CTBA | Center for Tax and Budget Accountability

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FY2015 Budget Proposals In Context

Tuesday, April 8, 2014
NASW-IL Advocacy Day
Prairie Capital Convention Center
Springfield, Illinois

Presented by:
Ralph M. Martire, Executive Director

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FY2014 Enacted General Fund Appropriations as Passed by the 98th General Assembly ($ Millions)

Category		Appropriation
(i)	**Total General Fund Appropriation for Capped Items (Net)**	**$35,696**
(ii)	**Total Hard Costs**	**$11,123**
	Debt Service (Pension & Capital Bonds)	$2,182
	Statutory Transfers Out	$2,878
	Pension Contributions	$6,063
(iii)	**Repayment of Bills**	**$50**
	FY13/FY14 Backlog Payment Fund	$50
(iv)	**General Fund Service Appropriations (Gross)**	**$25,023**
	Healthcare (including Medicaid)	$7,171
	PreK Education	$300
	K-12 Education	$6,386
	Higher Education	$1,991
	Human Services	$4,995
	Public Safety	$1,648
	Group Health Insurance	$1,346
	Other	$1,185
(v)	**"Unspent Appropriations"**	**$500**
(vi)	**Net General Fund Service Appropriations**	**$24,523**

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Governor's FY2015 Proposed General Fund Appropriations ($ Millions)

Category	Recommended Budget	Doomsday Budget	Difference
(i) Total General Fund Appropriations (Gross)	**$39,147**	**$34,812**	**($4,335)**
(ii) Total Hard Costs	**$12,691**	**$11,566**	**($1,125)**
• Debt Service (Pension & Capital Bonds)	$2,214	$2,214	$0
• Statutory Transfers Out	$4,266	$2,991	($1,275)
• Pension Contributions	$6,211	$6,361	$150
(iii) General Fund Service Appropriations (Gross)	**$26,456**	**$23,246**	**($3,210)**
(iv) "Unspent Appropriations"	**($602)**	**($234)**	**$368**
(vi) Net General Fund Service Appropriations	**$25,854**	**$23,012**	**($2,842)**

Source: GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014).

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FY2015 Recommended and Doomsday Detail Spending Comparison ($ Millions)

Category	FY2015 Recommended	FY2015 Doomsday	$ Difference	% Difference
Healthcare (including Medicaid)	$7,271	$7,251	($19)	-0.3%
PreK-12 Education	$6,978	$6,054	($924)	-13.2%
Higher Education	$2,044	$1,743	($301)	-14.7%
Human Services	$5,658	$4,371	($1,287)	-22.7%
Public Safety	$1,759	$1,341	($419)	-23.8%
Group Health	$1,476	$1,476	$0	0.0%
Other	$1,270	$1,009	($261)	-20.5%
Total Spending (Gross)	**$26,456**	**$23,246**	**($3,210)**	-12.1%

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file.*

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FY2015 Recommended General Fund Budget Compared to FY2014 Enacted ($ Millions)

Category	FY2014	FY2015 Recommended	$ Difference (nominal)	% Change (nominal)
Healthcare	$7,171	$7,271	$99	1.4%
PreK-12 Education	$6,687	$6,978	$291	4.4%
Higher Education	$1,991	$2,044	$53	2.6%
Human Services	$4,996	$5,658	$662	13.3%
Public Safety	$1,648	$1,759	$111	6.7%
Group Health	$1,346	$1,476	$129	9.6%
Other	$1,187	$1,270	$83	7.0%
Total (gross)	**$25,027**	**$26,456**	**$1,429**	**5.7%**
Unspent Appropriations	($533)	($602)	N/A	N/A
Total (net)	**$24,494**	**$25,854**	**$1,360**	**5.6%**

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file.*

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FY2015 Doomsday General Fund Budget Compared to FY2014 Enacted ($ Millions)

Category	FY2014	FY2015 Doomsday	$ Difference (nominal)	% Change (nominal)
Healthcare	$7,171	$7,251	$80	1.1%
PreK-12 Education	$6,687	$6,054	($633)	-9.5%
Higher Education	$1,991	$1,743	($248)	-12.4%
Human Services	$4,996	$4,371	($624)	-12.5%
Public Safety	$1,648	$1,341	($307)	-18.6%
Group Health	$1,346	$1,476	$129	9.6%
Other	$1,187	$1,009	($178)	-15.0%
Total (gross)	**$25,027**	**$23,246**	**($1,781)**	**-7.1%**
Unspent Appropriations	($533)	($234)	N/A	N/A
Total (net)	**$24,494**	**$23,012**	**($1,482)**	**-6.0%**

Source: CTBA analysis of analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file*.

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FY2015 Recommended Budget Estimated Deficit ($ Billions)

Category		Recommended Revenue	HJR 80 Revenue
(i)	Projected FY2015 Revenue	$38.58	$34.50
(ii)	Projected FY2015 Hard Costs	$12.69	$12.69
(iii)	Projected Deficit Carry Forward from FY2014	($7.49)	($7.49)
(iv)	Projected Net FY2015 General Fund Revenue Available for Services	$18.39	$14.31
(v)	Projected Net General Fund Service Appropriations	$25.85	$25.85
(vi)	Estimated Minimum FY2015 General Fund Deficit	($7.46)	($11.54)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-28.86%	-44.64%

Source: Appropriations from CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file* hard costs from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014).

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FY2015 Doomsday Budget
Estimated Deficit ($ Billions)

Category		GOMB	HJR-80 Revenue
(i)	Projected FY2015 Revenue	$34.93	$34.50
(ii)	Projected FY2015 Hard Costs	$11.57	$11.57
(iii)	Projected Deficit Carry Forward from FY2014	($7.49)	($7.49)
(iv)	Projected Net FY2015 General Fund Revenue Available for Services	$15.88	$15.44
(v)	Projected Net General Fund Service Appropriations	$23.01	$23.01
(vi)	Estimated Minimum FY2015 General Fund Deficit	($7.14)	($7.57)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	**-31.01%**	**-32.91%**

Source: Appropriations from CTBA analysis of GOMB, "Operating Budget Detail," March 2014, *Excel file* hard costs from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014).

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

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

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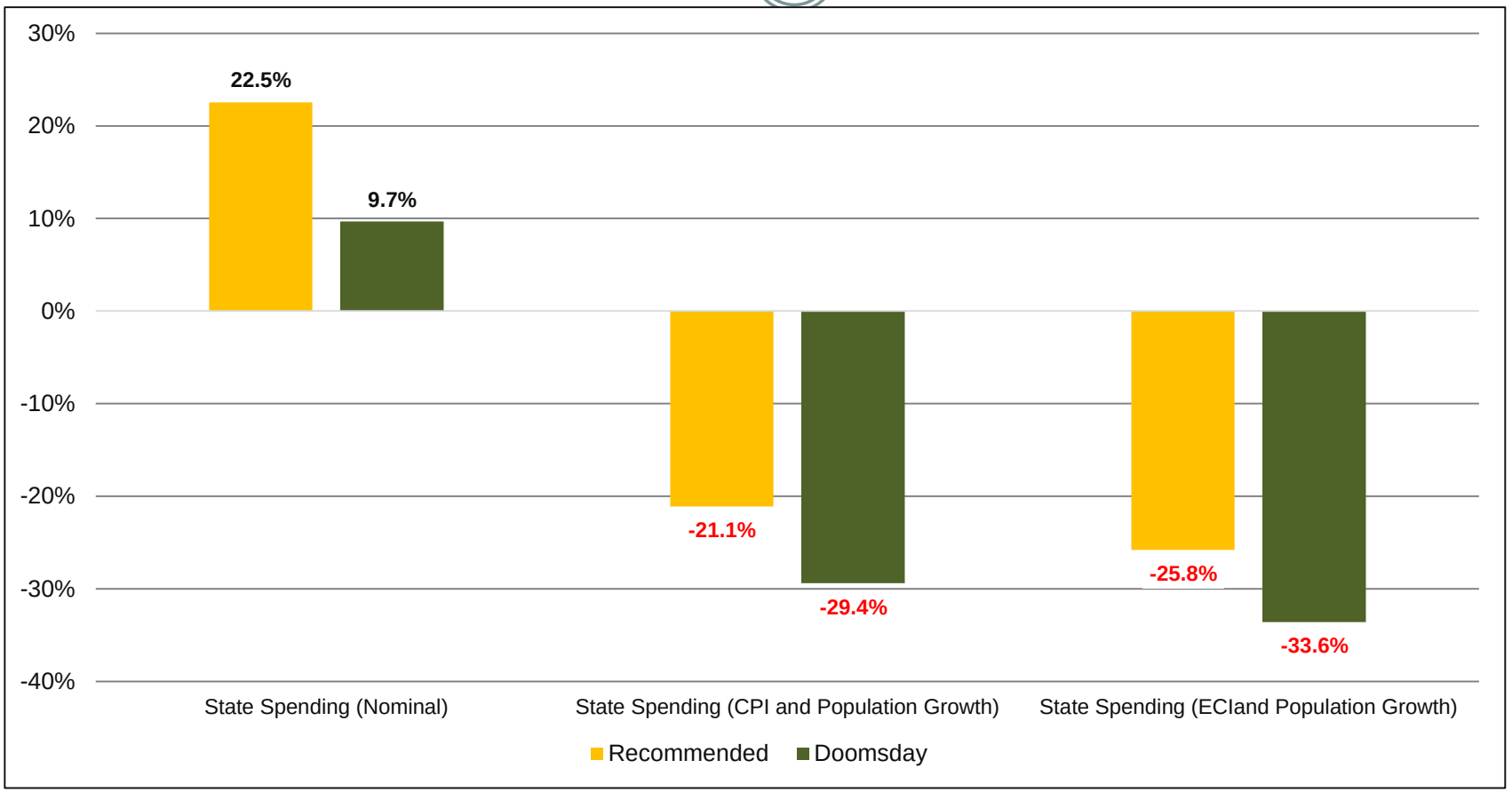
FY2015 Proposed General Fund Services Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)



Sources: FY2013 unadjusted appropriations and FY2014 CTBA analysis of GOMB, "Operating Budget Detail," March 2014, Excel file. Appropriations adjusted using ECI and Midwest CPI, and Midwest Medical Care CPI (for Healthcare) inflation growth from FY2014 to FY2Y2015 estimated using average year-to-year growth rate averages over the 2009-2013 sequence (1.85 percent for ECI, 1.59 percent for Midwest CPI, and 3.41 percent for Midwest Medical Care CPI); and historic year-to-year population growth of 0.3 percent.

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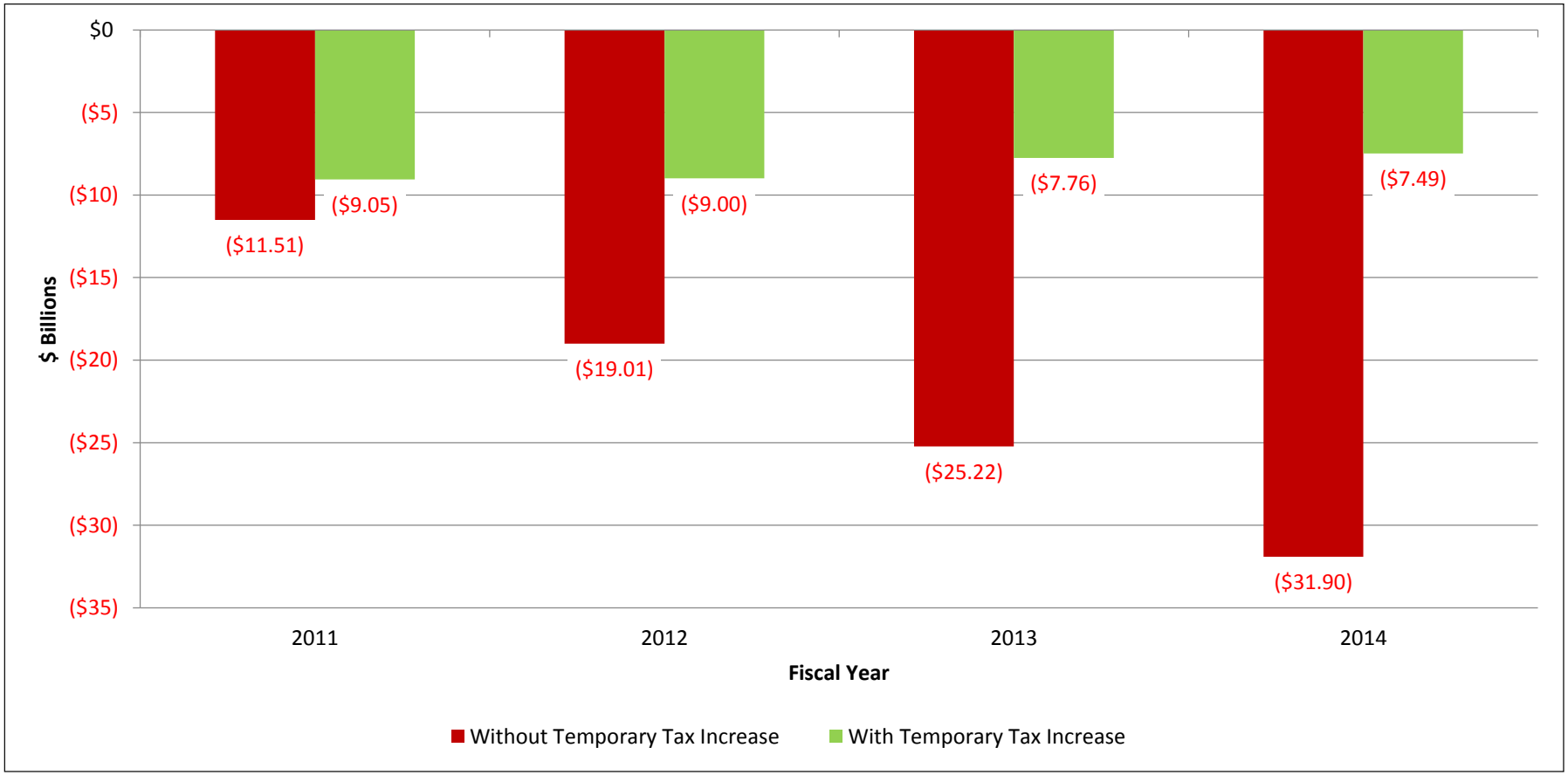
Impact of the Temporary Tax Increase on the Accumulated Deficit



Sources: CTBA calculations using total spending figures for FY2011 and FY2012 as reported in GOMB, FY2013 Budget Book (Springfield, IL: February 2012 2013), Ch. 2-18 and GOMB, FY2014 Budget Book (Springfield, IL: March 2013), Ch. 2-16.; total spending for FY2013 includes all supplementals; and spending for FY2014 from GOMB, *Illinois State Budget: Fiscal Year 2015* (Springfield, IL: March 26, 2014); actual revenue for FY2011-FY2013 from COGFA, *State of Illinois Budget Summary: Fiscal Year 2014* (Springfield, IL: August 1, 2013), 50).

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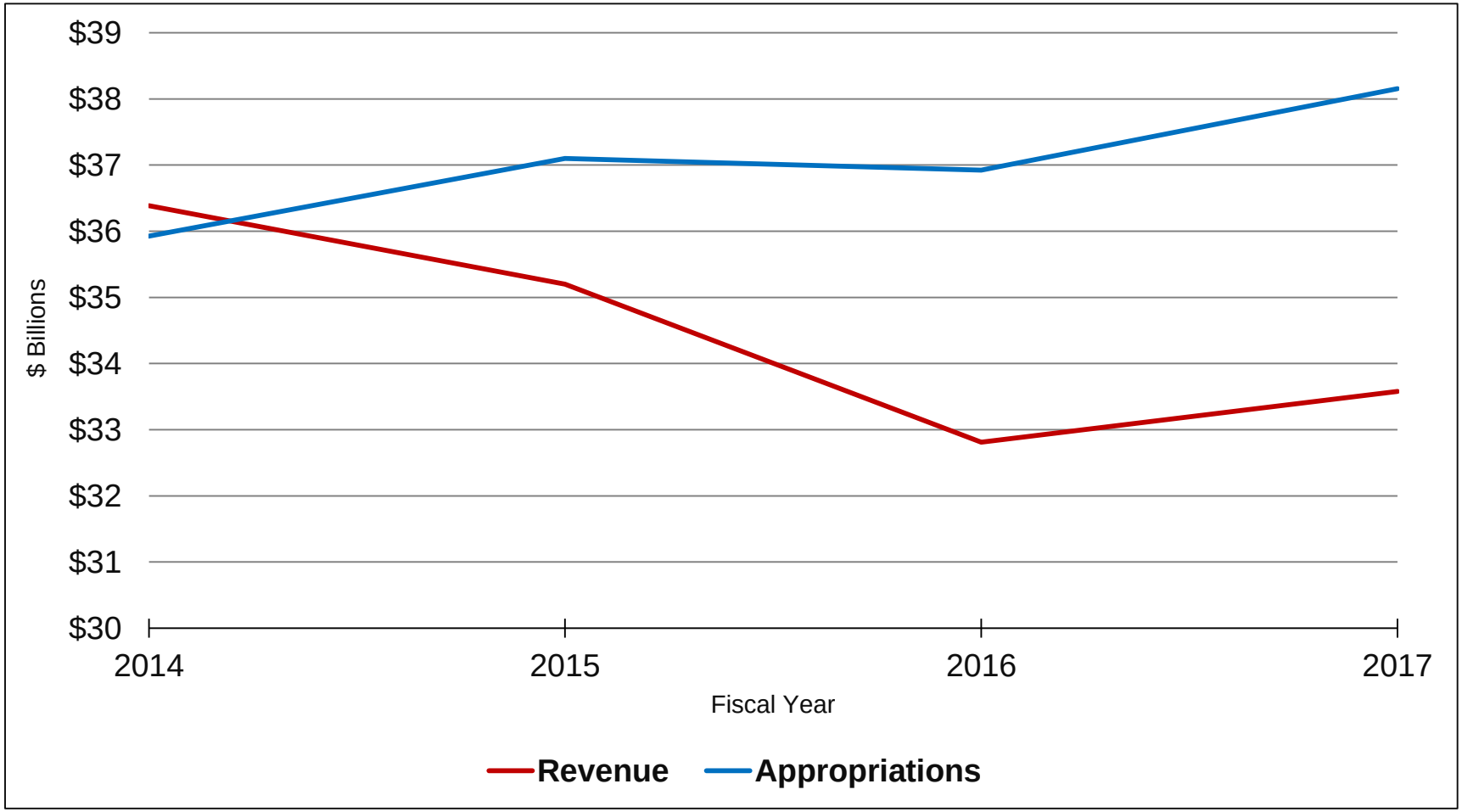
Illinois' Fiscal Cliff



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

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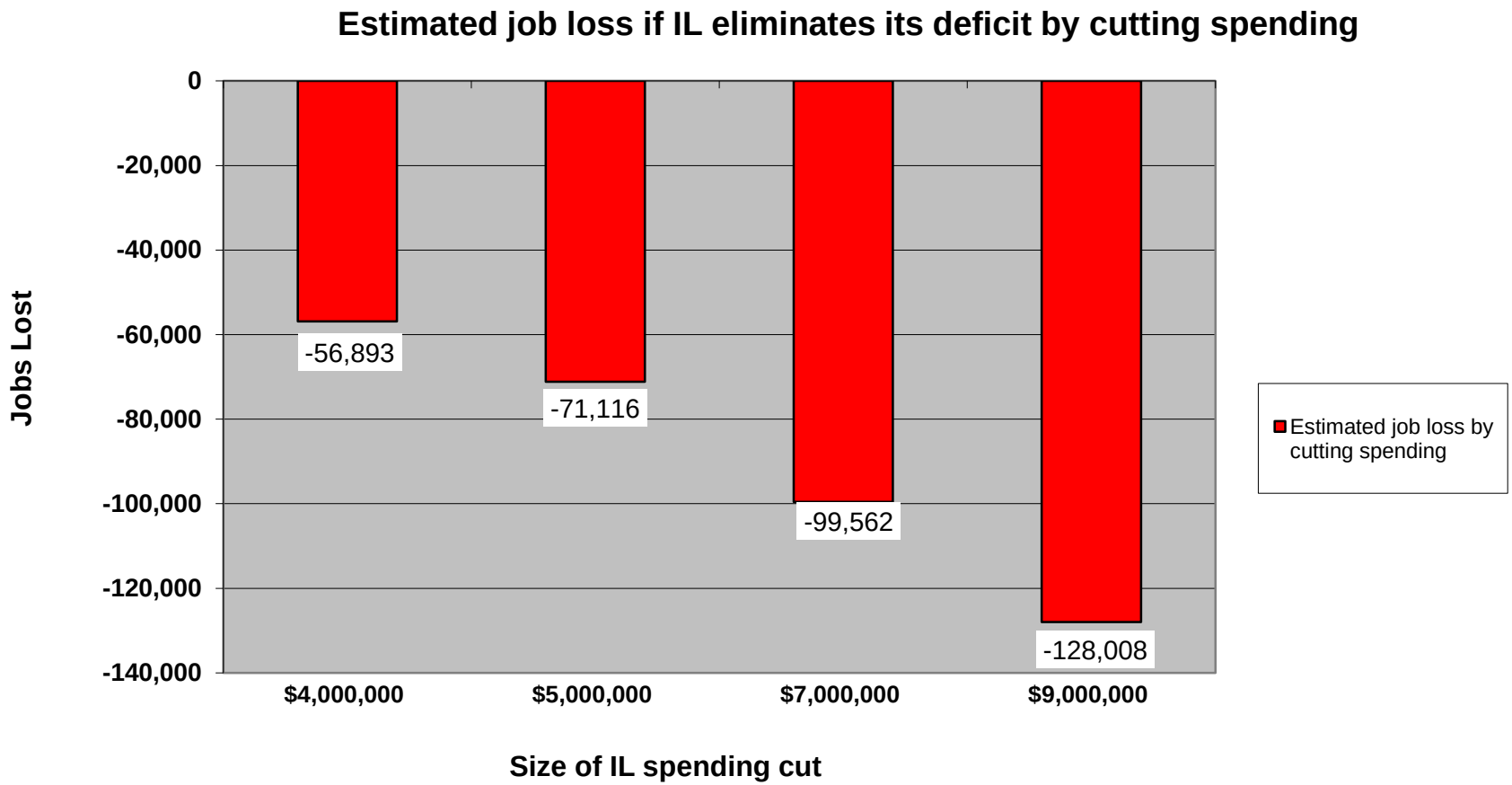
Hurting the Private Sector Economy with Cuts



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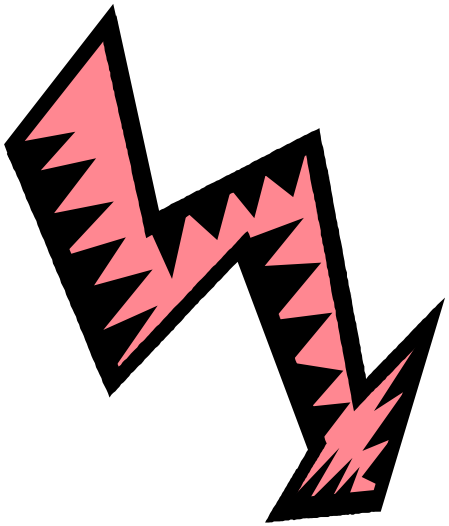
Which Makes No Sense

- Illinois had the second lowest real GDP Growth in the entire Midwest in 2010

Real GDP Growth 2010

Indiana	4.6%
Iowa	3.1%
Michigan	2.9%
Wisconsin	2.5%
Ohio	2.1%
Illinois	1.9%
Missouri	1.4%



- National and Midwest Average was 2.6%

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

Midwest States	%	National Rank
Iowa	17.0%	10th
Michigan	16.9%	12th
Wisconsin	16.6%	16th
Indiana	16.6%	17th
Ohio	16.1%	26th
Illinois	**14.2%**	**42nd**
Missouri	13.5%	47th

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

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

Midwest States	%	National Rank
Iowa	17.0%	10th
Michigan	16.9%	12th
Wisconsin	16.6%	16th
Indiana	16.6%	17th
Ohio	16.1%	26th
Illinois	**15.6%**	**32nd**
Missouri	13.5%	47th

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

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Time for Illinois to Pay Attention

- In 2012, Illinois ranked fifth nationally with a Gross State Product in excess of $695 billion (BEA).
- That would be the 20th largest economy of any nation in the world-greater than Egypt, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.
- (World Bank http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries)

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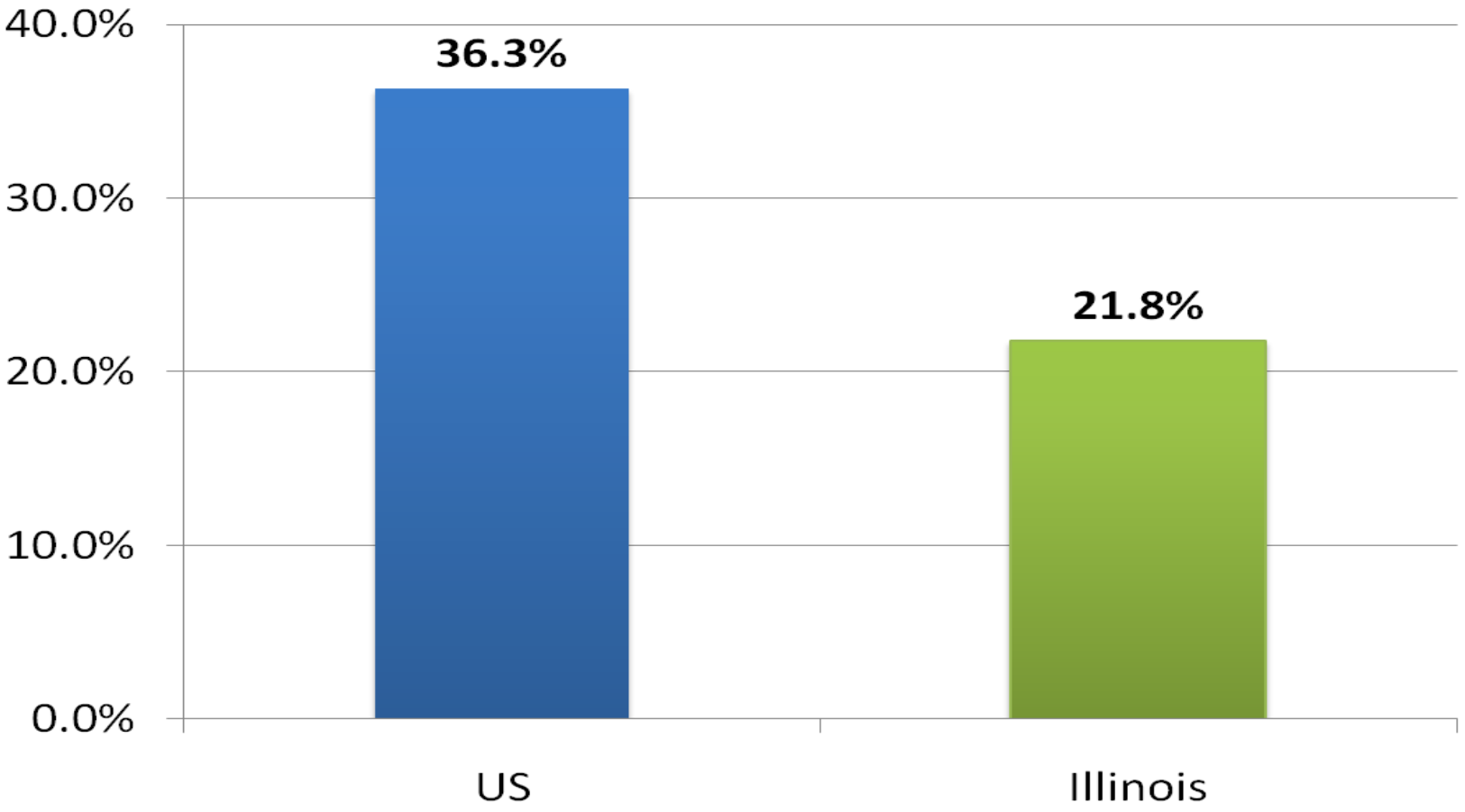
Illinois Economic Growth Lags U.S. Long Term (1997-2012)



Source: BEA

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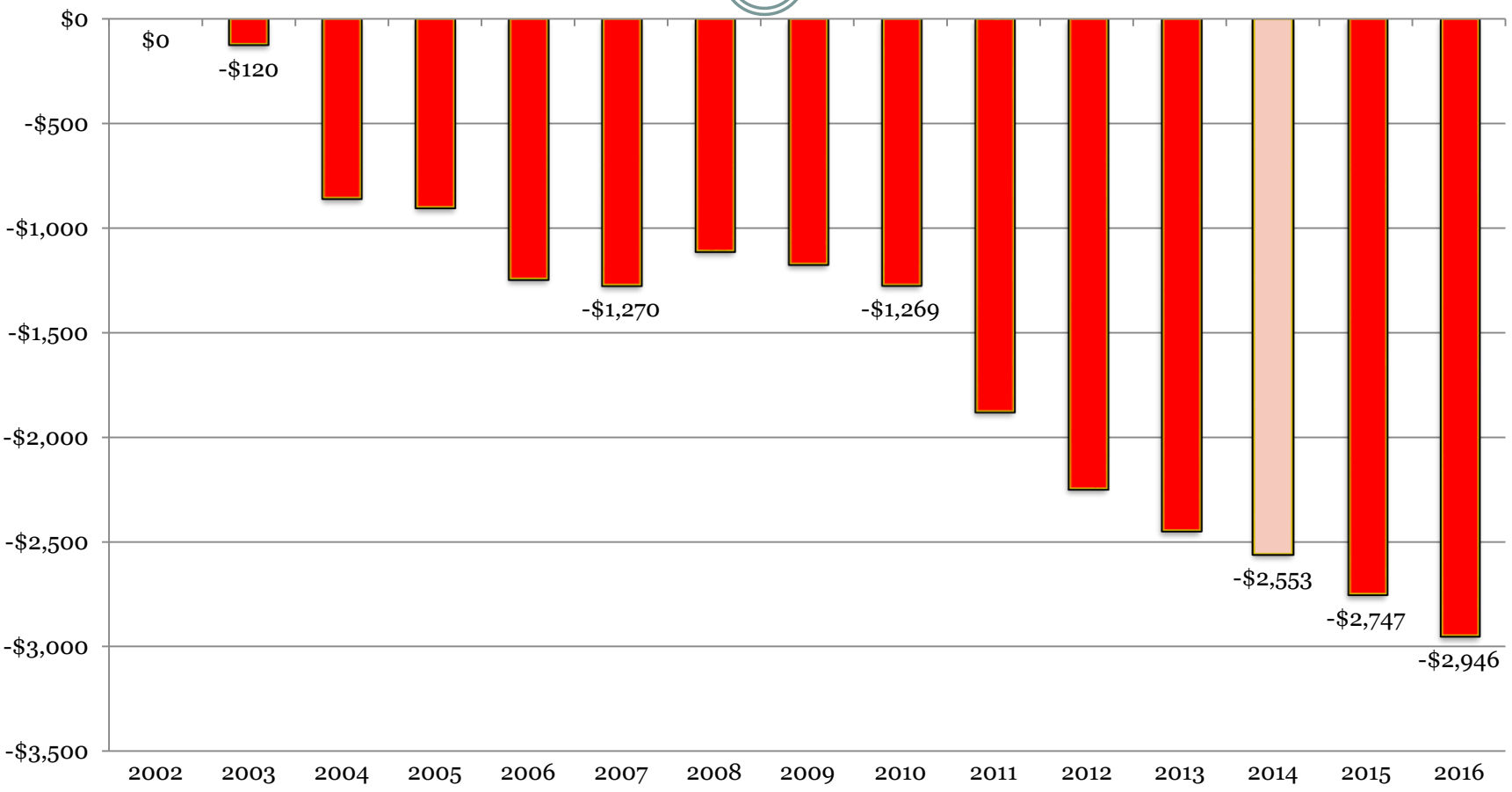
Dollar Shortfall in State Per-Pupil K-12 Education Funding to Meet EFAB Adequate Education Standard by Fiscal Year



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

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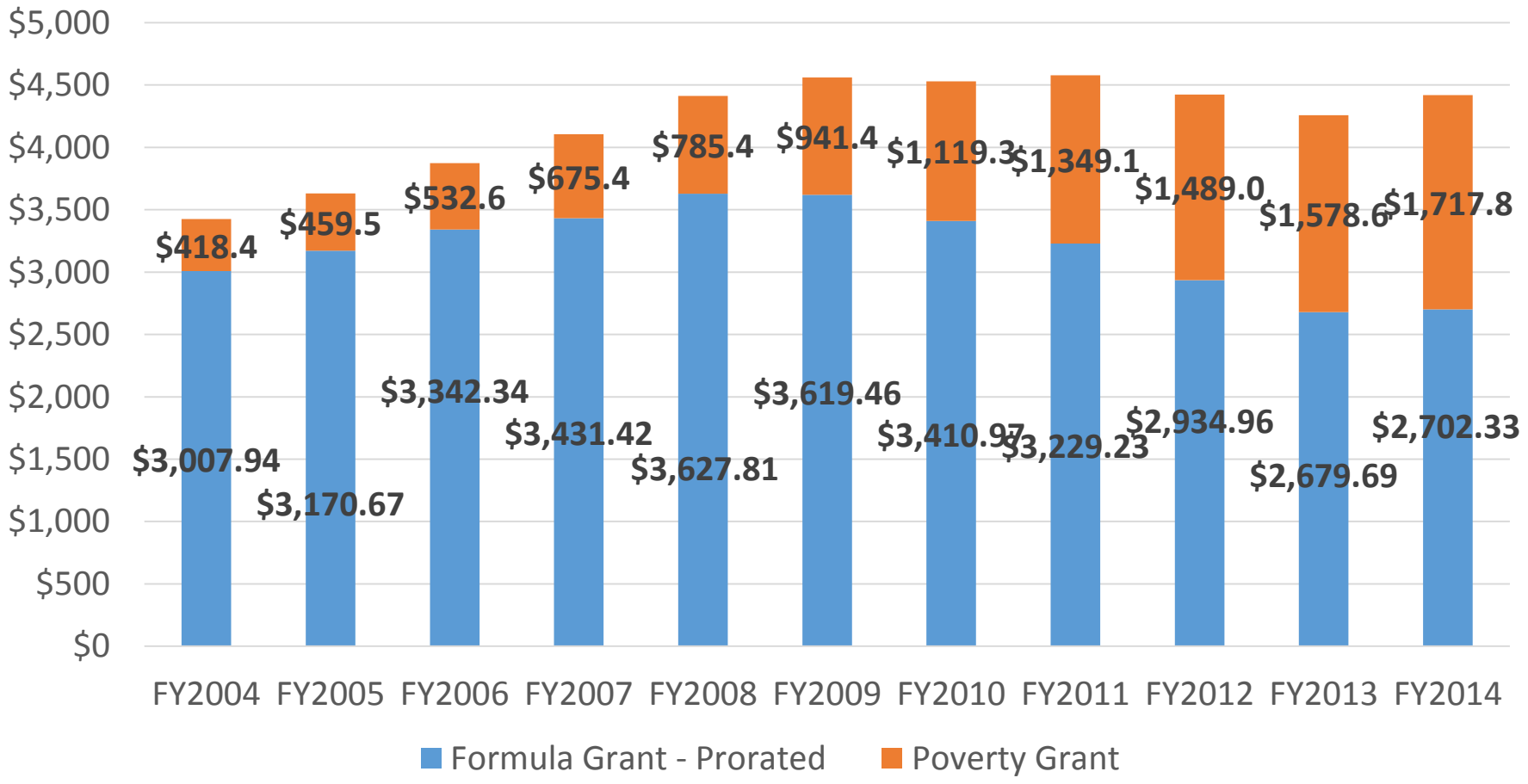
GSA: Formula and Poverty Grant Claims, Prorated; FY2004-FY2014



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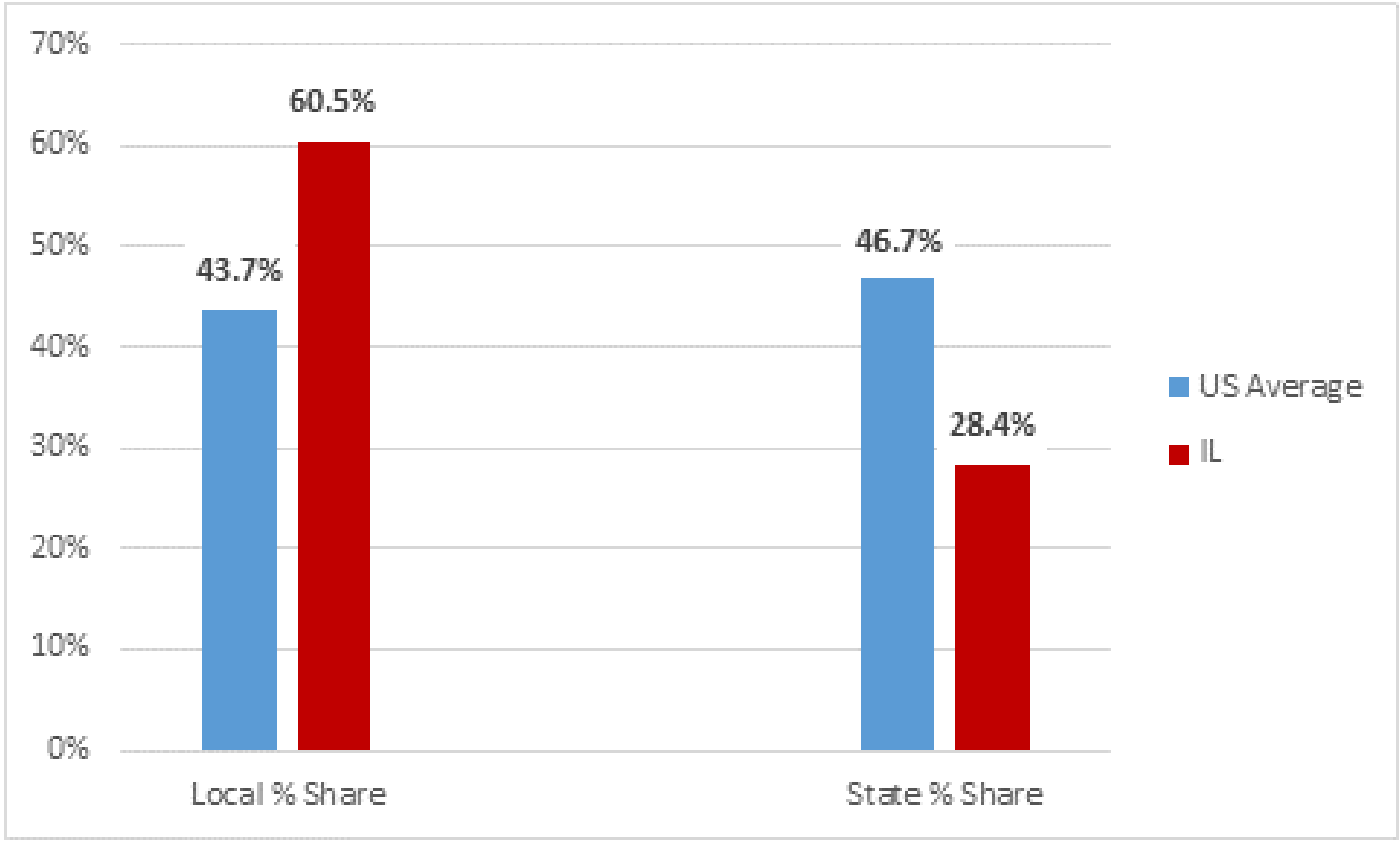
Local and State Share of Education Funding Spending



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

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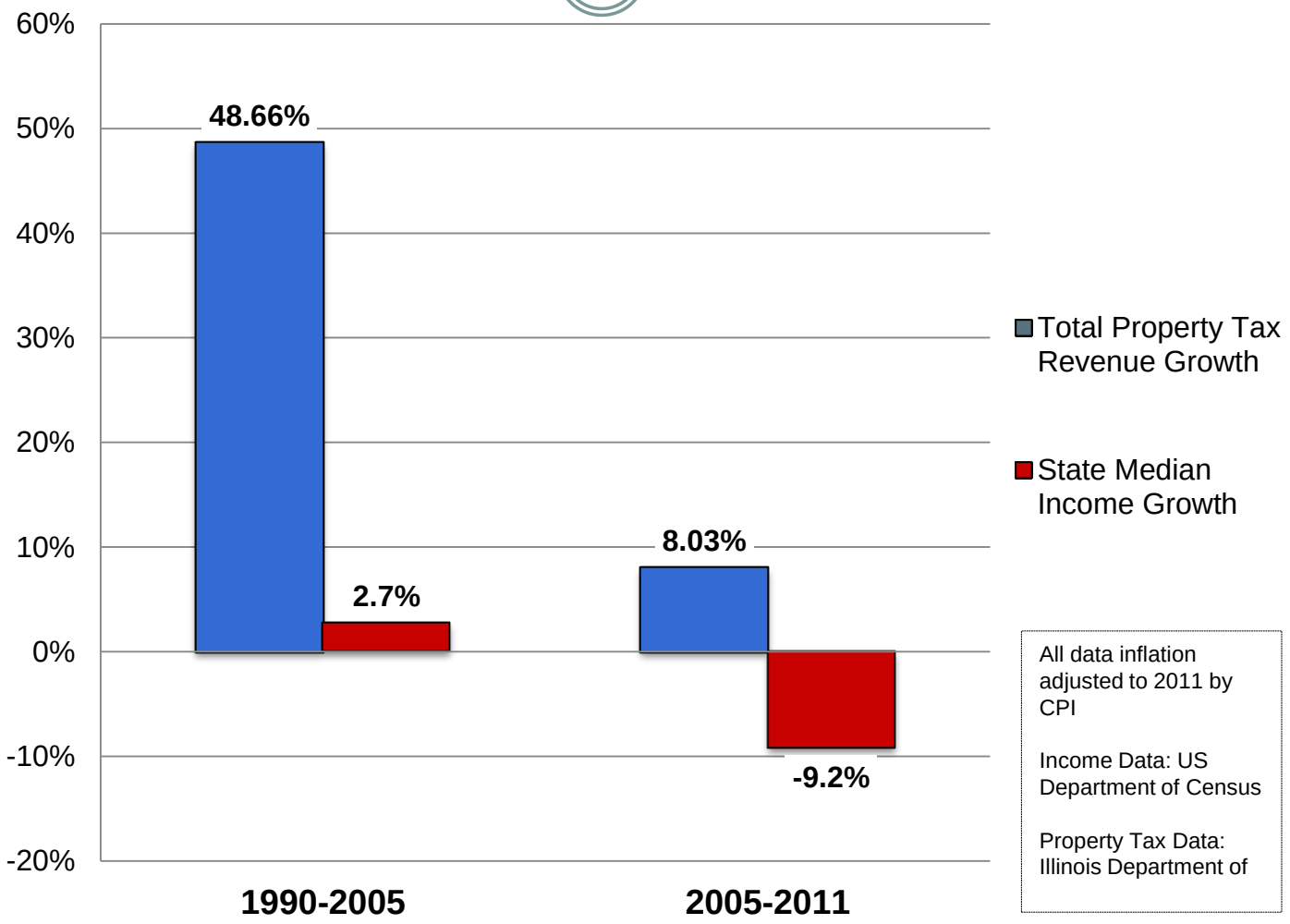
Illinois Total Property Tax Revenue Growth vs. State Median Income Growth



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Really????

- YES: Illinois ranks 50th out of 50 states in portion of education funding covered by the state

But Education now matters more than ever to economic prosperity:

- Generally: unemployment rates are highest for those with the least education.

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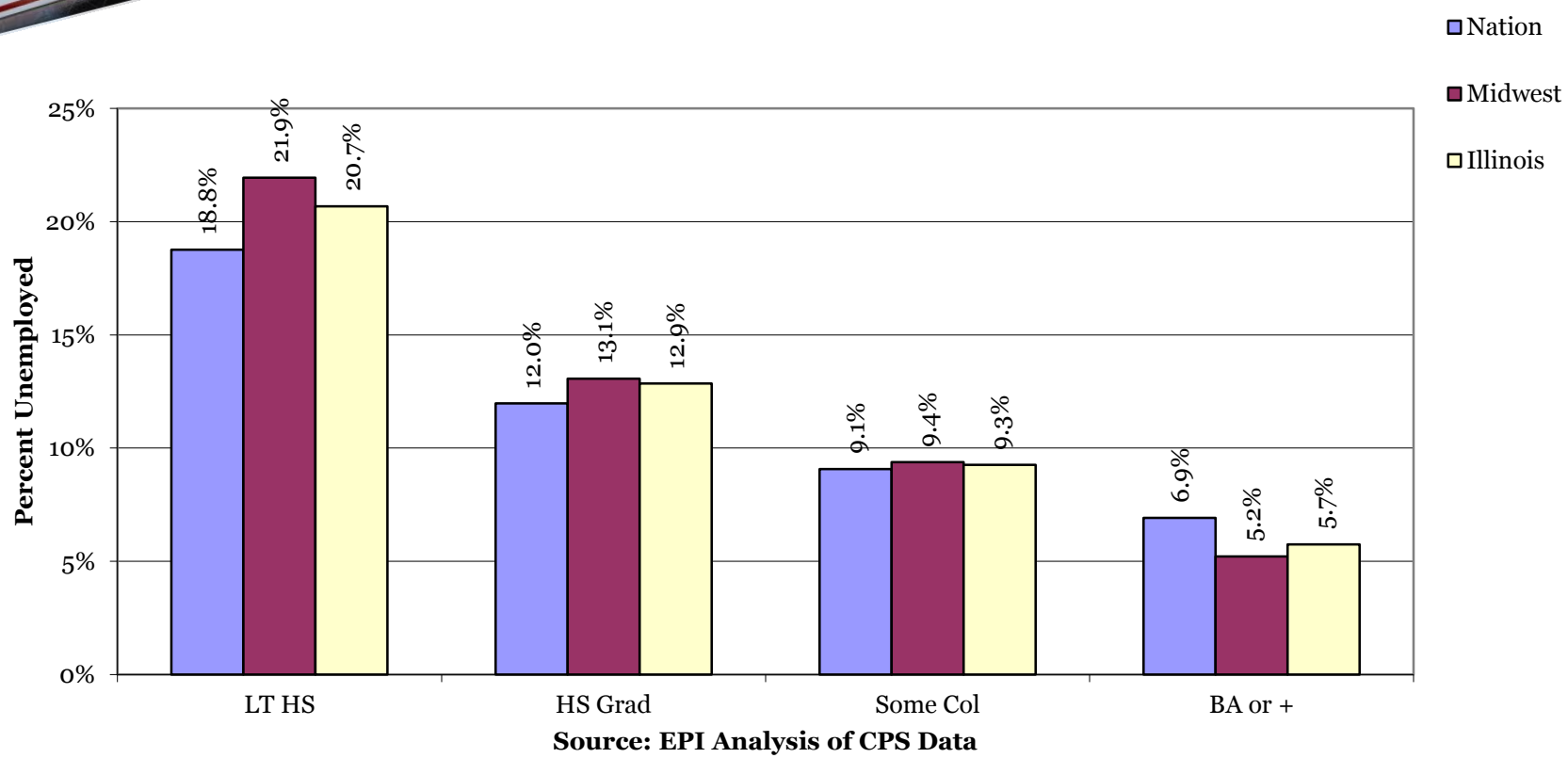
Unemployment Highest Among Least Educated, 2010



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Wages for Minorities Lag Whites

Real wages for Whites increased modestly between 1980 and 2010, but :

- The White-Hispanic wage gap is larger in amount, but increased by a smaller percentage, growing from $4.01 in 1980 to $5.86 in 2010, an increase of 46% over 1980
- Real wages for African-Americans declined. The hourly wage gap between Whites and African-Americans grew from $1.60 in 1980 to $3.08 in 2010, an increase of 92.3% over 1980

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Capitalist Tax Policy Should Be:

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

ILLINOIS IS 0 FOR 4

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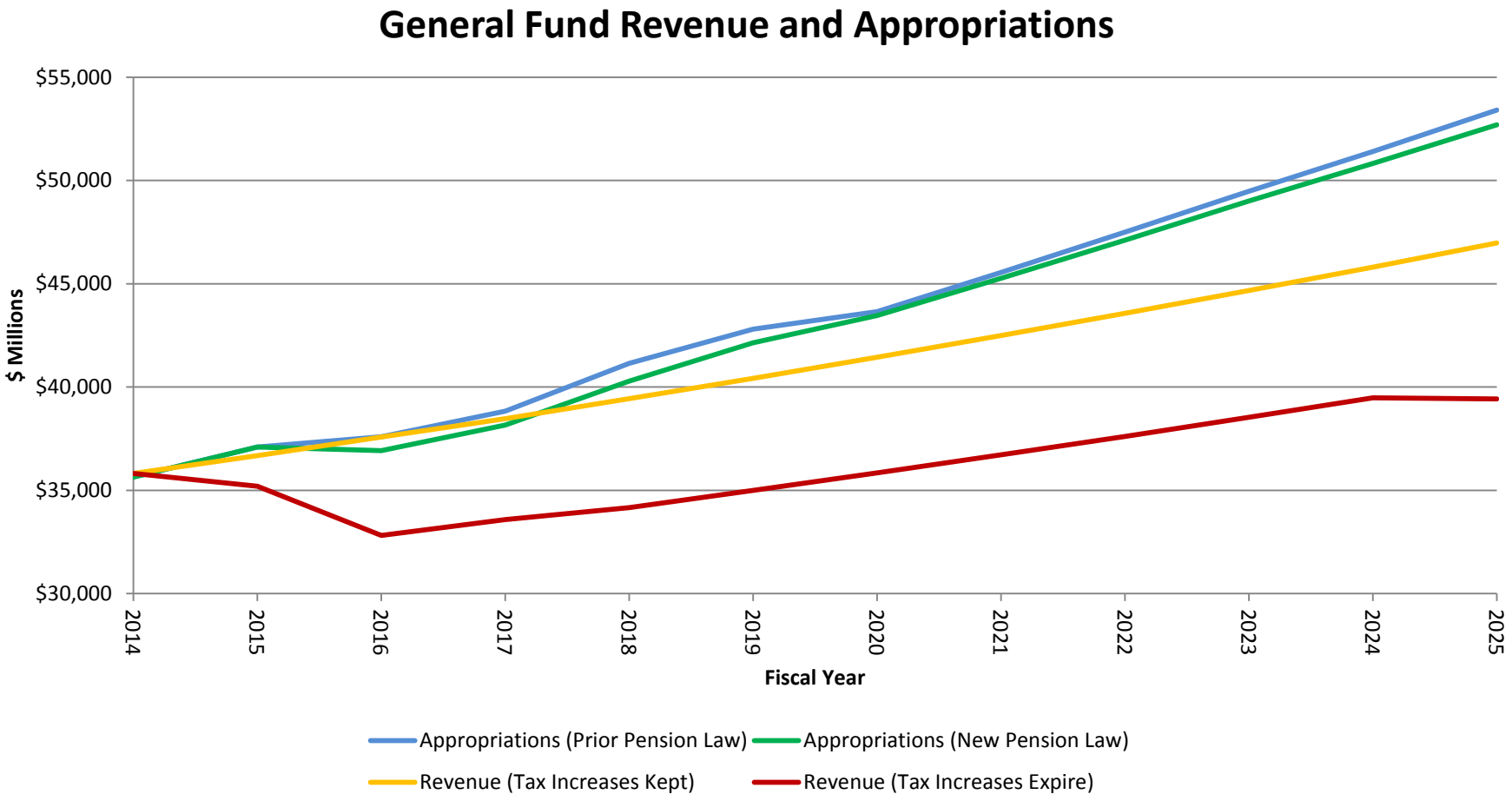
Which Creates a Structural Deficit



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Which Led to the Irresponsible Fiscal Practice of:

- Borrowing against the pensions to subsidize cost of delivering services
- By 1994 the Unfunded Liability was $17 billion
- This was almost double the $8.7 billion Unfunded Liability just five years earlier in 1989

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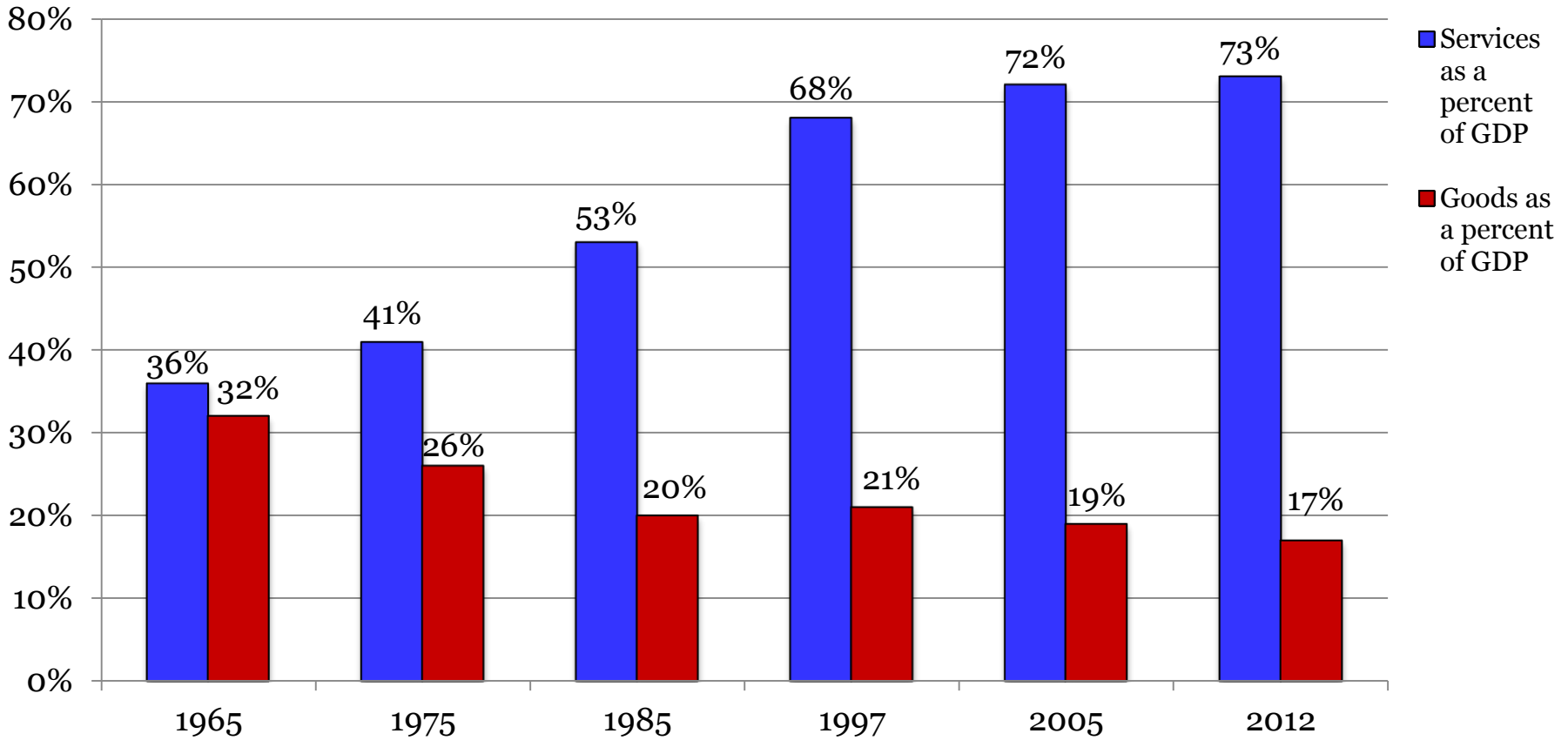
Revenues of Goods and Services as a Percent of Gross Domestic Product: Illinois (SIC 1965-1985, NAICS: 1997-2012)



Private producing industries
Source: Bureau of Economic Analysis

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Adam Smith, the father of modern capitalism, contended that for a tax system to be fair it has to be progressive

- According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state …. [As Henry Home (Lorde Kames) has written, a goal of taxation should be to] 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"

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Was Adam Smith Right?

The long-term trends in income distribution in America demonstrate that his reasoning was solidly on target.

Change in Average US Income Accounted For By Income Group	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

Change in Average US Income Accounted For By Income Group	
Income Group	1979 — 2011
Top 10%	139.8%
Bottom 90%	-39.8%

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

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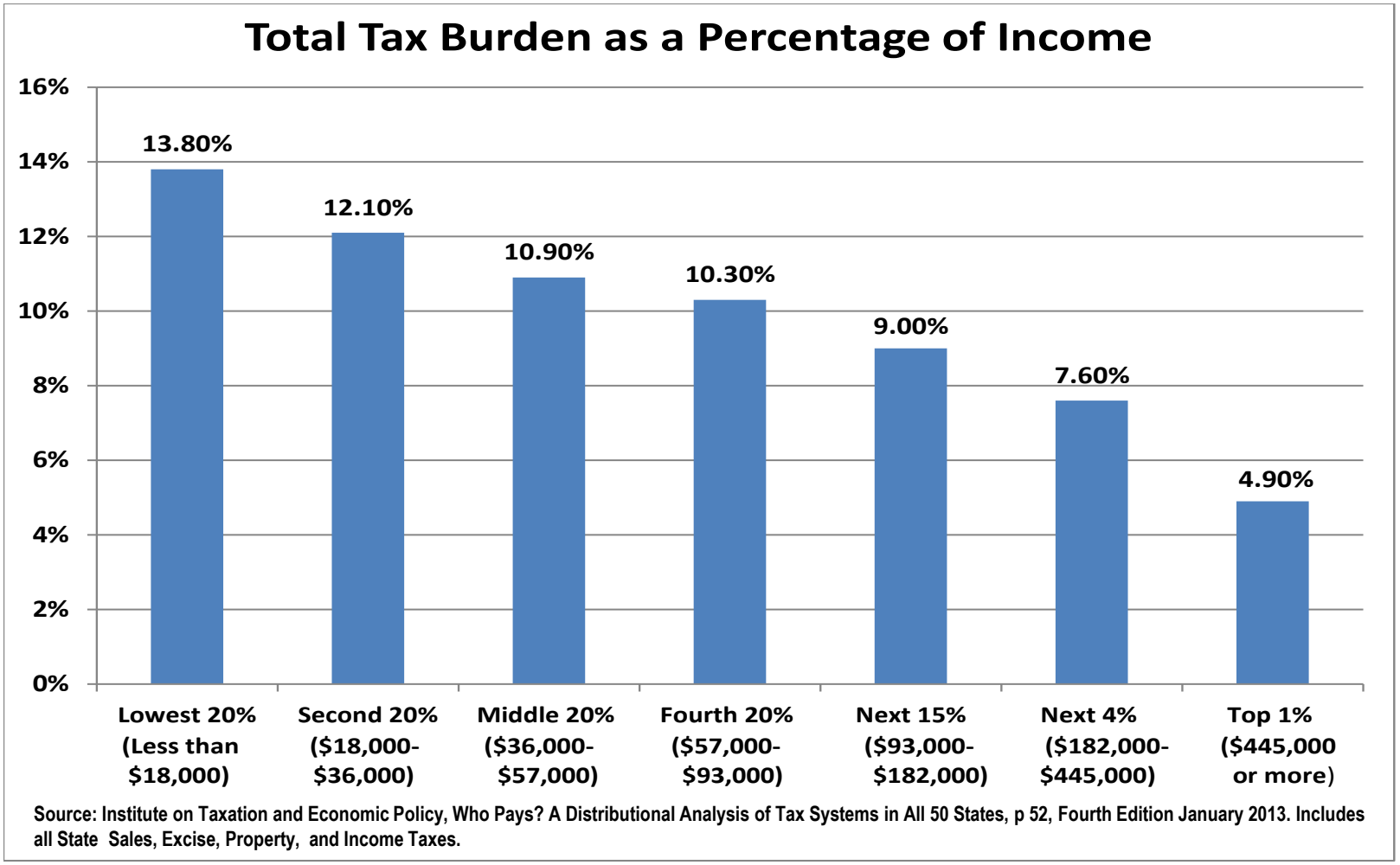
Illinois State & Local Taxes Paid as a Share of Family Income for Non-Elderly Taxpayers



Source: Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of Tax Systems in All 50 States, p 52, Fourth Edition January 2013. Includes all State Sales, Excise, Property, and Income Taxes.

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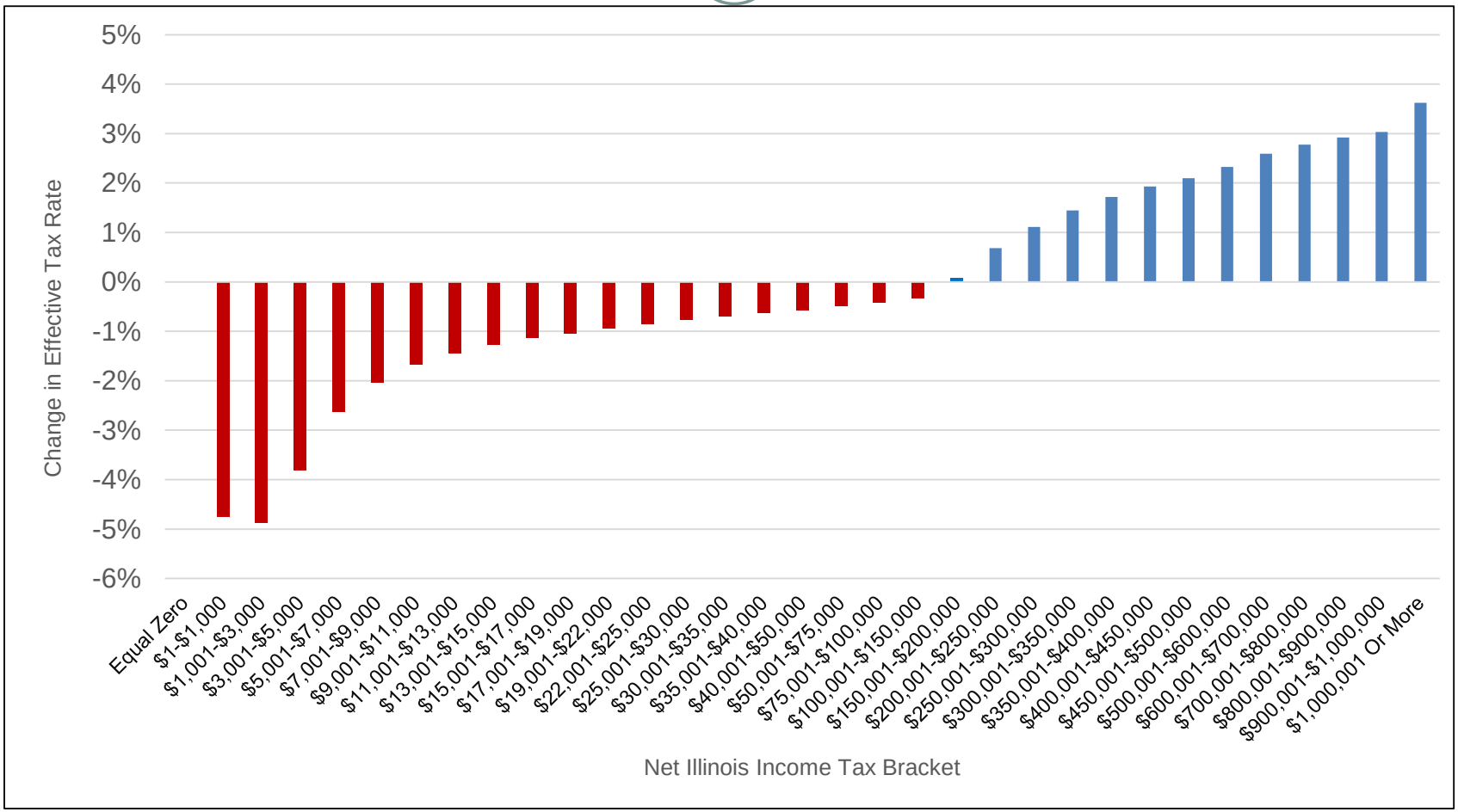
Potential Effective Tax Rate Changes in Illinois with Graduated Individual Income Tax Structure



- All incomes at below $200,000 would see a tax decrease, as compared to the current, 5% flat rate.
- 95% of all filers would see a tax cut.

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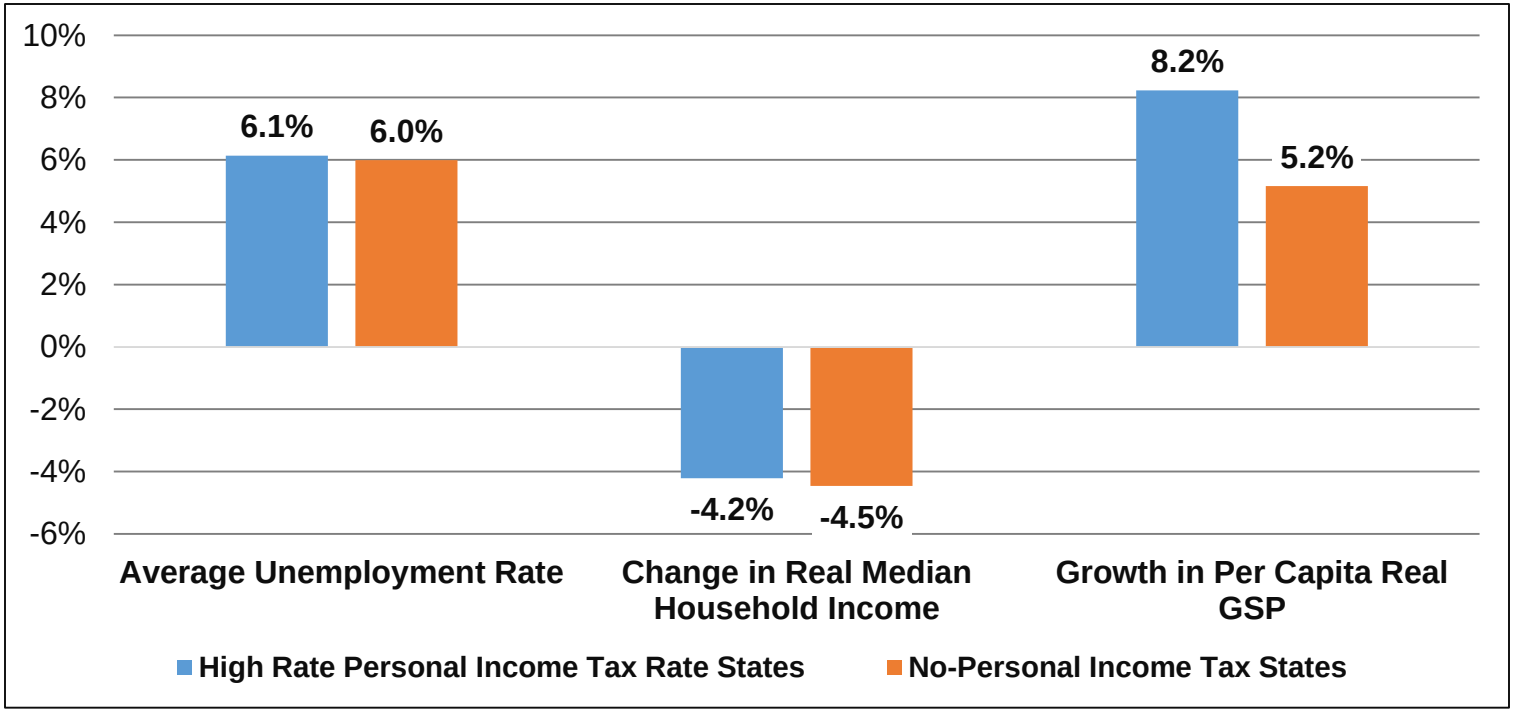
And it Won't Hurt the Economy

2002-2011 Comparison:

9 States with Highest Graduated Income Tax Rate vs. 9 States with No Income Tax



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

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For More Information

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