

*Tax Increases, Spending Caps
and the FY2012 General Fund
Budget in Illinois*



For:

Tuesday, September 20, 2011; 11:00 am

Charting the Course Toward Illinois Solvency: A Panel Discussion

UIC Medical Center Campus – Student Center West

828 S. Wolcott, Chicago Rooms A, B and C

Chicago, Illinois

Presented by:

Ralph Martire, Executive Director

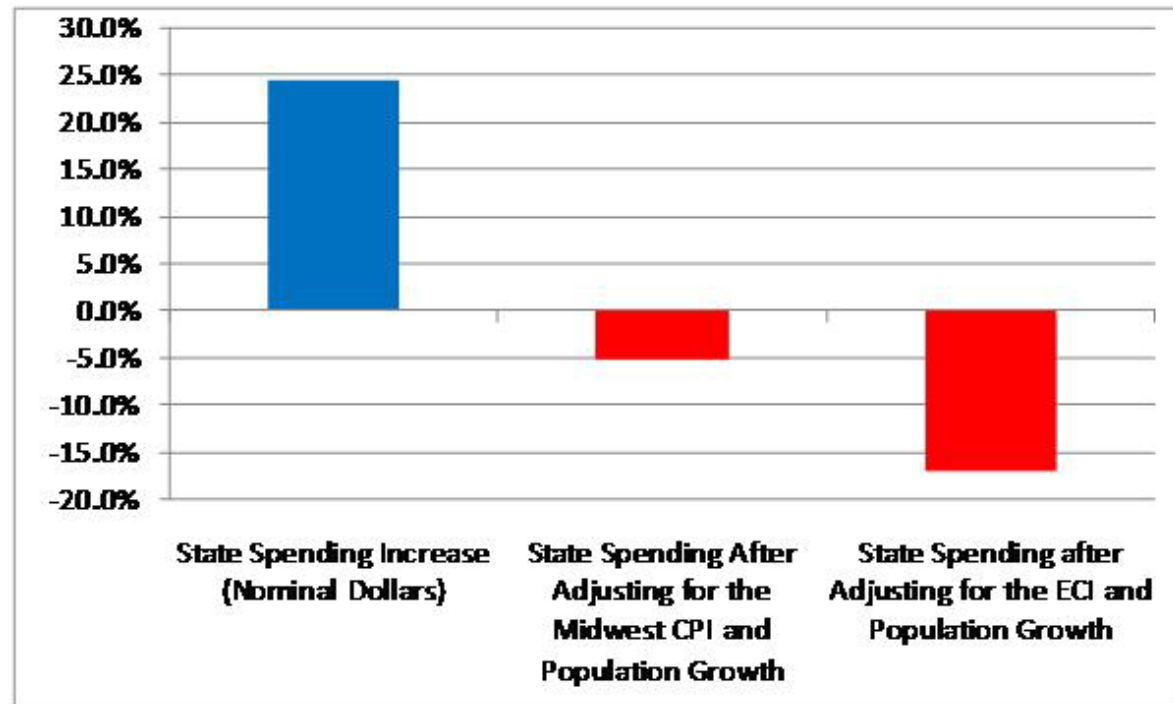
Revenue Shortfall Entering FY2012: (Without the January, 2011, Tax Increase)

Illinois' Worst Fiscal Crisis Since Great Depression

(i) Revenues	Amount*
Projected State Own Source Revenue (pre-tax increase)	\$20.026 B
Projected Federal Revenue	\$ 4.844 B
Other Projected Transfers In	\$ 1.810 B
TOTAL FY2012 PROJECTED REVENUE (without the tax increase)	\$26.680 B
(ii) Hard Costs Entering FY2012	
Carry Forward Unpaid Bills from FY2011	\$6.05 B**
One-Time Revenue Used in FY2011	\$3.00 B
Debt Service FY2012	\$2.137 B
Pension Payment FY2012	\$4.829 B***
Transfers Out FY2012	\$2.317 B
SUBTOTAL HARD COSTS	\$18.333 B
(iii) Cost of Flat Funding Nominal Dollar Amount of FY2011 GF Appropriations for Services in FY2012	\$24.313 B
(iv) TOTAL FY2012 REVENUE NEEDED TO PAY HARD COSTS & MAINTAIN FLAT FUNDING OF SERVICES	\$42.646 B
(v) INITIAL FY2012 REVENUE SHORTFALL (Before 1/13/2011 tax increases)	(-\$15.966 B)
* All data from the FY2012 Budget Book and GOMB 1/20/2011 plan, except as noted in *** below.	
** FY2012 Budget Book, Chap. 2-14, Footnote 3	
*** The pension contribution is from the March 10, 2011, update to the "Supplemental Digest to Retirement Systems' Audits" issued by the State Auditor General.	

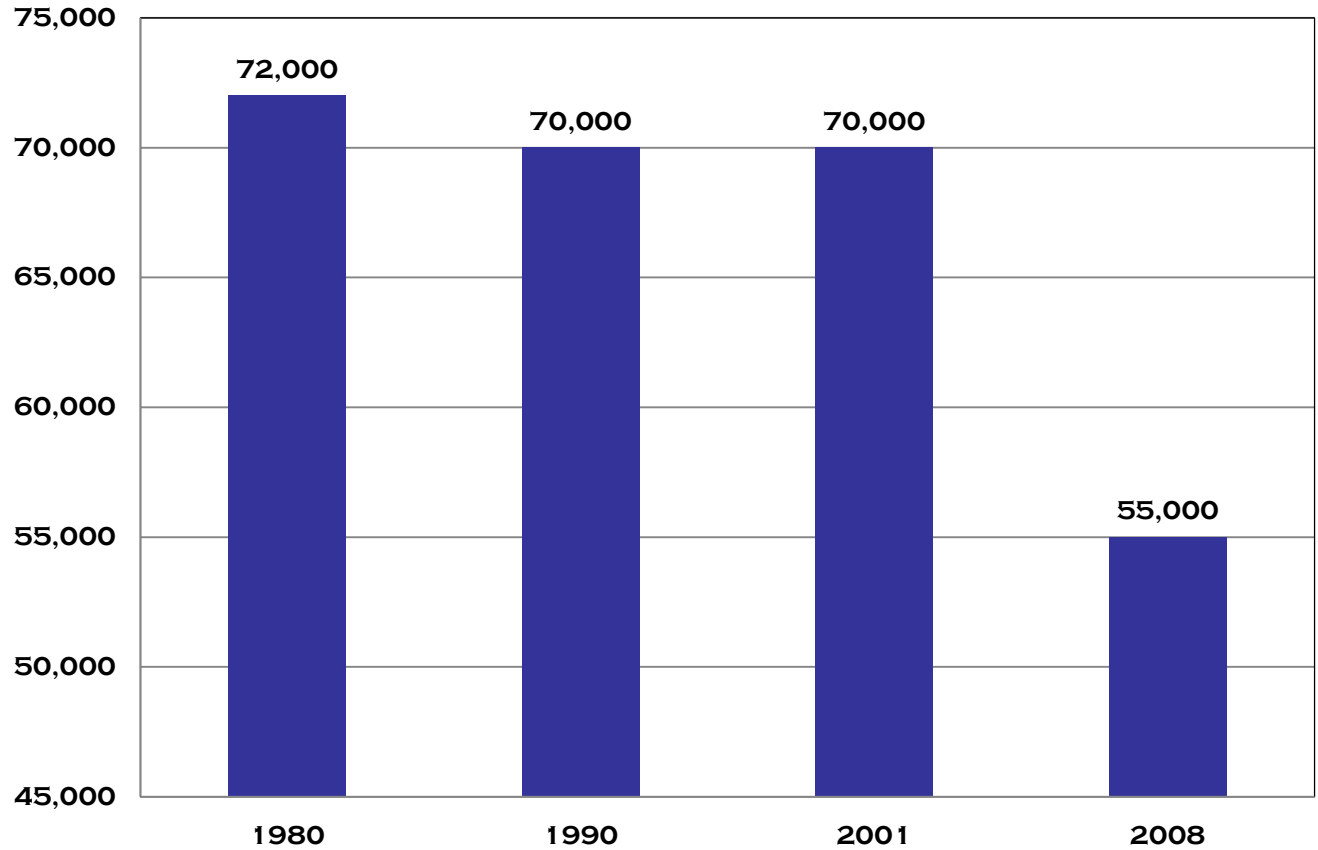
WHAT WERE MAIN CAUSES— NOT PROFLIGATE SPENDING

PERCENTAGE INCREASES IN ILLINOIS GENERAL FUND
SPENDING (NET OF PENSION RAMP) VERSUS INFLATION AND
POPULATION GROWTH FY2000 TO FY2010



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BUDGETED HEADCOUNT



SOURCE: GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET HEADCOUNT ANALYSIS AS OF 6-1-2009.

**FY 2012 ENACTED APPROPRIATIONS
 COMPARED TO FY2000 ACTUAL APPROPRIATIONS
 ADJUSTED FOR INFLATION AND POPULATION**

**GROWTH
 (\$ IN MILLIONS)**

**EVERY MAJOR CATEGORY OF REAL FUNDING
 FOR CURRENT PUBLIC SERVICES
 HAS BEEN CUT SINCE FY 2000**

Category	FY 2012 Enacted	FY2000 Adj (ECI) ⁴	Diff FY 2012 - FY 2000 (ECI) ⁴	%Change	FY2000 Adj (ECI and Pop Growth) ⁴	Diff FY 2012 - FY 2000 Adj (ECI and Pop Growth) ⁴	%Change
General Fund Including Pensions	\$28,729	NA	NA	NA	NA	NA	NA
Pension	\$4,594	NA	NA	NA	NA	NA	NA
General Fund Excluding Pensions	\$24,135	\$28,484	(\$4,349)	-15.3%	\$30,829	(\$6,694)	-21.7%
K-12 Education	\$6,851	\$6,877	(\$26)	-0.4%	\$7,443	(\$592)	-8.0%
Higher Education	\$2,089	\$3,055	(\$965)	-31.6%	\$3,306	(\$1,217)	-36.8%
Health Care¹	\$7,174	\$8,271	(\$1,097)	-13.3%	\$8,952	(\$1,778)	-19.9%
Human Services²	\$4,834	\$6,529	(\$1,694)	-26.0%	\$7,066	(\$2,232)	-31.6%
Public Safety³	\$1,608	\$1,917	(\$309)	-16.1%	\$2,075	(\$467)	-22.5%

Sources: Previous slide, FY 2000 data from CGFA FY 2002 Budget Summary.

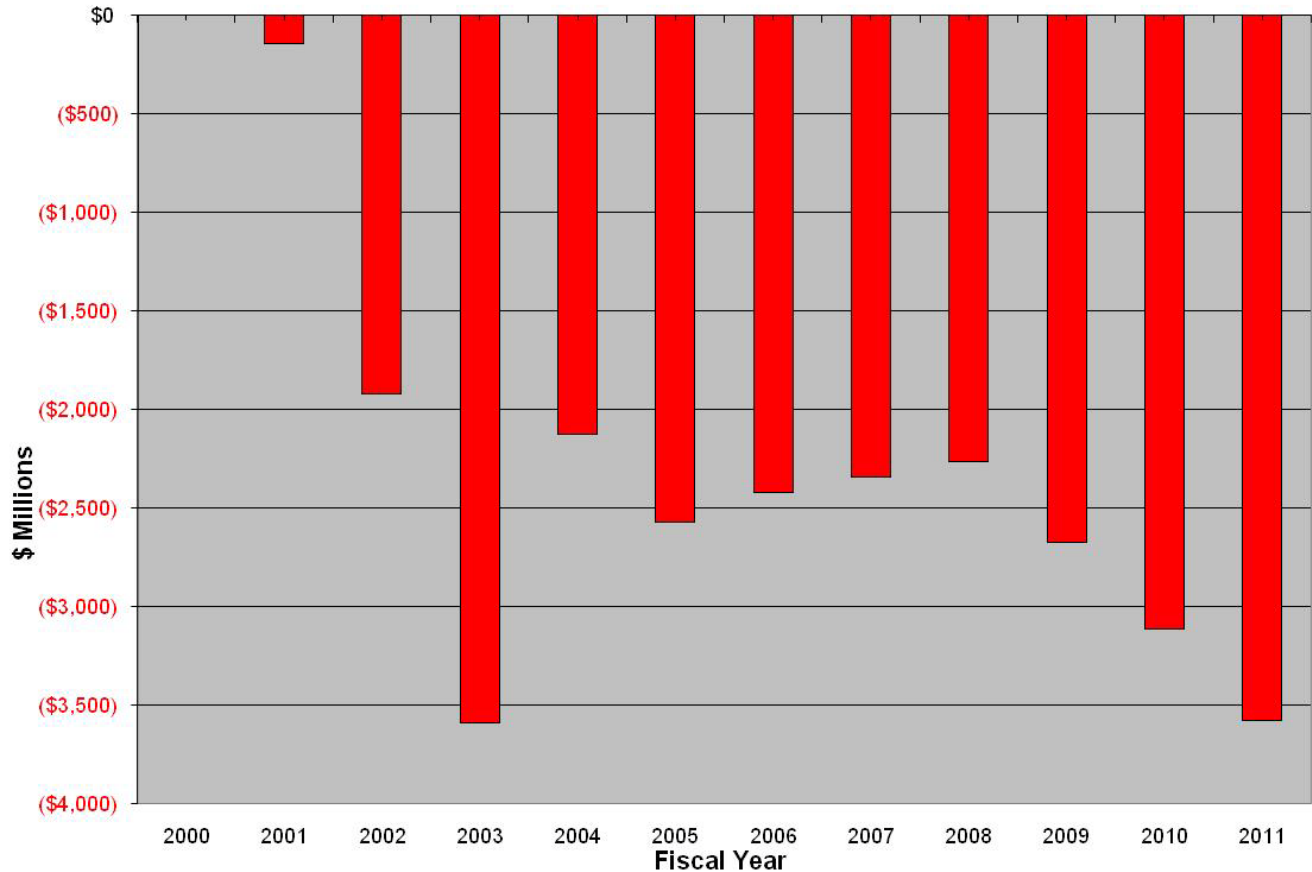
Notes: 1) DPH and HFS (Public Aid in 2000 and 2001)
 2) Aging, DCFS and DHS
 3) Corrections, Juvenile Justice, and State Police. No Juvenile Justice in FY 2000.

PRIMARY CAUSAL FACTORS WERE:

- **FLAWED TAX POLICY**
- **IRRESPONSIBLE FISCAL PRACTICES**
- **THE “GREAT RECESSION” OF 2008-2009**

FIVE CONSEQUENCE OF FLAWED TAX POLICY

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



*Cannot be solved with cuts alone

2. Cuts to Human Services

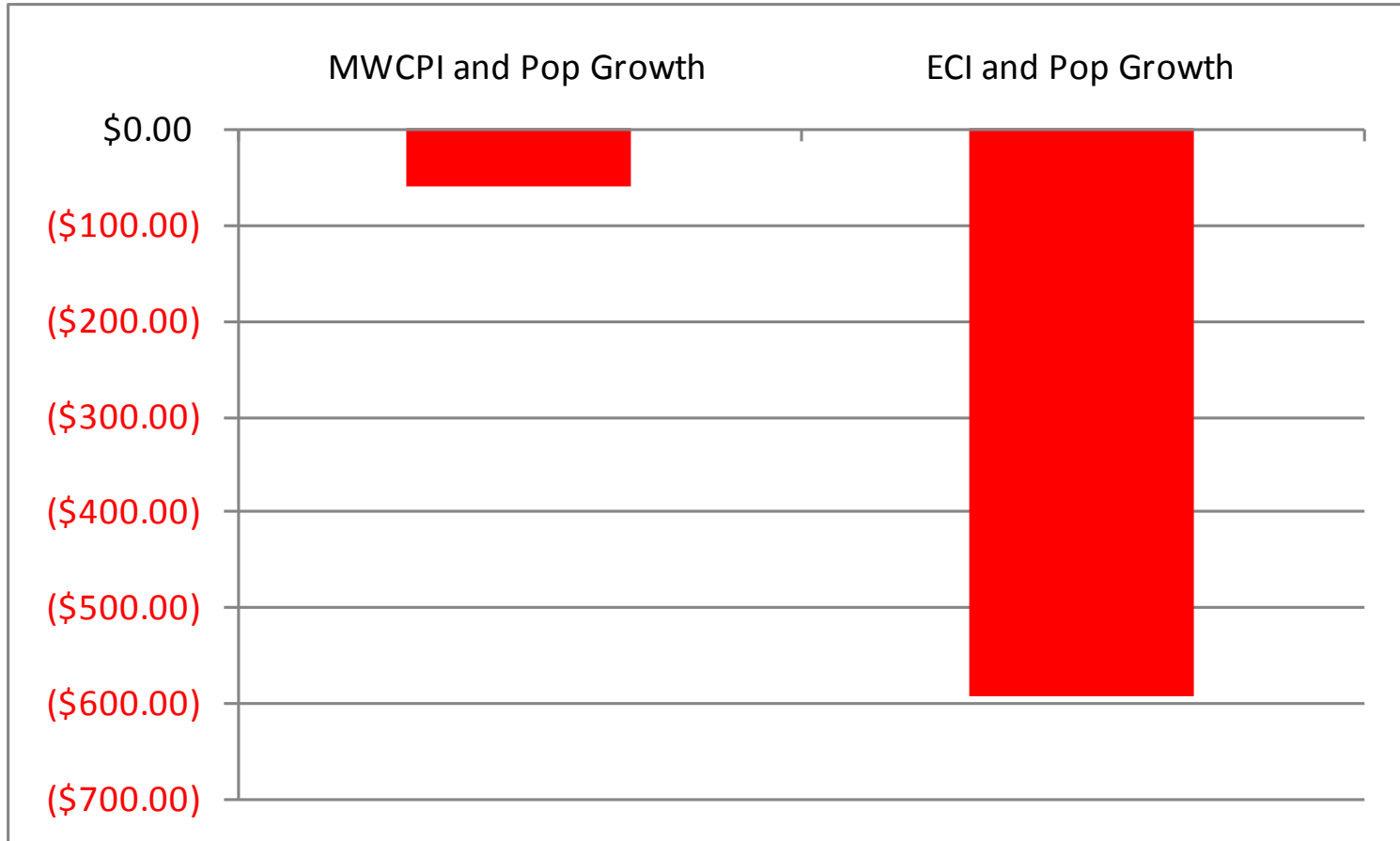
(\$ in Millions)

Category	FY2011 Enacted	FY2012 Enacted	\$ Change	% Change
Department of Aging	\$628	\$820.3	\$192	30.4%
Department of Child and Family Services	\$836	\$835.5	(-\$80)	(-0.1%)
Department of Human Services	\$3,663	\$3,205	(-\$457)	(-12.5%)
Total Across Agencies	\$5,128	\$4,860	(-\$266)	(-5.2%)

**One agency bears the
brunt of cuts: DHS**

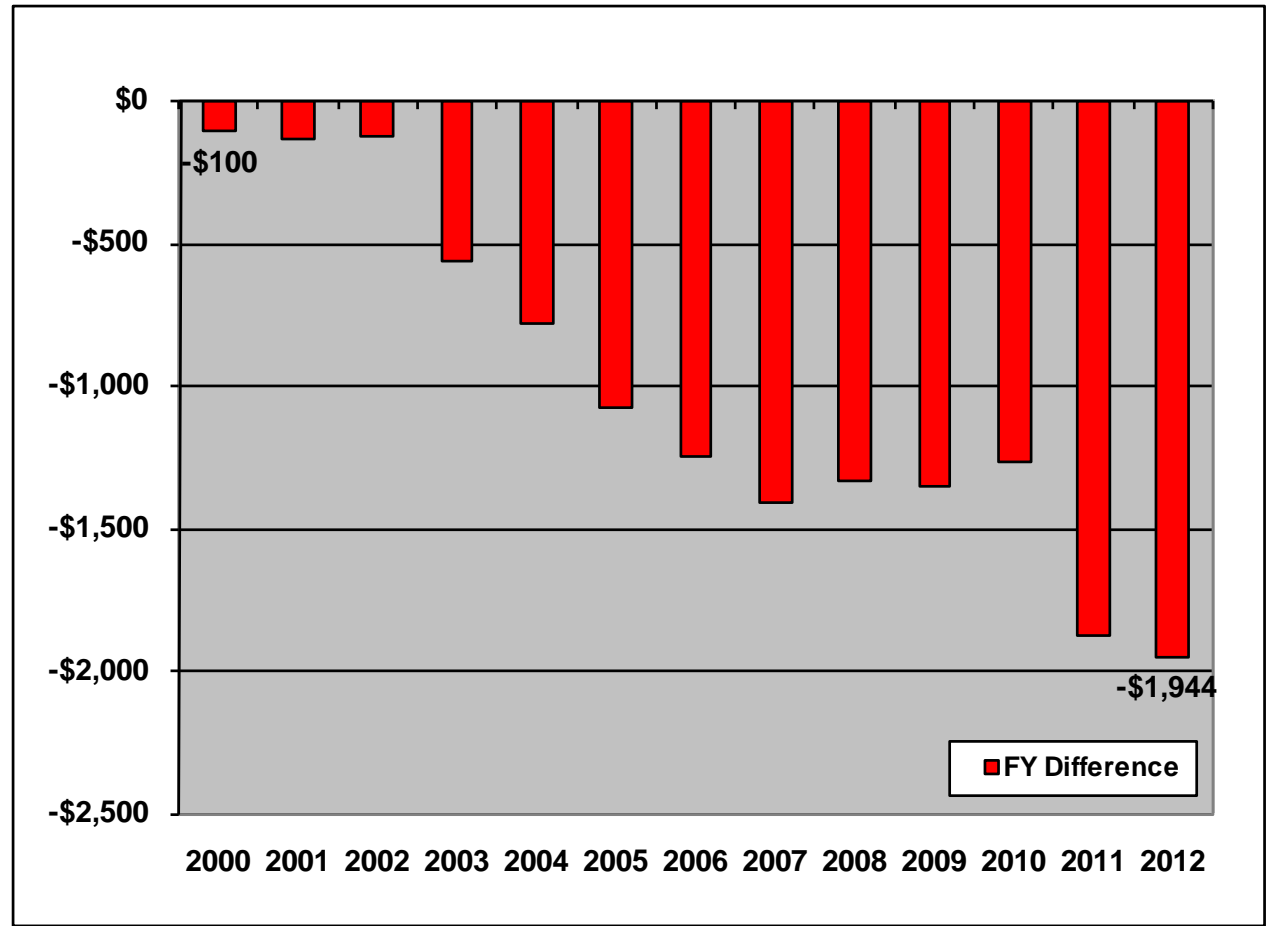
3. Cuts to Education

SHORTFALL IN FY2012 K-12 STATE EDUCATION FUNDING RELATIVE TO FY2000 ADJUSTED FOR INFLATION AND POPULATION GROWTH



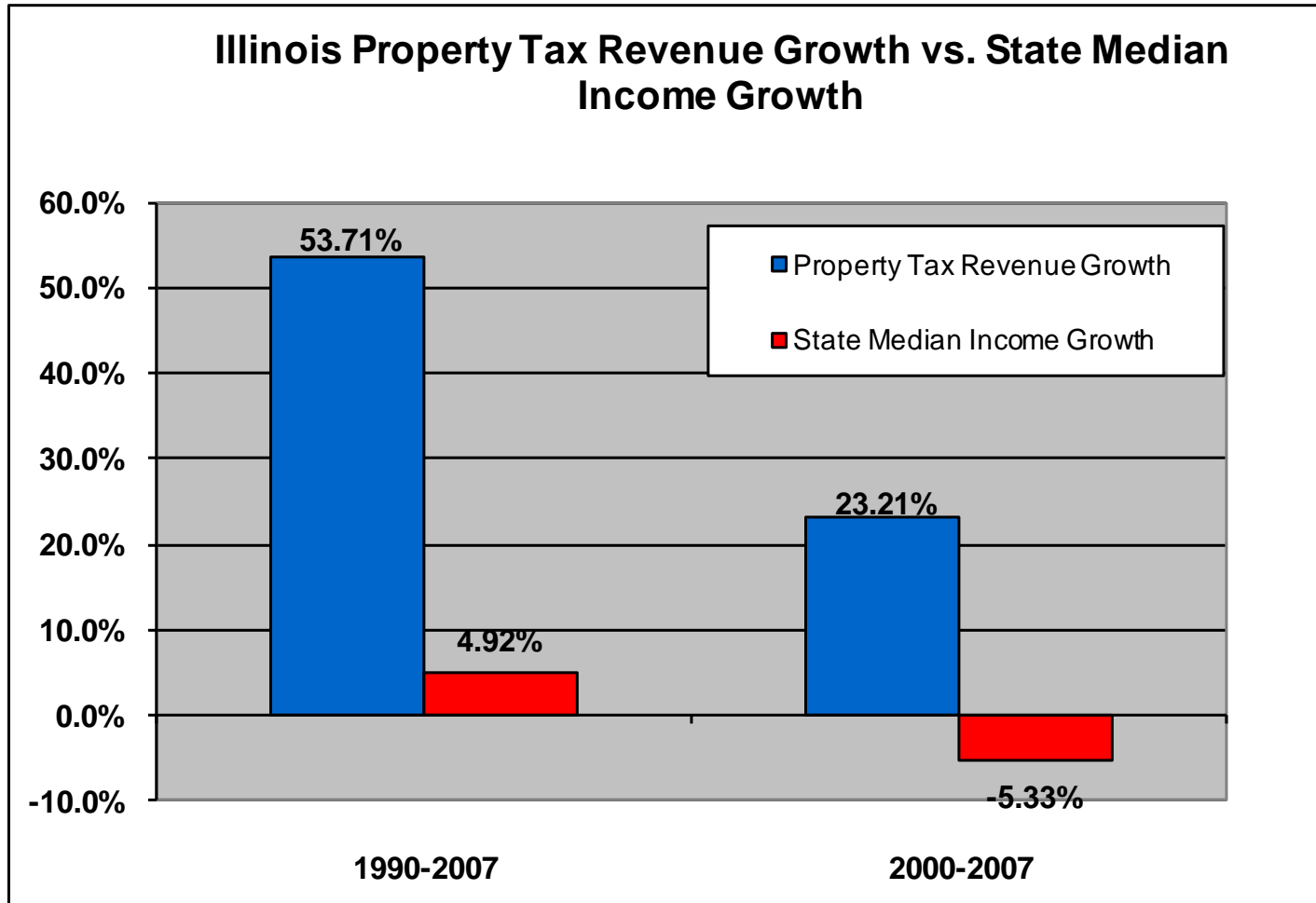
—WHICH AREN'T HELPING—

**\$ DIFFERENCE IN PER PUPIL
FOUNDATION LEVEL FUNDING
EFAB vs. ACTUAL**



The Illinois State Board of Education estimates it would cost \$3.1 billion to increase the current Foundation Level to the EFAB recommendation.

4. High Property Taxes

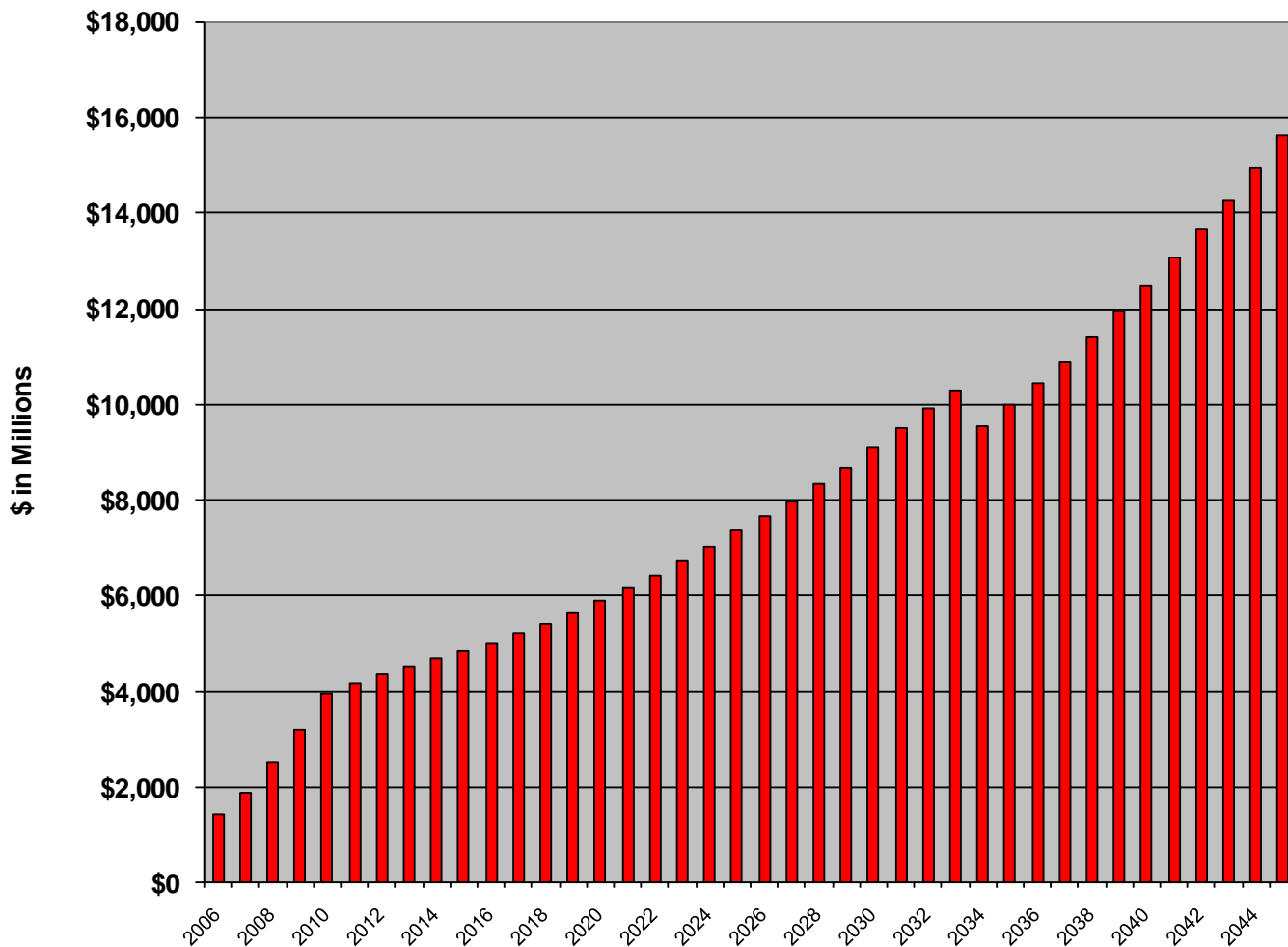


***NOTE: It's a fixed cost for business as well.**

5. Resulted in Irresponsible Fiscal Practices

THE RAMP

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



PARTIAL SOLUTION PASSED IN JANUARY 2011

A. New Annual Revenue Under P.A. 96-1496

<u>Item</u>	<u>New Annual Revenue to General Fund</u>
Increase Personal Income Tax Rate from 3% to 5%	\$6.05 B
Increase Corporate Income Tax Rate from 4.8% to 7%	\$770 M
Decouple from the Federal Repeal of the Estate Tax	\$182 *
Temporarily Suspend the Net Operating Loss Carry Forward for Corporations	\$250 M
Annual Net to General Fund	\$7.252 B **

* In FY2013 and FY2014, GOMB increases this estimate to \$240 M.

**NOTE: in FY2011 GOMB estimates the aforesaid tax increases will generate \$2.88 B in new General Fund revenue.

B. Spending Limits

Which are Funny — Because:

PROJECTED ANNUAL REVENUE SHORTFALLS UNDER SPENDING CAPS (CURRENT \$ IN BILLIONS)

Revenues	2012	2013	2014	2015
State Own Source ¹	\$22.18	\$22.34	\$22.98	\$23.39
Federal ¹	\$4.84	\$5.13	\$5.44	\$5.77
Individual Income Tax ²	\$6.05	\$6.22	\$6.39	\$2.40
Corporate Income Tax ³	\$0.77	\$0.80	\$0.84	\$0.17
Estate Tax ⁴	\$0.18	\$0.24	\$0.24	\$0.24
Suspension of Net Operating Loss Carryover ⁴	\$0.25	\$0.25	\$0.25	\$0.25
Loss of Federal Medicaid Match ⁴	(\$0.20)	(\$0.30)	(\$0.40)	(\$0.40)
Loss of Tobacco Litigation Proceeds ⁴	(\$0.14)	(\$0.14)	(\$0.14)	(\$0.14)
Total Revenue projected to be available ⁵	\$33.93	\$34.55	\$35.61	\$31.68
Annual Spending Caps	\$36.82	\$37.55	\$38.31	\$39.07
Annual Revenue Shortfall	(\$2.89)	(\$3.00)	(\$2.70)	(\$7.39)
Notes: See Appendix				

AS FOR

CORPORATE TAX RATES

Who's Gonna Move?

Illinois: 7% until 2015, then 5.25%

Midwest

Iowa: 6 – 12% (12% @ \$250,000)

Indiana: 8.5%

Wisconsin: 7.9%

Missouri: 6.25%

Kentucky: 4.6%

Michigan: 4.9%

Big States

Pennsylvania: 9.99%

New Jersey: 9%

California: 8.84%

New York: 7.1%

Florida: 5.5%

MEANWHILE, PRE-TAX INCREASE

IL State Own-Source Revenue Under Neighboring State Revenue Shares FY2008 Current \$ Billions		
	State Own-Source Revenue as a Percentage of Personal Income	Increase or Decrease in IL GF Revenue if Illinois Had Equal State-Based Tax Burden as a Percentage of State Income
Illinois	7.6%	
Indiana	9.7%	+ \$11.16 B
Iowa	9.7%	+ \$11.16 B
Kentucky	10.7%	+ \$16.48 B
Missouri	7.6%	\$0
Wisconsin	10.1%	+ \$13.29 B

Sources:
 1) 2008 State Revenue as a Percentage of Personal Income, Federation of Tax Administrators, updated July 19, 2010.
 2) Increases based on BEA 2008 Illinois Personal Income of \$531.591 B

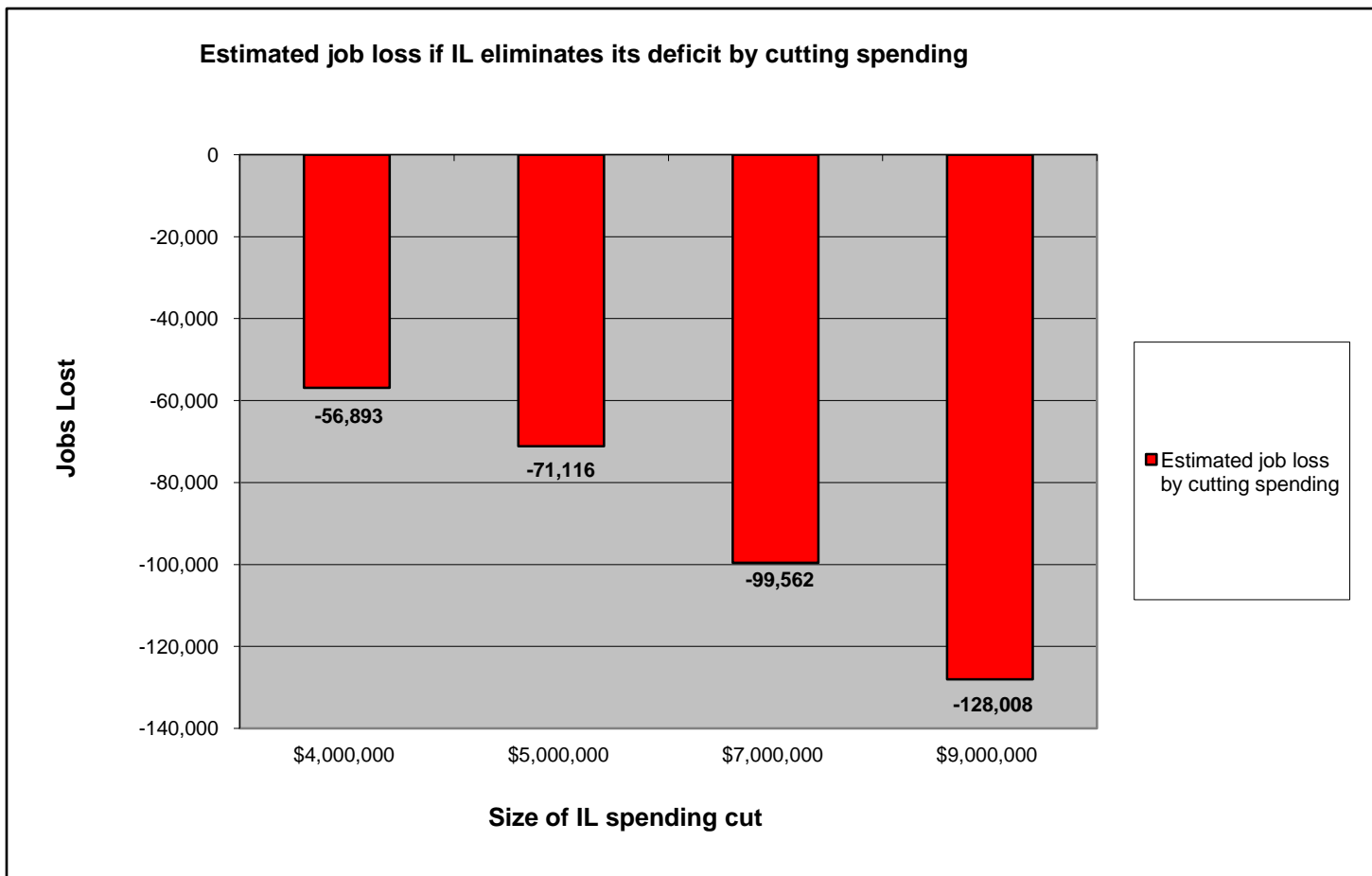
.....AND, “POST-TAX INCREASE”

IL State Own-Source Revenue Under Neighboring State Revenue Shares FY 2008 Current \$ Billions After Passage of the 2011 Tax Increase		
	Share Own-Source Revenue as a Percentage of Personal Income	Increase or Decrease in IL GF Revenue Revenue if Illinois Had Equal State-Based Tax Burden as a Percentage of State Income
Illinois*	8.8%	
Indiana	9.8%	\$5.5
Iowa	9.7%	\$5.0
Kentucky	10.7%	\$10.5
Missouri	7.6%	(\$6.7)
Wisconsin	10.1%	\$7.2

Sources:
 1) 2008 State and Local Revenue as a Percentage of Personal Income, Federation of Tax Administrators, updated July 19, 2010.
 2) Increases based on BEA 2008 Illinois Personal Income.
 * This overstates the actual new tax burden.

OH — & THEN THERE'S

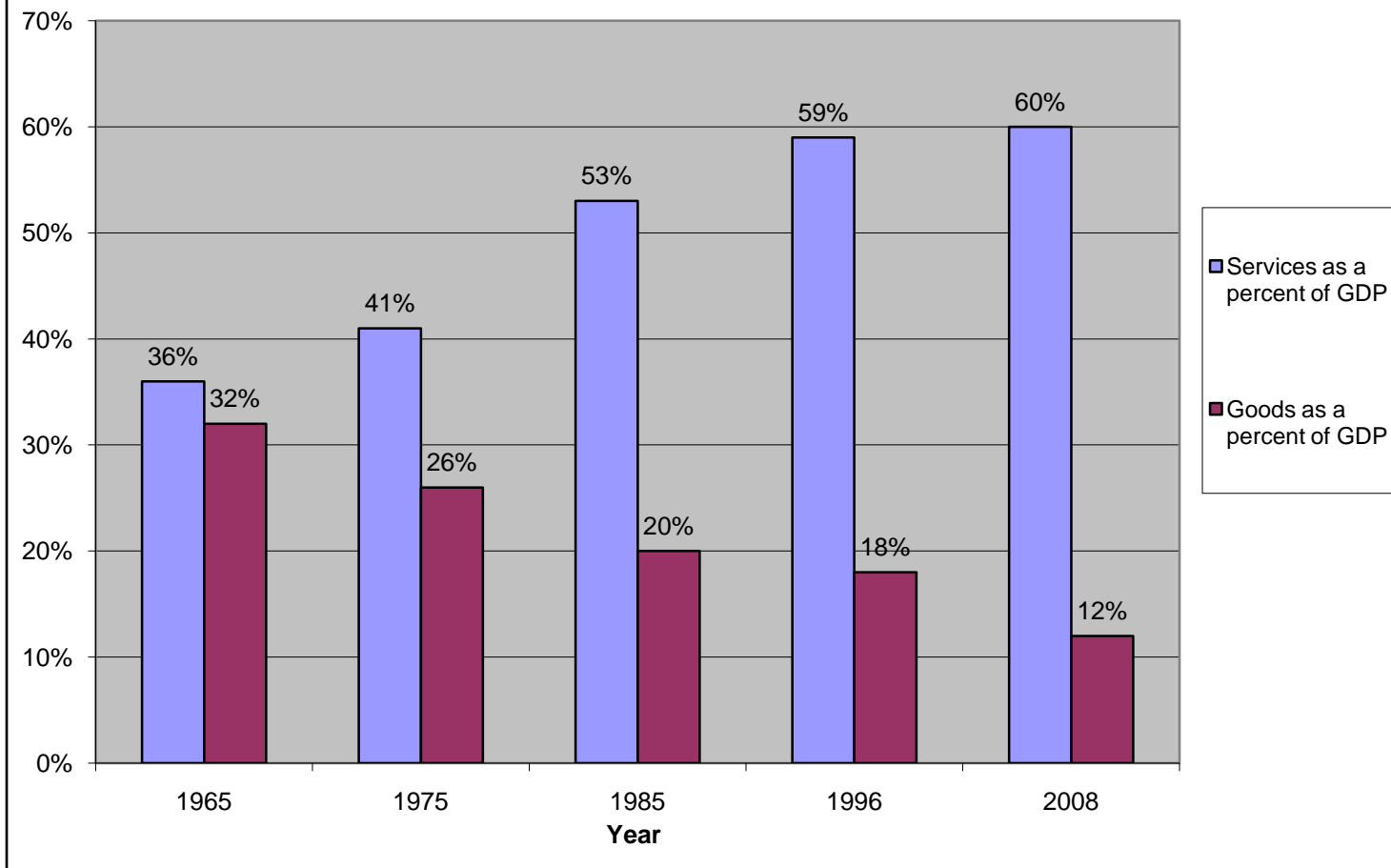
HURTING THE PRIVATE SECTOR ECONOMY WITH CUTS



FUTURE OPTIONS :

- **BORROWING FROM FINANCIAL INSTITUTIONS TO PAY OVERDUE BILLS AND COVER OPERATING COSTS**
- **CONTINUED DEFERMENT OF PAYMENTS OWED PROVIDERS**
- **FURTHER CUTTING APPROPRIATIONS FOR SERVICES**
- **RAISING REVENUE THE RIGHT WAY:**
 - Expanding sales tax to services
 - Taxing some retirement income
 - A progressive income tax
 - Decoupling from Bonus Depreciation (+ \$600 M)
 - Use realistic revenue forecasts (\$33.9 B vs. \$33.17 B) – a gain of \$600 M

Revenues of Goods and Services as a Percent of Gross Domestic Product: Illinois (SIC:1965-1996, NAICS: 2008)



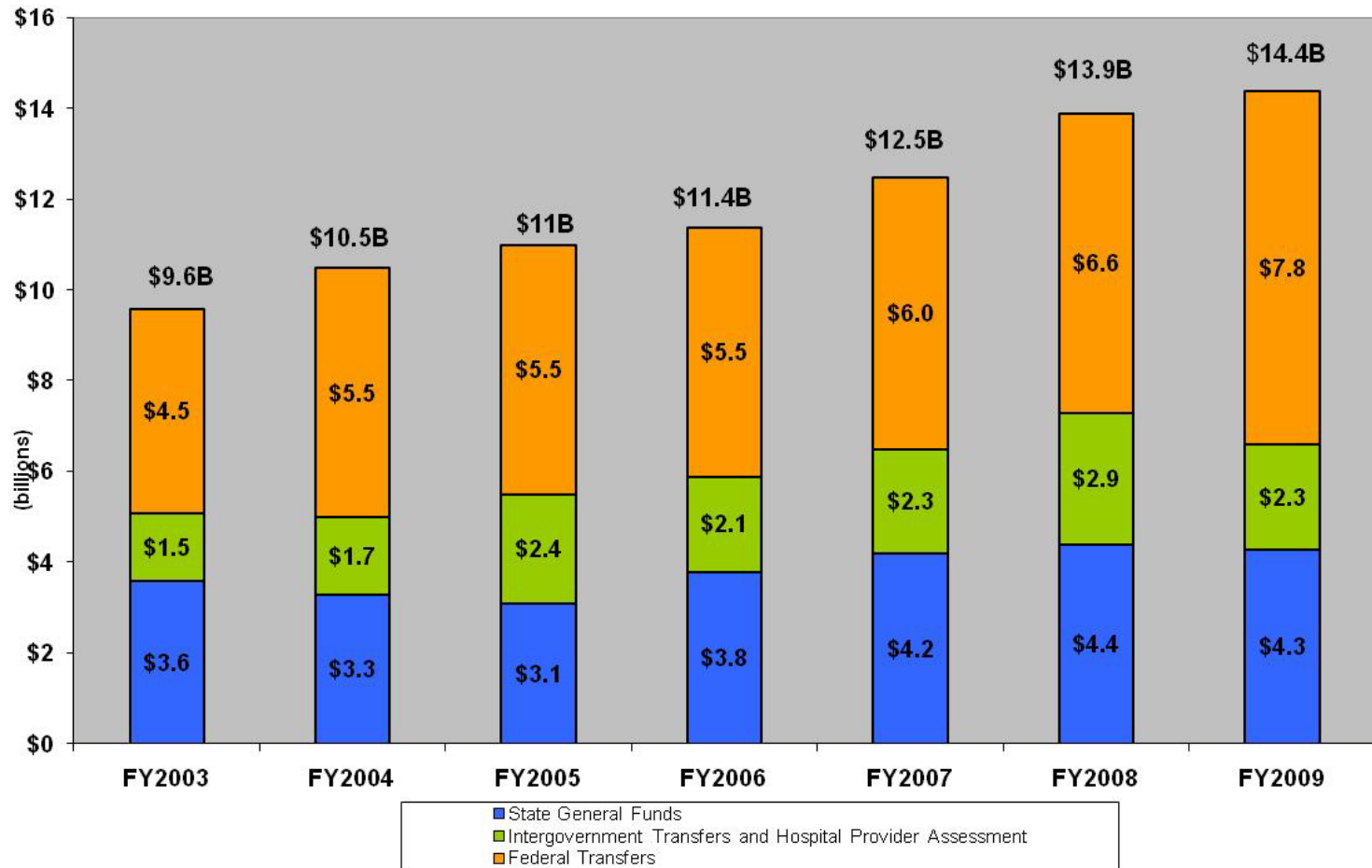
RETIREMENT INCOME

ABOVE \$50,000  **\$362.7 M**
(\approx 18%)

ABOVE \$100,000  **\$111.8 M**
(\approx 3.4%)

AS FOR HEALTHCARE, WELL.....

MEDICAID SPENDING BY FUNDING SOURCE (FEDERAL, STATE AND LOCAL)



Data Source: National Association of State Budget Officers, Annual State Expenditure Reports.

FOR MORE INFORMATION:

CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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