. See page 9 of Industry Economic Accounts: Results of the Comprehensive Revision Revised Statistics for 1997-2012 (Feb 2014), [http://www.bea.gov/scb/pdf/2014/02%20February/0214\\_industry%20economic%20accounts.pdf](http://www.bea.gov/scb/pdf/2014/02%20February/0214_industry%20economic%20accounts.pdf)

<sup>47</sup> Some academics argue that it is precisely because services have not been taxed that allowed that sector of the economy to grow so rapidly. That theory, however, is beyond the scope of this report, and regardless, services now make-up 72 percent of Illinois' GDP.

<sup>48</sup> "Bring Back Blueprint: Jobs and Growth Agenda", 8-9. The Blueprint appears to have been updated after it was publically released. In the update, the golf membership fees proposal was added to the list of services that would be subject to the sales tax, increasing the revenue projection from \$577 million to \$603 million. CTBA is using the \$603 million figure as it appears to be the most recent version of the Blueprint.

<sup>49</sup> CTBA analysis of "Bring Back Blueprint: Government Reform and Cutting Waste", (June, 2014). [http://brucerauner.com/wp-content/uploads/2014/06/blueprint\\_part1\\_print1.pdf](http://brucerauner.com/wp-content/uploads/2014/06/blueprint_part1_print1.pdf)

<sup>50</sup> CTBA has reached out to the Rauner campaign for further clarification on this topic and where specifically the savings would come from, however, as of September 4, the campaign has yet to return CTBA's call.

<sup>51</sup> Numbers do not add up due to rounding.