

**CTBA**

Center for Tax and  
Budget Accountability

70 East Lake Street  
Suite 1700  
Chicago, IL 60601  
[www.ctbaonline.org](http://www.ctbaonline.org)

# *Illinois Fiscal Forum* *Truth or Consequences*

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**Wednesday, January 21, 2015**  
**Union League Club of Chicago**  
**Crystal Room – 65 W. Jackson Blvd.**  
**Chicago, Illinois**

Presented by:  
Ralph M. Martire, Executive Director



# The Illinois General Fund—Roughly \$35 B

3

<b>Has Two Primary Elements:</b>		
<b>(i)</b>	<b>Hard Costs—No Discretion ( Approx. \$11 B)</b>	<b>Approx. % of Total</b>
	Debt Service	26%
	Pension Contributions	56%
	Statutory Transfers Out	18%
<b>(ii)</b>	<b>Current Service Expenditures—Discretion Varies (Approx. \$24 B)</b>	
	Education (PreK, K-12, Higher-Ed)	35%
	Healthcare	30%
	Human Services	21%
	Public Safety	5%
		91%
	+Group Health	5%
	+Everything Else	4%
		100%

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

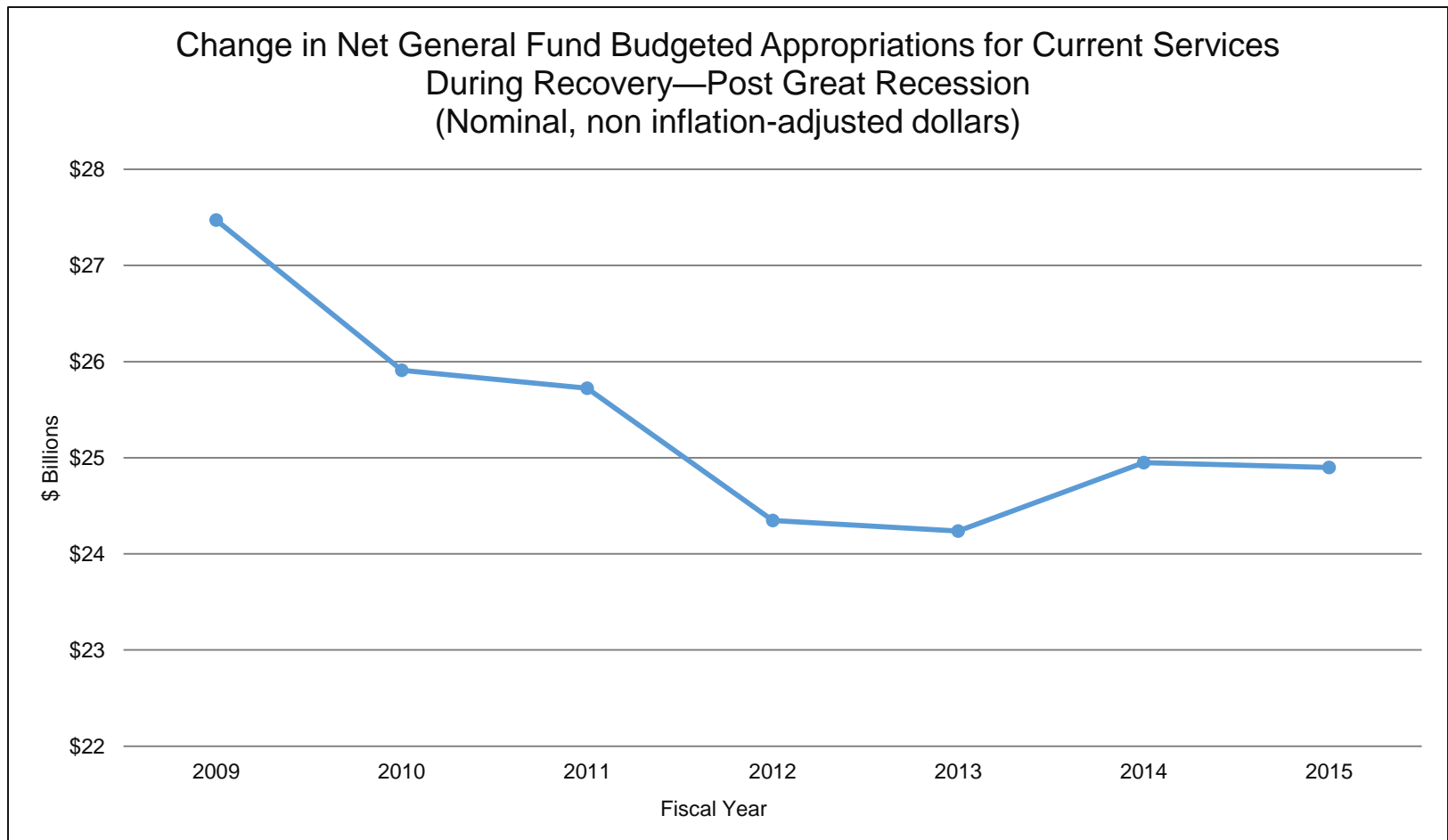
4

Category		Appropriation
<b>(i)</b>	<b>Total General Fund Appropriation</b>	<b>\$35.68</b>
<b>(ii)</b>	<b>Total Hard Costs</b>	<b>\$10.76</b>
	Debt Service (Pension & Capital Bonds)	\$2.22
	Statutory Transfers Out	\$2.38
	Pension Contributions	\$6.16
<b>(iv)</b>	<b>General Fund Service Appropriations (Gross)</b>	<b>\$25.25</b>
	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
<b>(v)</b>	<b>“Unspent Appropriations”</b>	<b>\$0.33</b>
<b>(vi)</b>	<b>Net General Fund Service Appropriations</b>	<b>\$24.92</b>

\*\$600 M \*

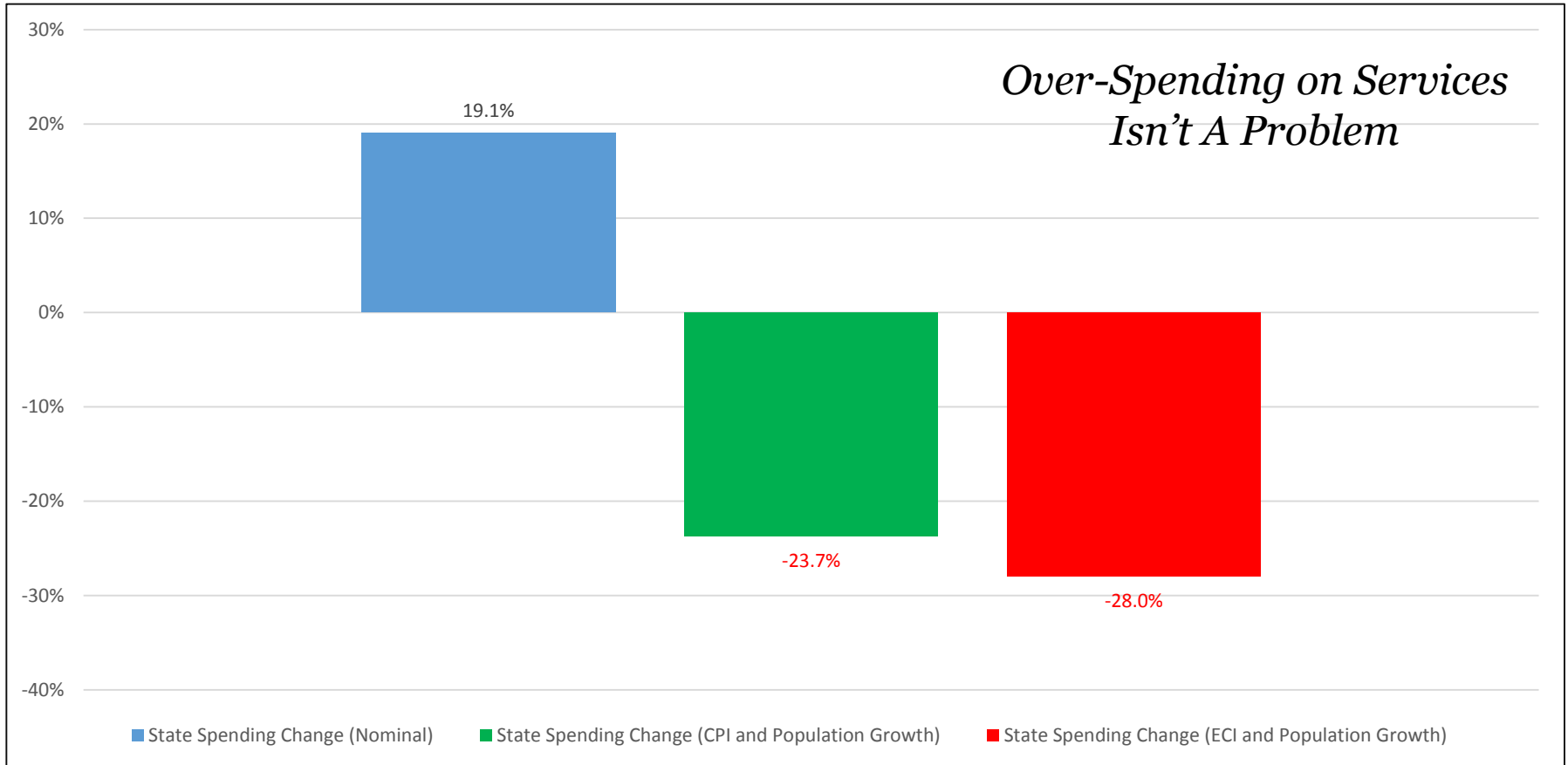
# Change in Net General Fund Budgeted Appropriations

5



# FY2015 General Fund Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)

6



Sources: House Bills 6093, 6094, 6095, 6096, and 6097 of the 98<sup>th</sup> 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.

## FY2015 General Fund Service Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)

7

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%
<b>Total Spending (Gross)</b>	<b>\$19.72</b>	<b>\$23.68</b>	<b>\$32.60</b>	<b>(\$8.92)</b>	<b>-27.4%</b>

- FY2015 appropriation for K-12 Education excludes \$200 million from the Fund for Advancement of Education that is appropriated for General State Aid. The Illinois State Board of Education includes that \$200 million in its FY2015 General Fund budget report.

# Compared to the Rest of the Nation, Illinois is a Very Low Spending and Small Government State

8

Consider that:

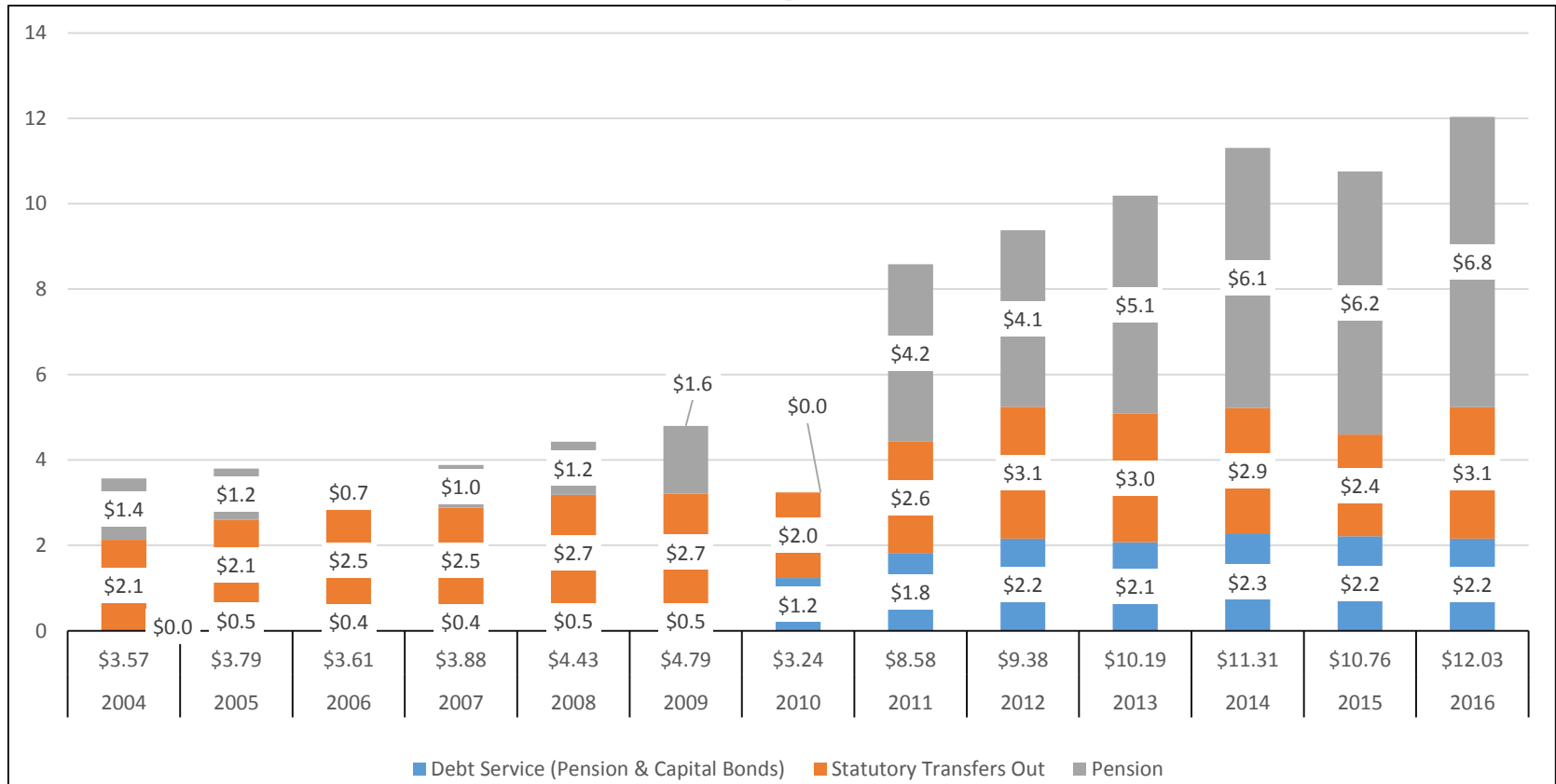
- In calendar year 2012, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 12<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2012 Illinois ranked 28<sup>th</sup> in General Fund spending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



# Hard Costs (Appropriations/Budgeted Figures)

9

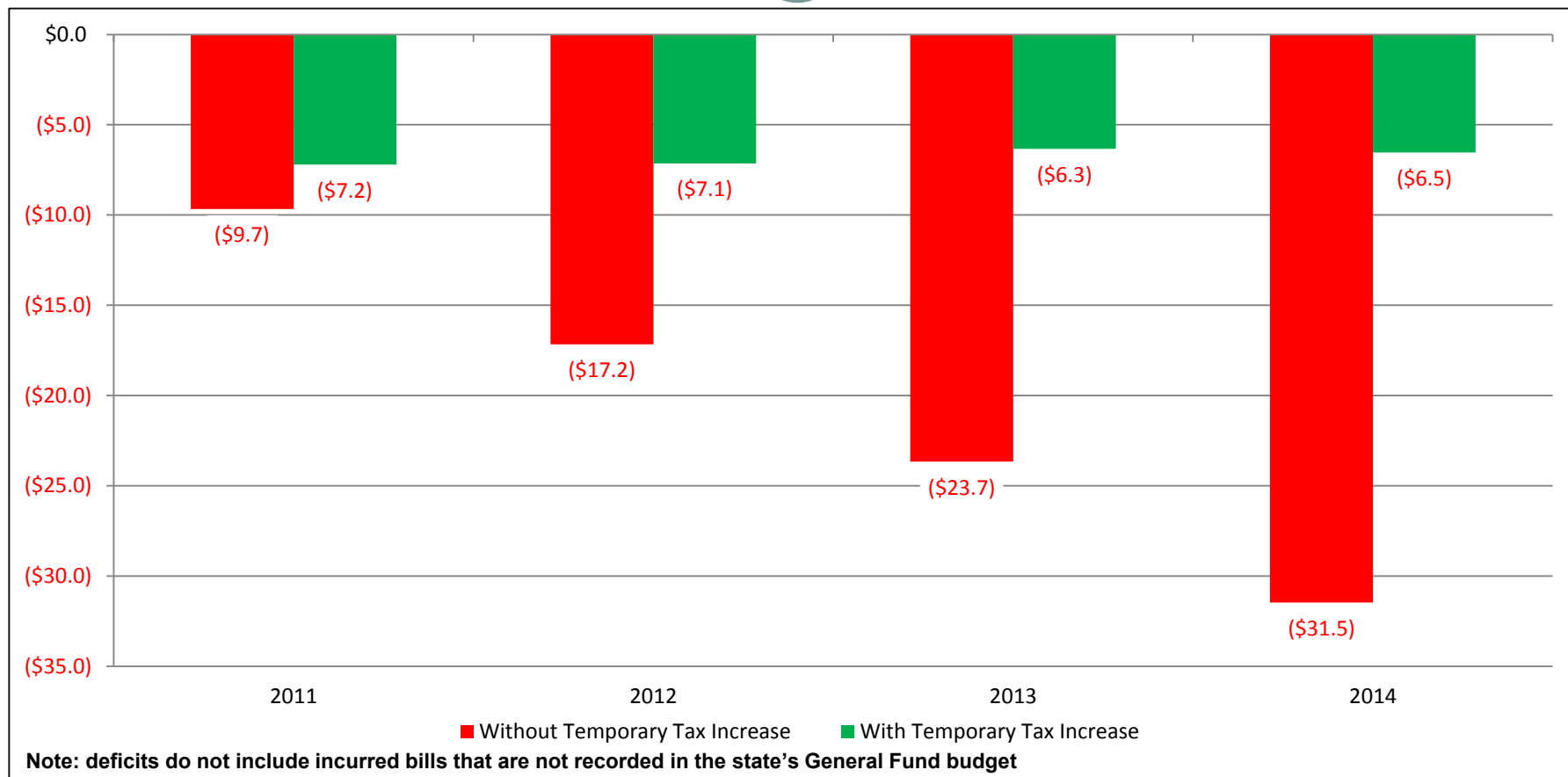


Notes:

- 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

# Impact of the Temporary Tax Increase on the Accumulated Deficit

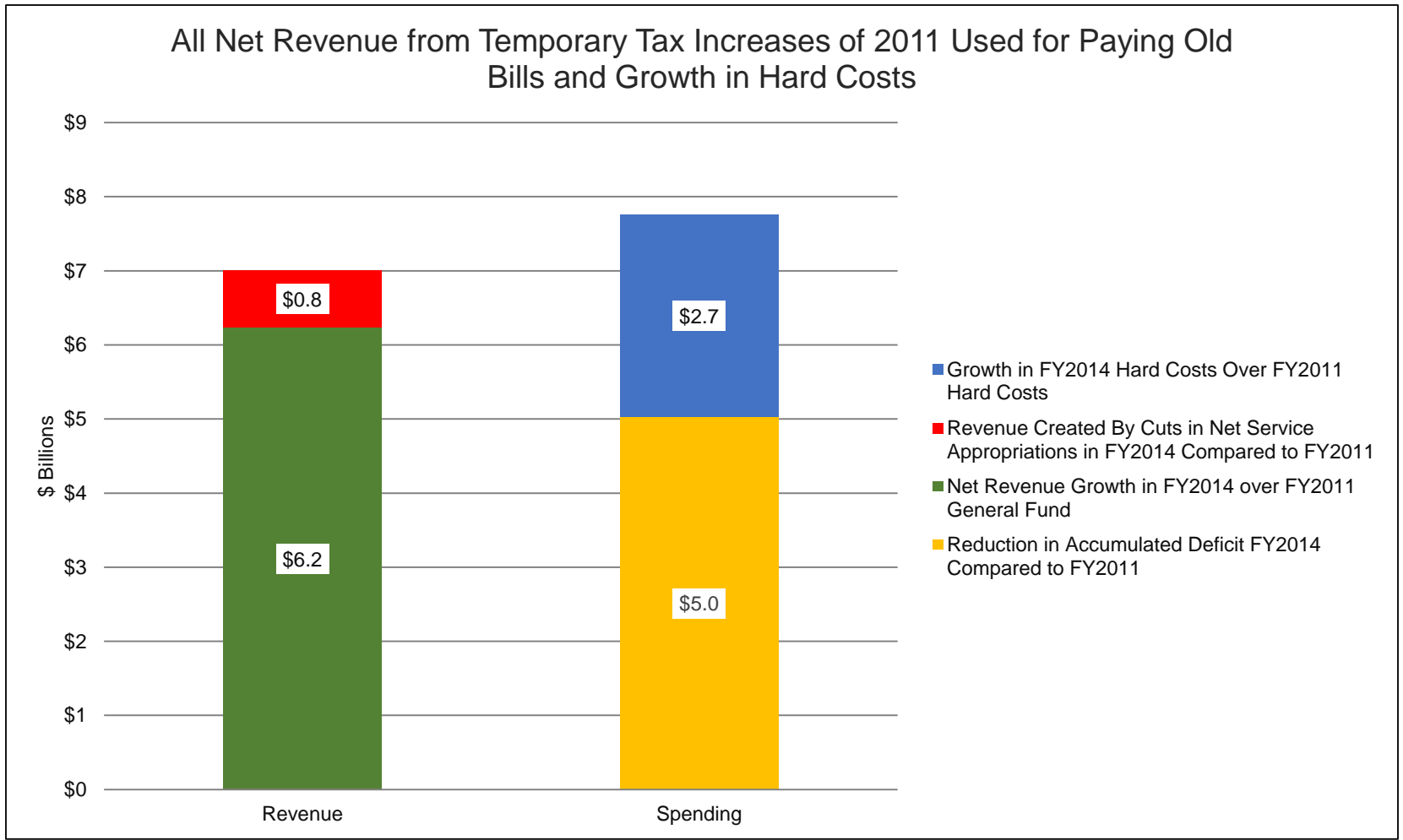
10



Sources: FY2011 actual spending from GOMB, *Illinois State Budget: Fiscal Year* (Springfield, IL: Feb 22, 2012), CH 2-18; FY2012 actual spending from GOMB, *Illinois State Budget: Fiscal Year 2014* (Springfield, IL: March 6, 2013), CH 2-16; FY2013 actual spending from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 20134, CH 2-16; actual revenue for FY2011-FY2013 from COGFA, *State of Illinois Budget Summary: Fiscal Year 2014* (Springfield, IL: August 1, 2013), 50; estimated FY2014 revenue from COGFA, *Monthly Briefing for the Month Ended: April 2014* (Springfield, IL: April 2014); FY2014 spending includes supplemental appropriations. FY2011 deficit calculated using carry forward deficit from FY2010 using Section 25 liabilities and deficits in "Defining a Balanced Budget" reported by the Comptroller, as of June 6, 2014

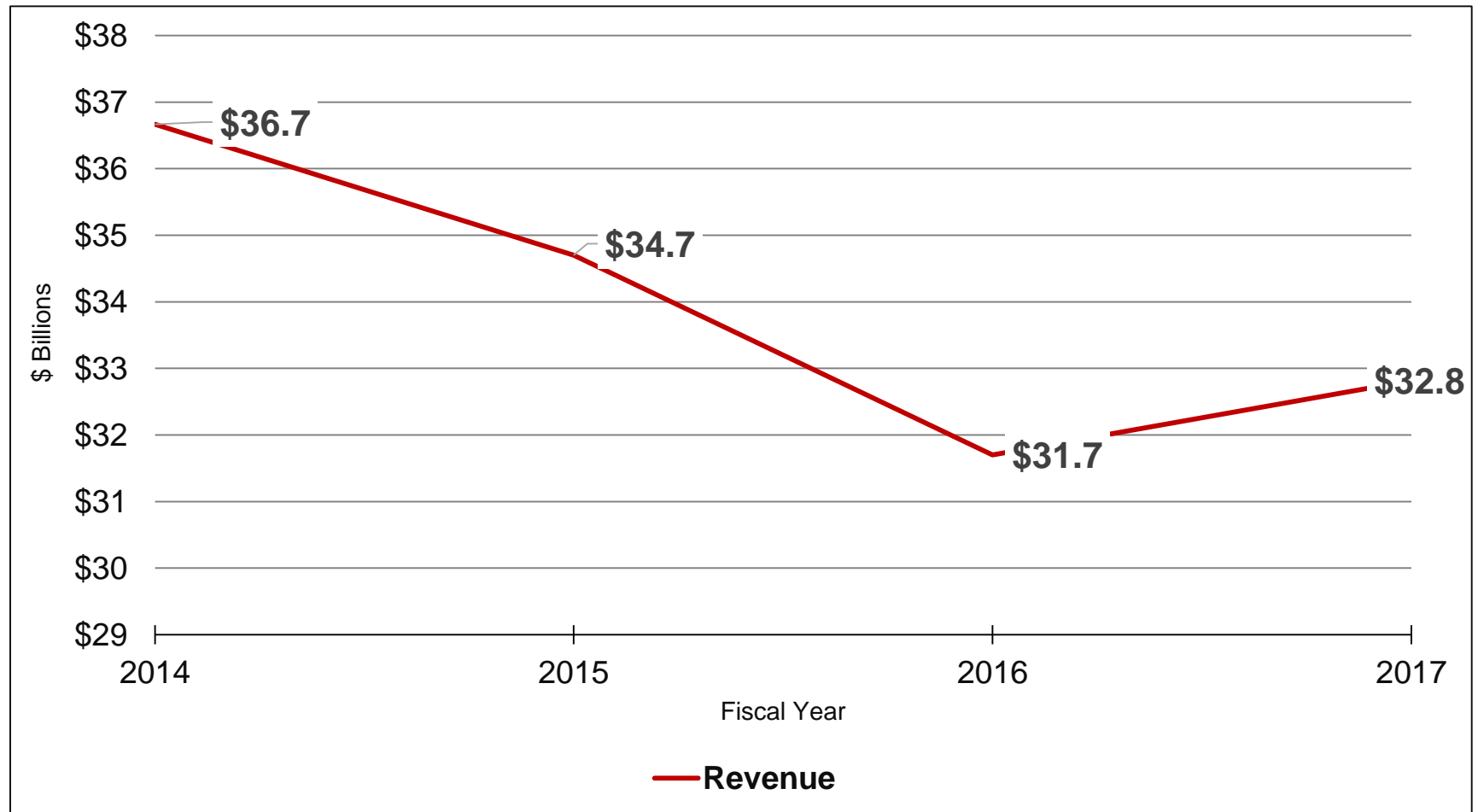
# Temporary Tax Increase

All Net Revenue from Temporary Tax Increases of 2011 Used for Paying Old Bills and Growth in Hard Costs



# Temporary Tax Increases Phase Down: Illinois' Fiscal Cliff

12



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

# FY2014, FY2015 and FY2016 General Fund Comparison (\$ Millions)

13

	FY2014	FY2015 (Enacted)	FY2016 (Projected)
<b>Revenue</b>			
Total Recurring General Fund Revenue	\$36,718	\$34,702	\$31,710
One-time, Non-recurring Revenue	\$0	\$650	\$0
<b>Total Revenue</b>	<b>\$36,718</b>	<b>\$35,352</b>	<b>\$31,710</b>
<b>Spending</b>			
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
<b>Carry Forward Deficit from Prior Fiscal Year</b>			
	(\$6,336)	(\$6,478)	(\$6,800)
<b>Projected Fiscal Year-End Deficit</b>			
	(\$6,478)	(\$6,800)	(\$12,690)

# The Net Result:

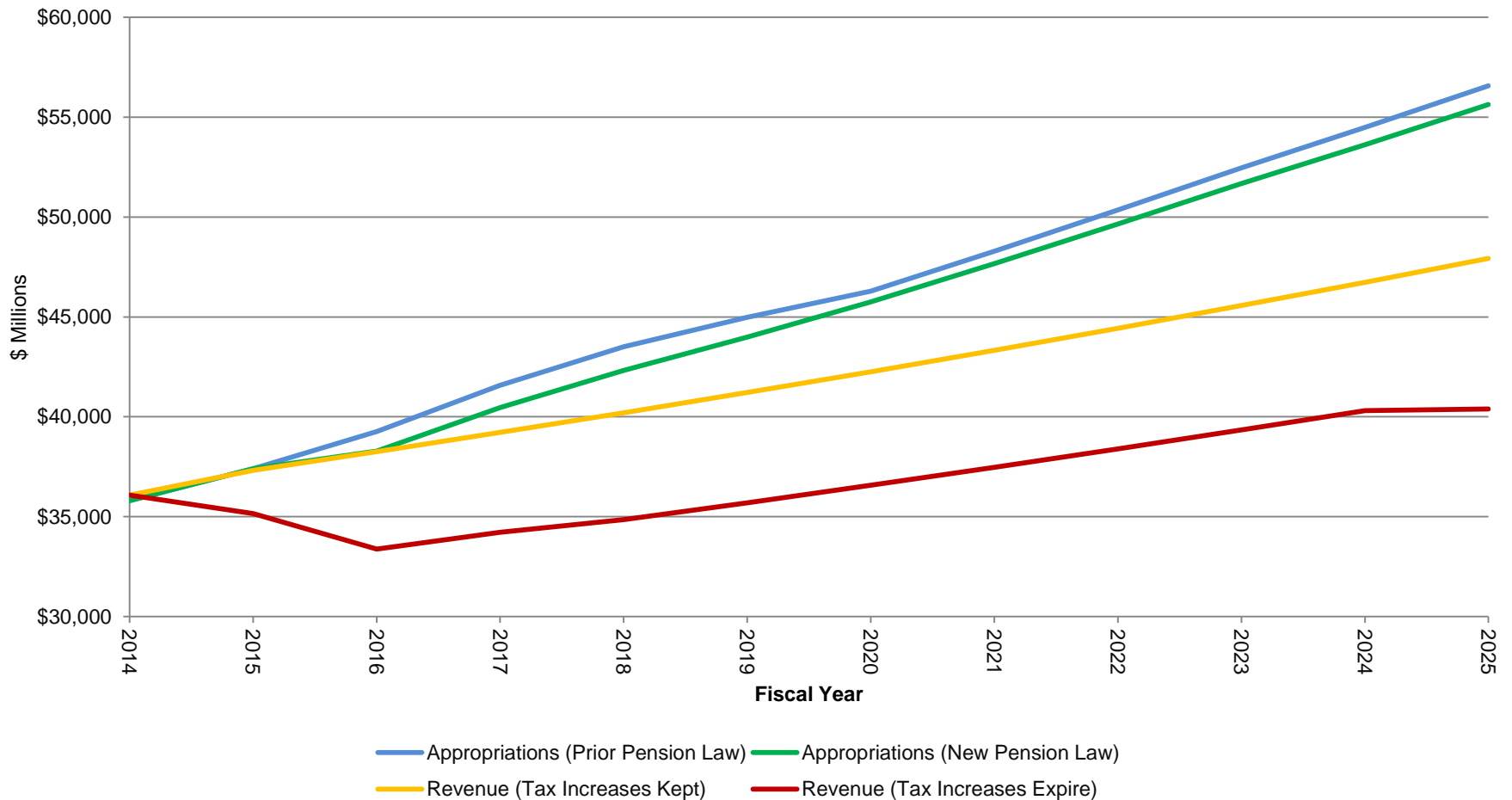
14

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%

# Going Forward: Illinois Still Has a Structural Deficit

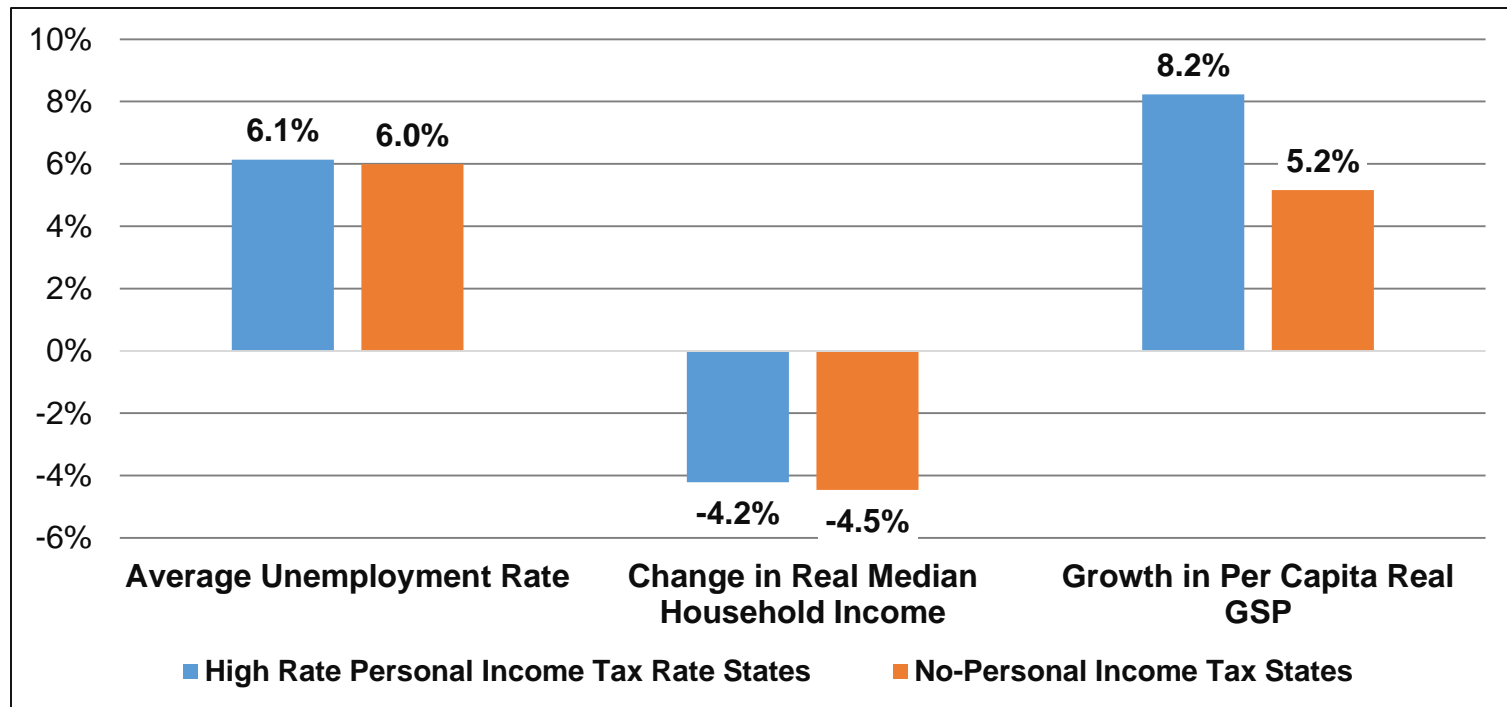
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# And Increasing Taxes the Right Way Won't Hurt the Economy

16

## 2002-2011 Comparison: 9 States with Highest Graduated Income Tax Rate vs. 9 States with No Income Tax



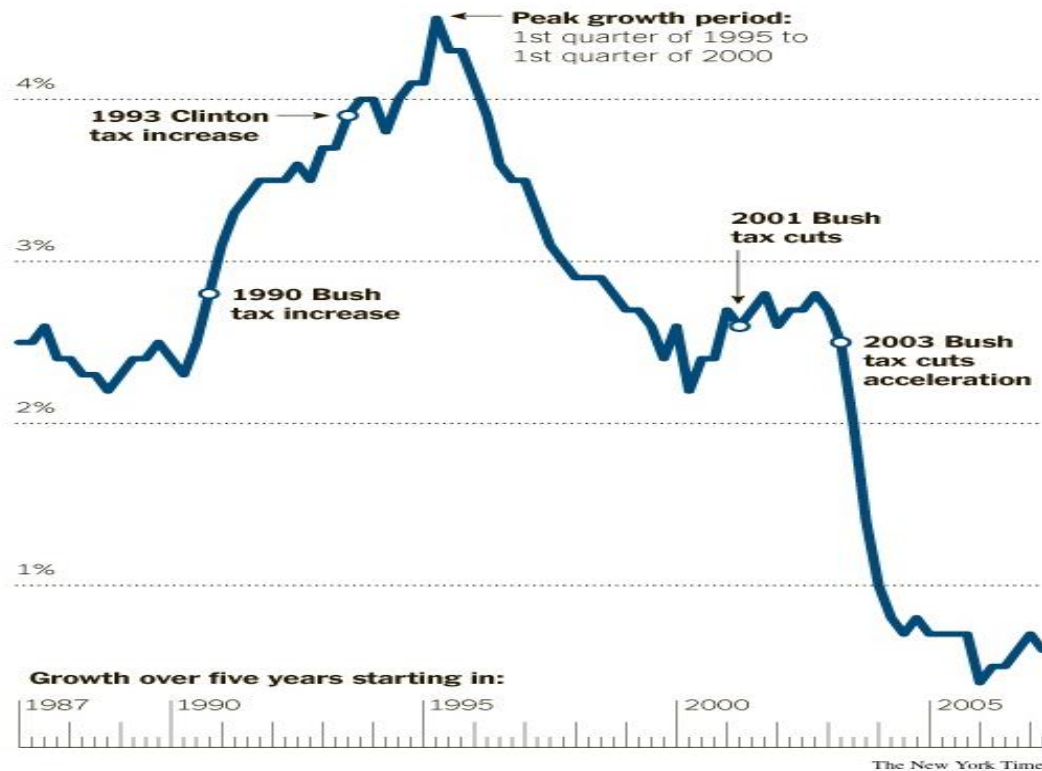
Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2,3 & 4



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

17

## Economic Growth Rates Following Periods of Tax Increases and Tax Cuts



Source: Bureau of Economic Analysis, via Haver Analytics

Henry Blodget, Bombshell: New Study Destroys Theory That Tax Cuts Spur Growth, September 21, 2012 <http://www.businessinsider.com/study-tax-cuts-dont-lead-to-growth-2012-9>

# For More Information

18



Ralph M. Martire  
Executive Director  
(312) 332-1049  
[rmartire@ctbaonline.org](mailto:rmartire@ctbaonline.org)

Website: [www.ctbaonline.org](http://www.ctbaonline.org)