

CTBA

Center for Tax and  
Budget Accountability

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# *Resolving Illinois' Fiscal Problems to Build the Capacity to Fund the EBF*

**MONDAY, APRIL 22, 2019**

**LEAGUE OF WOMEN VOTERS – NORTH LAKE COUNTY**

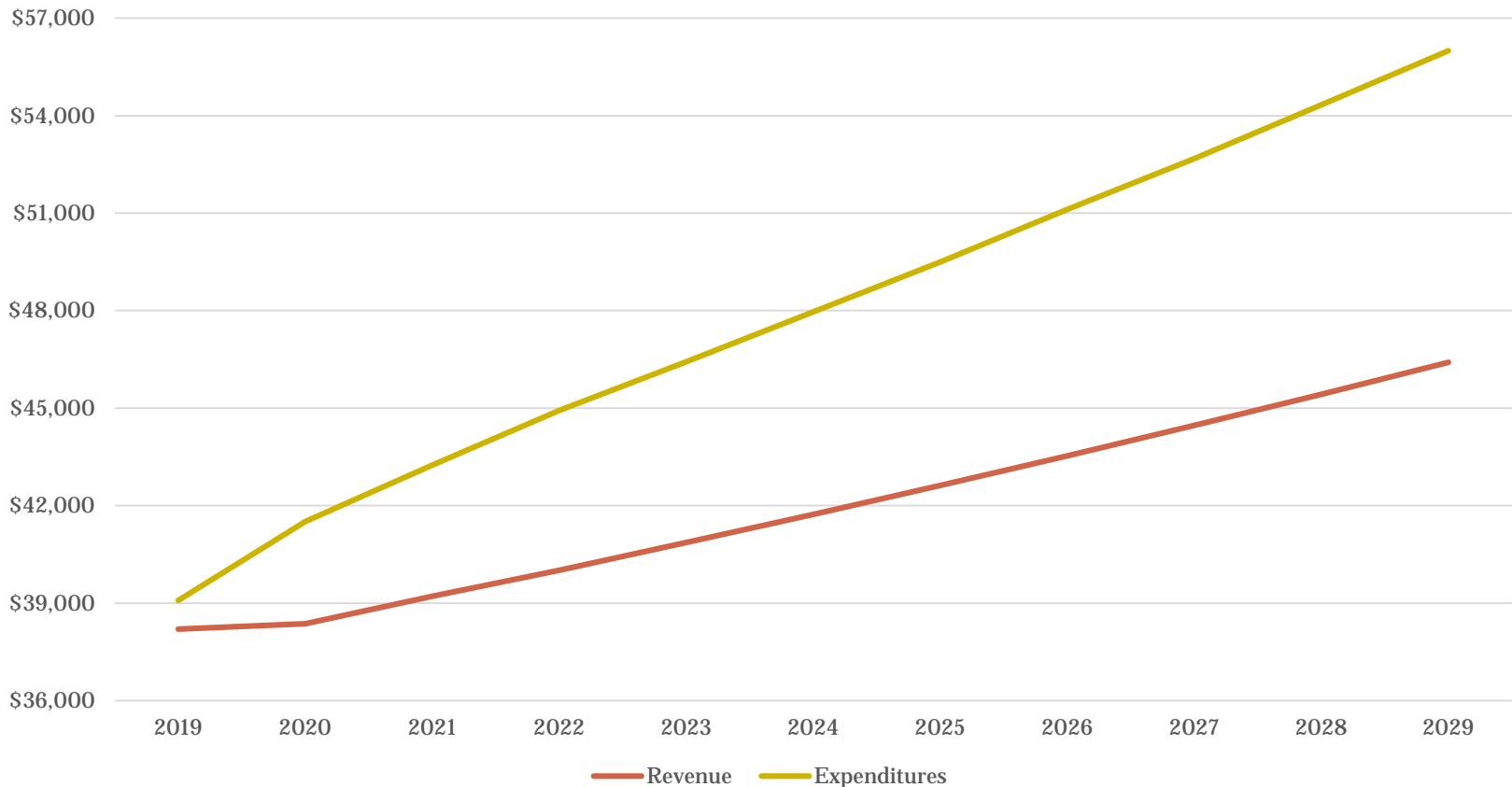
**GRAYSLAKE NORTH HIGH SCHOOL**

**1925 N. ILLINOIS 83, GRAYSLAKE, IL**

**Presented by:**

**Ralph M. Martire, Executive Director, Center for Tax and Budget Accountability  
and Arthur Rubloff Endowed Professor of Public Policy at Roosevelt University**

# The Problem Remains: Illinois has a Structural Deficit (Full Funding of EBF)



Source: CTBA analysis of COGFA figures. Assumes expenditures keep pace with inflation and funding of the Evidence Based Formula as required under P.A. 100-0465, a total increase of \$7.4 billion (on a fully inflation-adjusted basis in FY2018 dollars) by FY2029 (which totals \$9.17 billion in FY2029); assumes revenues grow at historic rates, and assumes no change in law.

# FY2019 General Fund Budget

Category	Appropriation
<b>1. Net General Fund Appropriations — After Unspent</b>	<b>\$38,643</b>
<b>2. Total Hard Costs</b>	<b>\$13,370</b>
Debt Service (Pension & Capital Bonds)	\$3,432
Pension Contributions	\$7,478
Other Statutory Transfers Out	\$434
Group Health Insurance	\$2,026
<b>3. General Fund Service Appropriations (Gross)</b>	<b>\$27,230</b>
Healthcare (including Medicaid)	\$7,930
Early Childhood Education	\$494
K-12 Education	\$7,891
Higher Education	\$1,789
Human Services	\$5,906
Public Safety	\$1,735
Other	\$1,485
Unspent Appropriations	(\$1,050)
<b>4. Net General Fund Service Appropriations</b>	<b>\$26,179</b>

95%

Sources: CTBA analysis of P.A. 100-0586, P.A. 100-0587, Governor Bruce Rauner's Fiscal Year 2019 Proposed Budget, COGFA, *State of Illinois Budget Summary Fiscal Year 2019*

# FY2019 Estimated Accumulated Deficit

Step	Revenue	\$ Millions	Spending	\$ Millions	Remaining Revenue (Revenue – Spending)
(i)	FY2019 Revenue	\$38,360	FY2019 Hard Costs	\$13,370	\$24,990
(ii)	Revenue After Hard Costs	\$24,990	Accumulated Deficit Carry Forward from FY2018	(\$6,956)	\$18,034
(iii)	Projected Net FY2019 General Fund Revenue Available for Services	\$18,034	Projected Net General Fund Service Appropriations after Unspent Appropriations	\$26,179	(\$8,145)
			Surplus/Deficit Remaining after General Fund Service Spending		(\$8,145)
<b>Projected Accumulated FY2020 General Fund Deficit</b>				<b>(\$8,145)</b>	
<b>Projected Deficit as a Percentage of General Fund Service Appropriations</b>				<b>-31%</b>	

Source: GOMB, FY2020 Operating Budget Book and FY18 Q4 Comptroller Quarterly Report. Does not include revenues or expenditures from interfund borrowing or Treasurer's investment borrowing.

# General Fund Spending on Current Services, FY2019 Compared to FY2020 (\$ Millions)

Category	FY2019 General Fund Budget	FY2020 Proposed General Fund Budget	\$ Difference	% Change
<b>K-12 Education</b>	\$7,891	\$8,289	\$398	5.1%
<b>Early Childhood Education</b>	\$494	\$594	\$100	20.0%
<b>Higher Education</b>	\$1,789	\$1,920	\$131	7.3%
<b>Healthcare</b>	\$7,930	\$7,950*	\$20	0.0%
<b>Human Services</b>	\$5,906	\$6,448	\$542	9.2%
<b>Public Safety</b>	\$1,735	\$1,855	\$120	6.9%
<b>Net General Fund Service Appropriations</b>	\$26,179	\$27,586	\$1,407	5.4%

Source: GOMB, FY2020 Operating Budget Book. Healthcare spending in FY2020 budget includes \$722 million cut from General Fund transfers to Healthcare Provider Relief Fund to maintain year-to-year comparability.

# FY2020 Proposed New Revenue

FOR MEDICAID TRUST FUND	
MCO Assessment	\$390 M
Cigarette Tax Increase	\$55 M
E-Cigarette Tax	\$10 M
	<b>\$455 M</b>

FOR GENERAL FUND	
Decouple from Federal Tax Credit for Repatriated Corporate Income	\$94 M
Recreational Cannabis Fees	\$170 M
Plastic Bag Tax	\$19-23 M
Sports Wagering	\$212 M
Create Progressivity in Video Gaming	\$89 M
Cap Retailers Discount	\$75 M
Phase-out Private School Scholarship Credit	\$6 M
Delinquent Tax Payment Incentive	\$175 M
	<b>\$840-843 M</b>

# Breakdown of Districts Spending Above and Below Adequacy Targets

	Count	% of All Districts	% of Students who are White	% of Students who are Black	% of Students who are Latino
<b>Districts Spending Above Adequacy Targets</b>	146	17.12%	67.62%	4.08%	14.40%
<b>Districts Spending Below Adequacy Targets</b>	707	82.88%	46.00%	19.56%	27.27%

Source: CTBA analysis of ISBE FY2015, FY2016, and FY2017 Illinois Report Cards; CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations

# Average Adequacy Gap per Pupil by Geographic Region

	Average Enrollment, 2015-2017	Total Adequacy Gap, Weighted	Adequacy Gap per Pupil
<b>Cook (not CPS)</b>	<b>378,972</b>	<b>\$597,179,619</b>	<b>\$1,575.79</b>
<b>CPS</b>	390,938	\$2,030,547,291	<b>\$5,194.04</b>
<b>Collar Counties</b>	570,881	\$1,384,627,905	\$2,425.42
<b>Downstate</b>	777,762	\$2,553,750,024	\$3,283.46
<b>Total</b>	<b>2,150,697</b>	<b>\$6,566,104,840</b>	<b>\$3,053.01</b>

Source: CTBA analysis of ISBE FY2015, FY2016, and FY2017 Illinois Report Cards; CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations



## Average Adequacy Gap per Pupil by Race/Ethnicity, Excluding Districts Spending in Excess of Adequacy Target

	Average Enrollment, 2015-2017	Total Adequacy Gap, Weighted	Adequacy Gap per Pupil
<b>White</b>	854,854	\$2,829,200,598	\$3,309.57
<b>Black</b>	348,085	\$1,620,778,837	\$4,656.28
<b>Latino</b>	489,610	\$2,386,295,960	\$4,873.87
<b>Total</b>	1,838,110	\$7,369,105,965	\$4,009.07

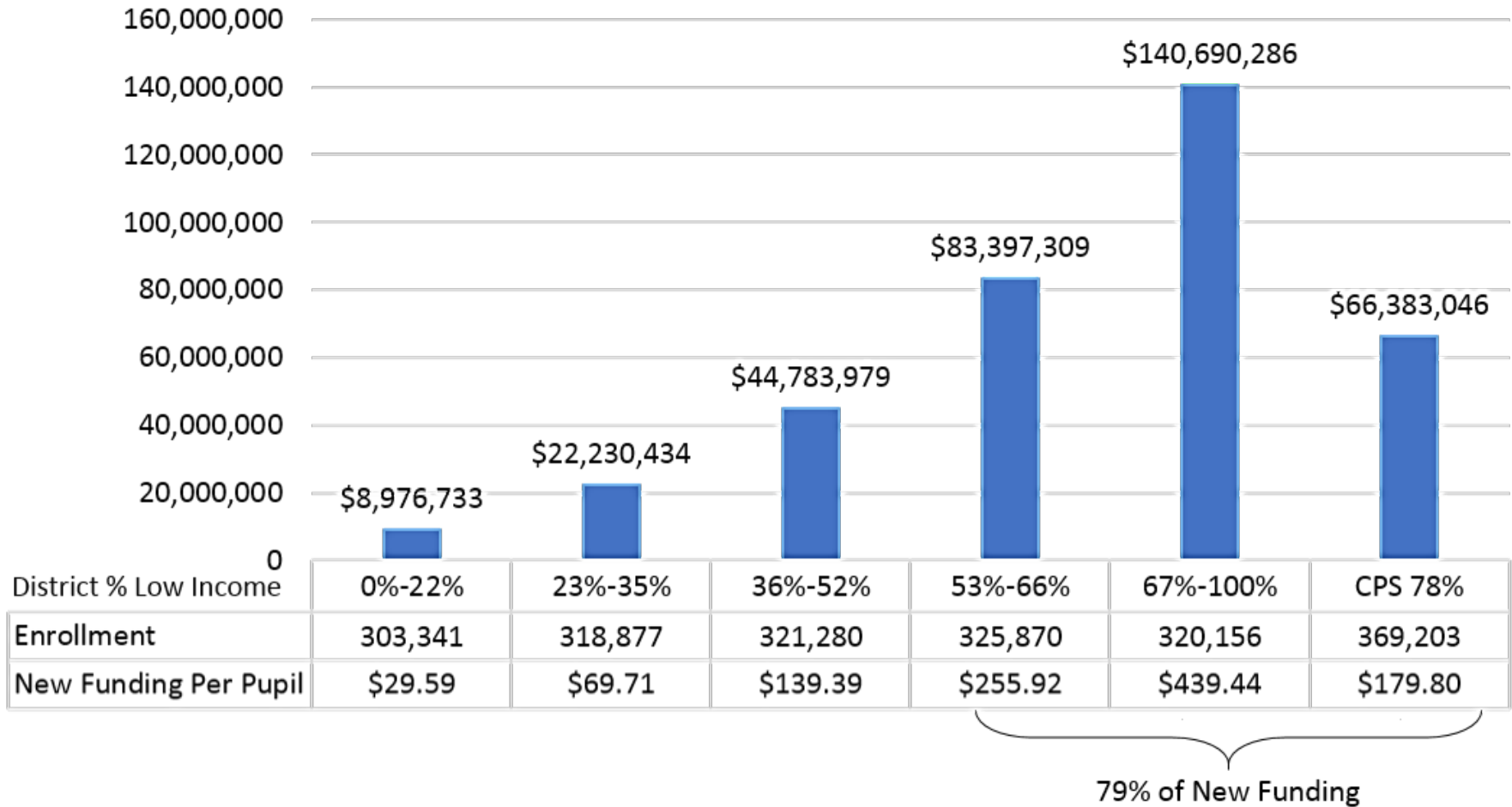
Source: CTBA analysis of ISBE FY2015, FY2016, and FY2017 Illinois Report Cards; CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations

# FY2018 EBF Funding Distribution

	New \$	% of New Money
<b>Tier 1</b>	\$326,630,217	89.09%
<b>Tier 2</b>	\$36,313,680	9.91%
<b>Tier 3</b>	\$3,299,490	0.90%
<b>Tier 4</b>	\$366,609	0.10%
<b>Total</b>	\$366,609,996	100.00%

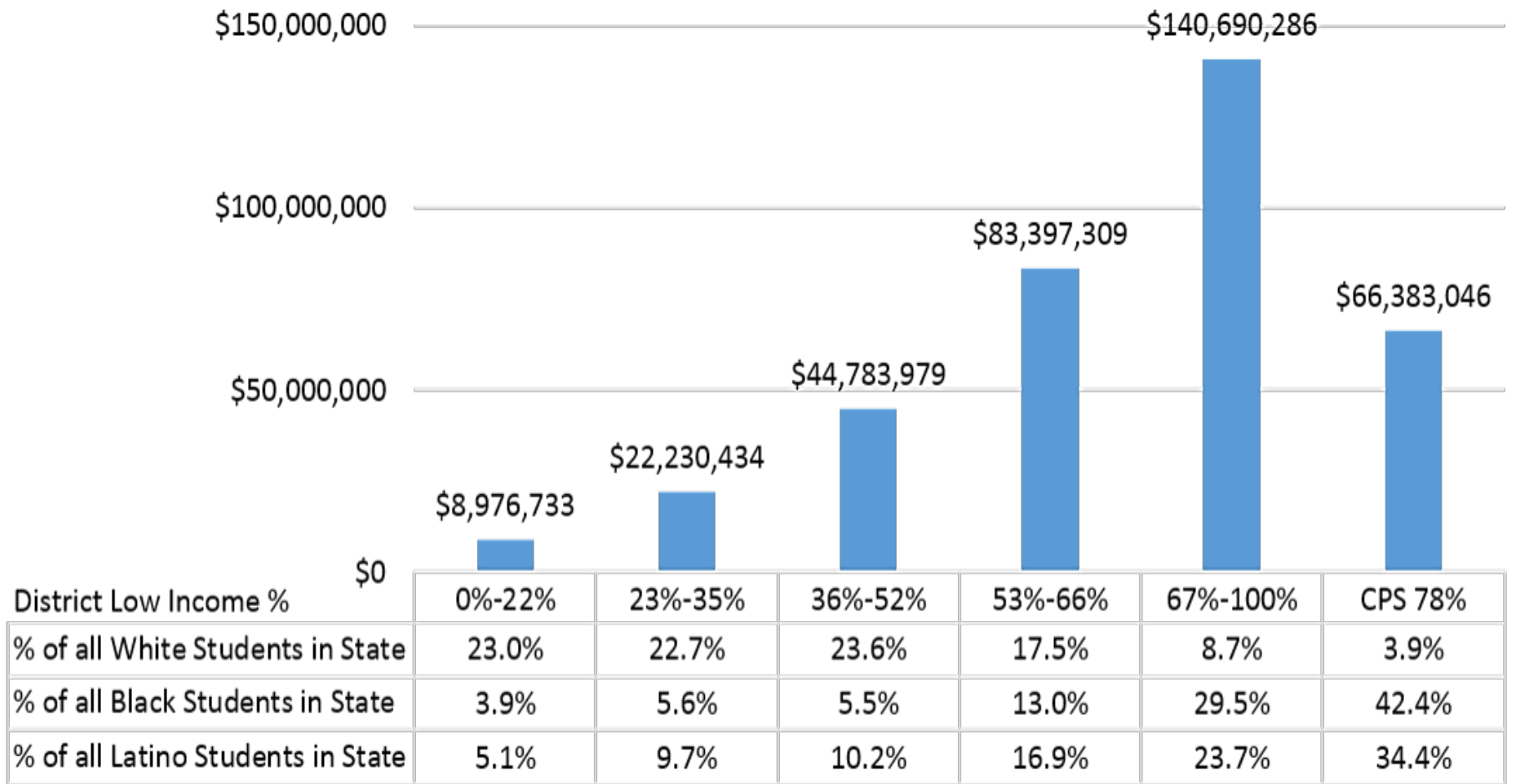
Source: CTBA analysis of ISBE FY18 EBF Quickfacts

# Distribution of \$366M in New FY2018 EBF Funding by Low Income Concentration, FY2018



Source: CTBA analysis of FY2018 EBF Distribution Full Calculation

# Distribution of \$366M in New FY2018 EBF Funding by Low-Income Concentration and Race/Ethnicity



Sources: CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations; Enrollment by race from ISBE FY2017 Report Card data

So: 79% of new funding also goes to schools educating 85% of all black and 75% of all Latino students

**WE JUST NEED  
\$7.3 B TO FINISH  
THE JOB**



# EBF Shortfall in Millions of Inflation-Adjusted Dollars after \$350M/year New Money until Fully Funded

	FY2019	FY2020	FY2030	FY2040	FY2051
<b>Total Funding Needed to Fund EBF Fully (infl adj)</b>	\$7,350	\$7,504	\$9,284	\$10,522	\$11,055
<b>Total New Money Put into EBF since FY2020</b>	--	\$350	\$3,850	\$7,350	\$11,200
<b>Shortfall/Surplus (infl adj)</b>	-\$7,350	-\$7,154	-\$5,434	-\$3,172	\$144

Source: CTBA analysis of ISBE FY2019 EBF Calculation using Bureau of Labor Statistics ECI historical data.

# EBF Shortfall in Millions of Inflation-Adjusted Dollars, Fully Funding EBF in 10 Years

	FY2019	FY2020	FY2025	FY2030
<b>Total Funding Needed to Fund EBF Fully (infl adj)</b>	\$7,350	\$7,504	\$4,371	\$779
<b>Total New Money Put into EBF since FY2020</b>		\$779	\$4,676	\$8,572
<b>Shortfall/Surplus (infl adj)</b>		<b>-\$6,725</b>	<b>-\$3,592</b>	<b>\$0</b>

Source: CTBA analysis of ISBE FY2019 EBF Calculation using Bureau of Labor Statistics ECI historical data.

# EBF Shortfall in Millions of Inflation-Adjusted Dollars, Fully Funding EBF in 5 Years

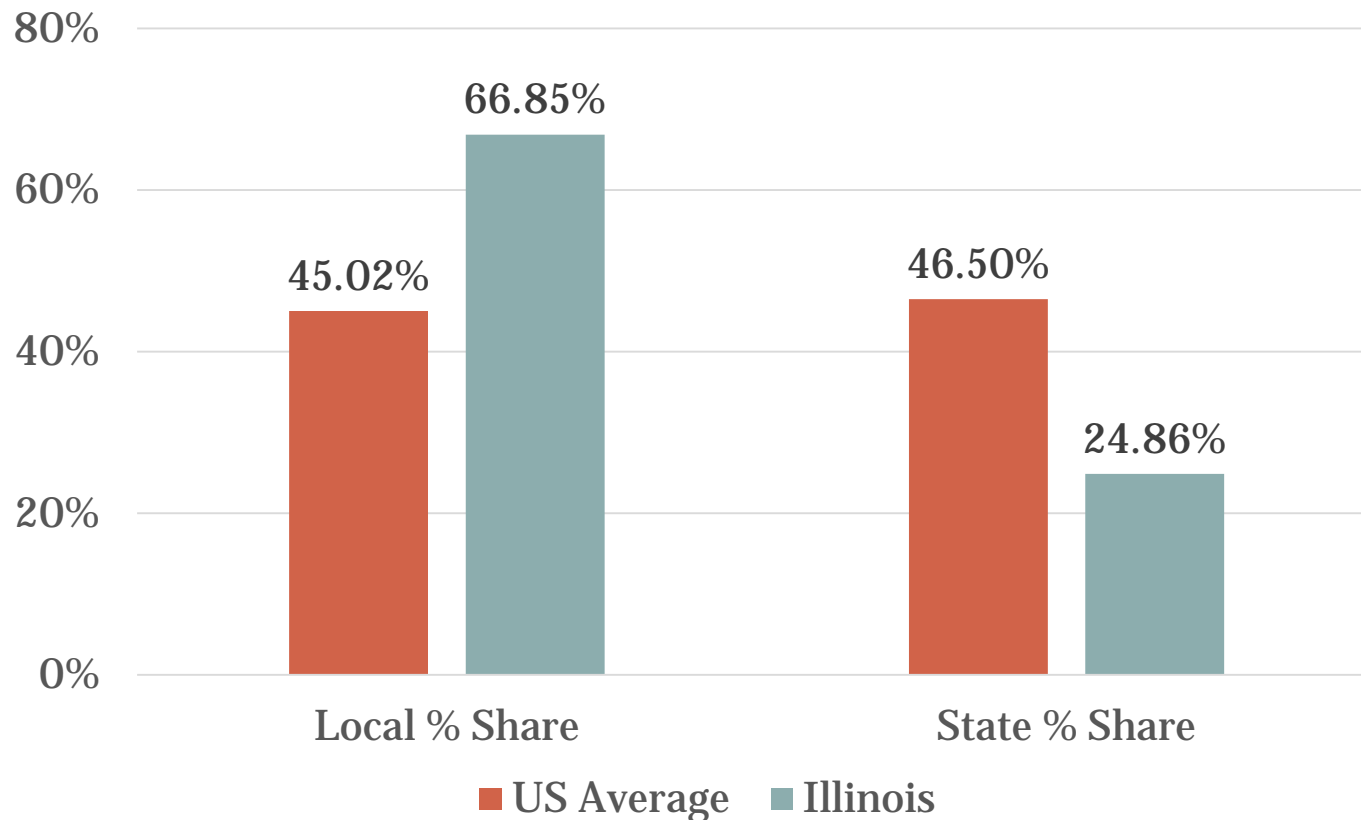
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Total Funding Needed to Fund EBF Fully (infl adj)</b>	\$7,350	\$7,504	\$7,669	\$7,793	\$7,878	\$7,920
<b>Total New Money Put into EBF since FY2020</b>		\$1,584	\$3,168	\$4,752	\$6,336	\$7,920
<b>Shortfall/Surplus (infl adj)</b>	<b>-\$7,350</b>	<b>-\$5,920</b>	<b>-\$4,500</b>	<b>-\$3,041</b>	<b>-\$1,541</b>	<b>\$0</b>

Source: CTBA analysis of ISBE FY2019 EBF Calculation using Bureau of Labor Statistics ECI historical data.



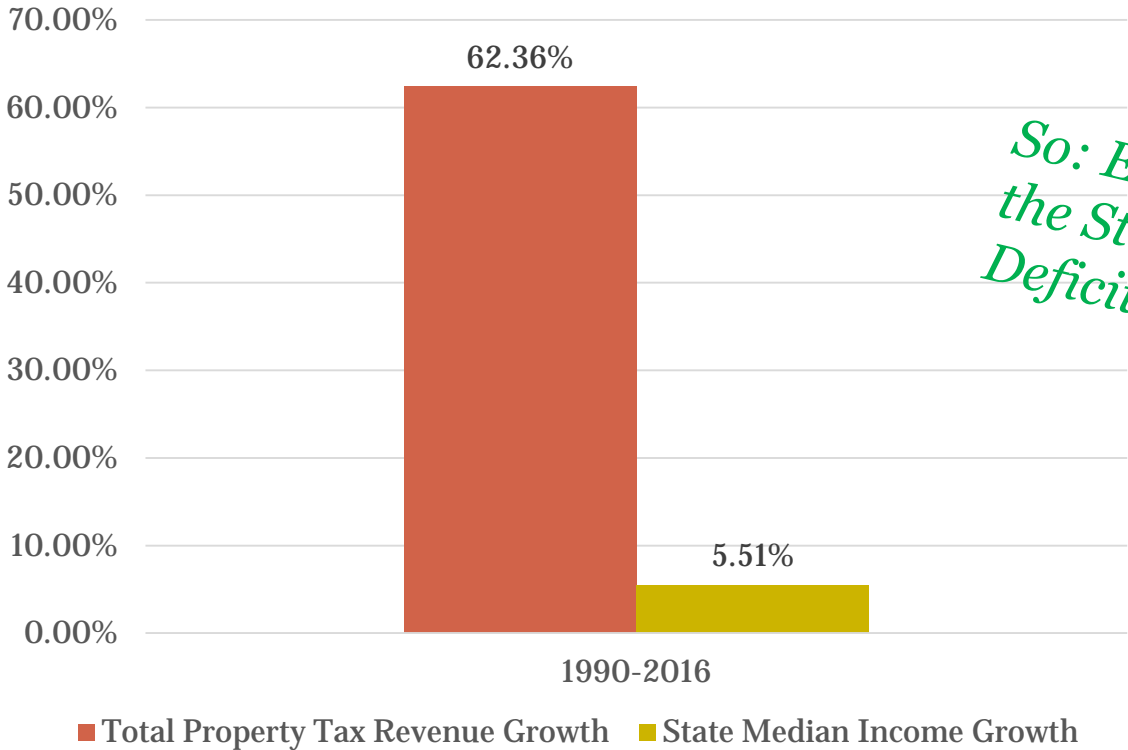
# We Want the State to Fund the EBF —NOT Property Taxes:

## Local and State Share of Education Funding Spending, FY2016



# THE CURRENT RESOURCE SOURCING IS BAD FOR TAXPAYERS AND SCHOOLS

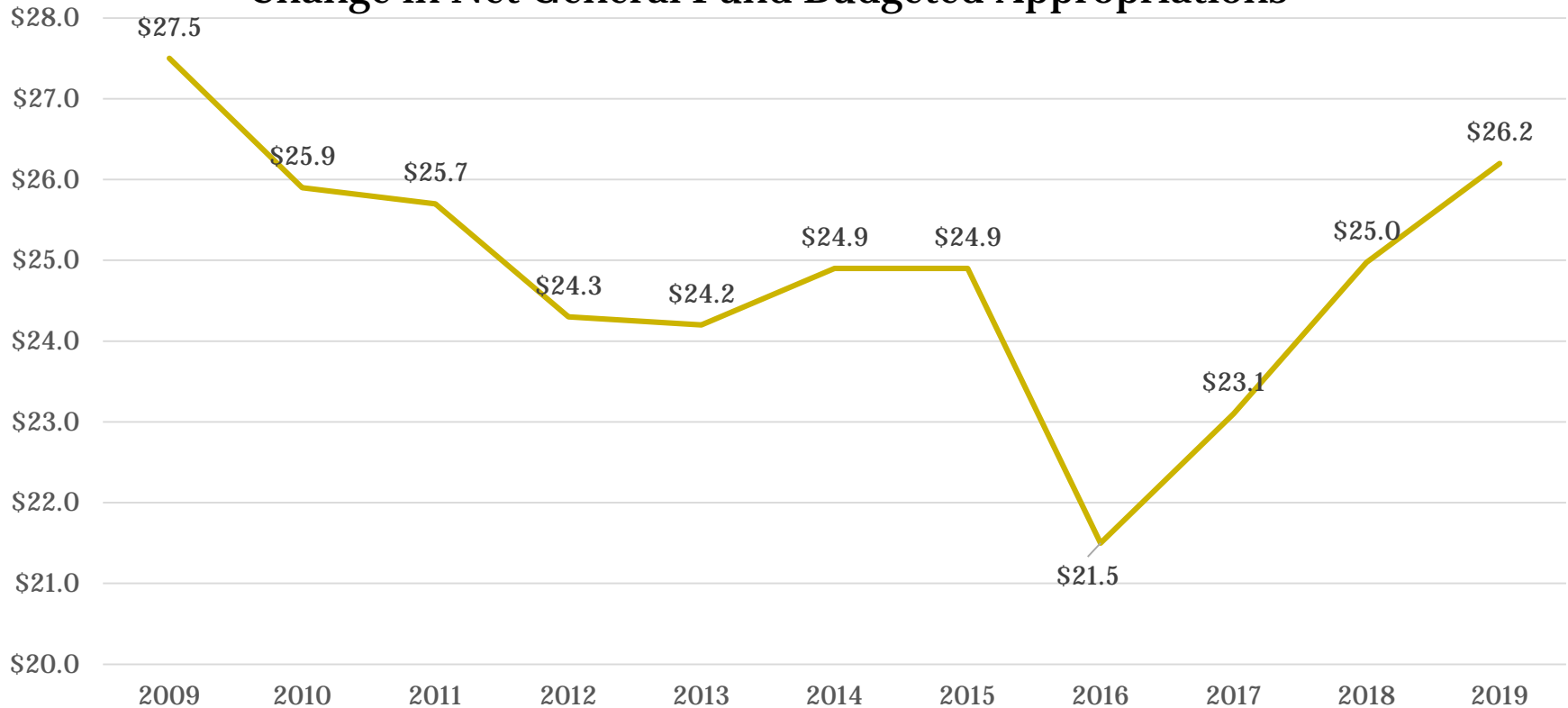
## Illinois Total Property Tax Revenue Growth vs. State Median Income Growth



All data inflation adjusted to 2016 using CPI-U-RS  
Income Data: US Department of Census, Current Population Survey  
Property Tax Data: Illinois Department of Revenue

# Service Spending Did Not Create the Structural Deficit

## Change in Net General Fund Budgeted Appropriations



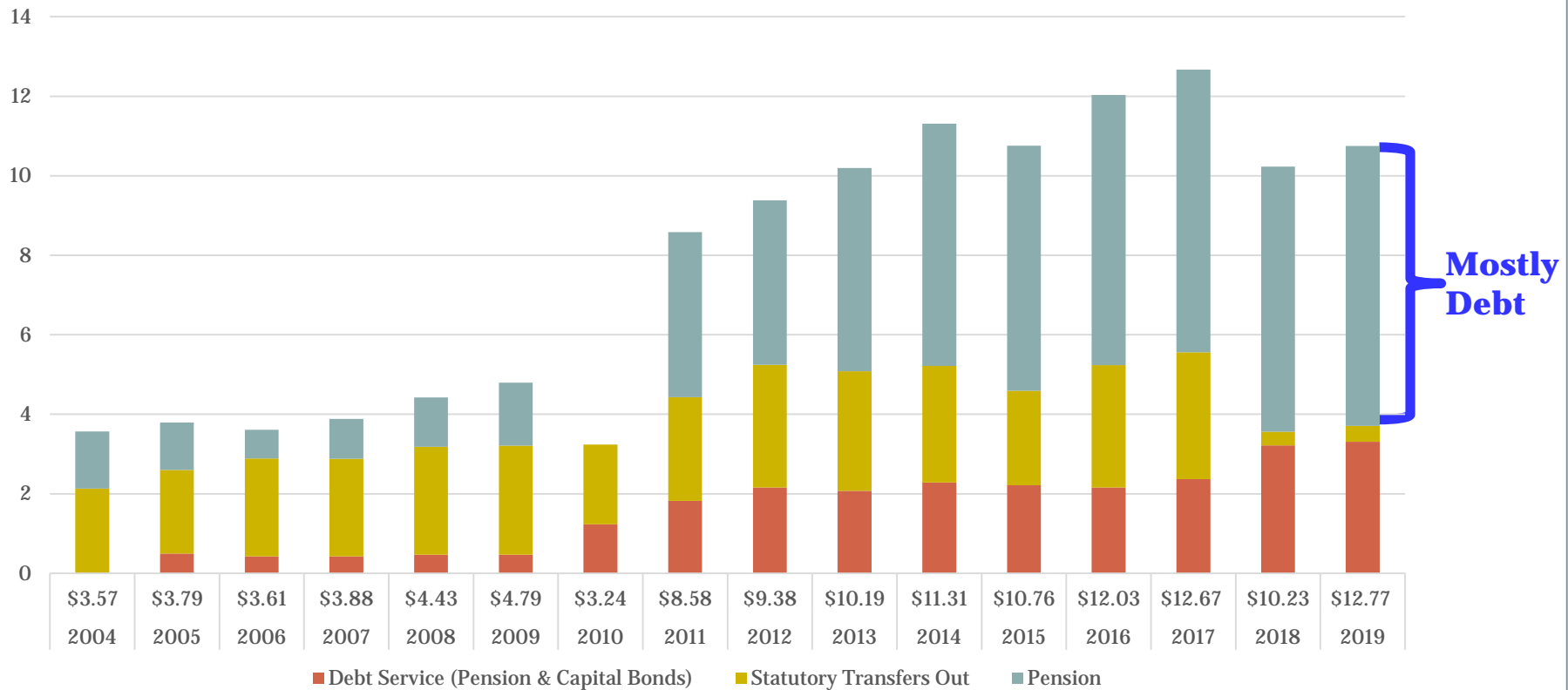
Source: CTBA analysis of P.A. 100-0586 and COGFA data.

# General Fund Spending on Current Services, FY2000 Compared to FY2019 (\$ Millions)

Category	FY2000 Enacted General Fund Budget (Nominal)	FY2000 Enacted General Fund Budget (Adj for Inflation & Population)	FY2019 Enacted General Fund Budget	\$ Difference (ECI and Pop Growth Adjusted)	% Change
<b>K-12 Education</b>	\$4,6734	\$8,094	\$7,891	-\$203	-2.5%
<b>Early Childhood Education</b>	\$170	\$295	\$494	\$199.0	67.5%
<b>Higher Education</b>	\$2,152	\$3,727	\$1,789	-\$1,938	-52.0%
<b>Healthcare</b>	\$5,022	\$10,329	\$7,930	-\$2,399	-23.2%
<b>Human Services</b>	\$4,599	\$7,965	\$5,906	-\$2,059	-25.9%
<b>Public Safety</b>	\$1,350	\$2,338	\$1,735	-\$603	-25.8%
<b>Net General Fund Service Appropriations</b>	\$17,967	\$32,747	\$26,179	-\$6,561	-20.0%

# Growth in Hard Costs, However: Primarily for Pension Debt Service

Hard Costs (Appropriations/Budgeted Figures)



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

Because pension funding is a long-term obligation—and competes with those four core service areas for the same tax \$ Governments with structural deficits do irresponsible things like . . . .

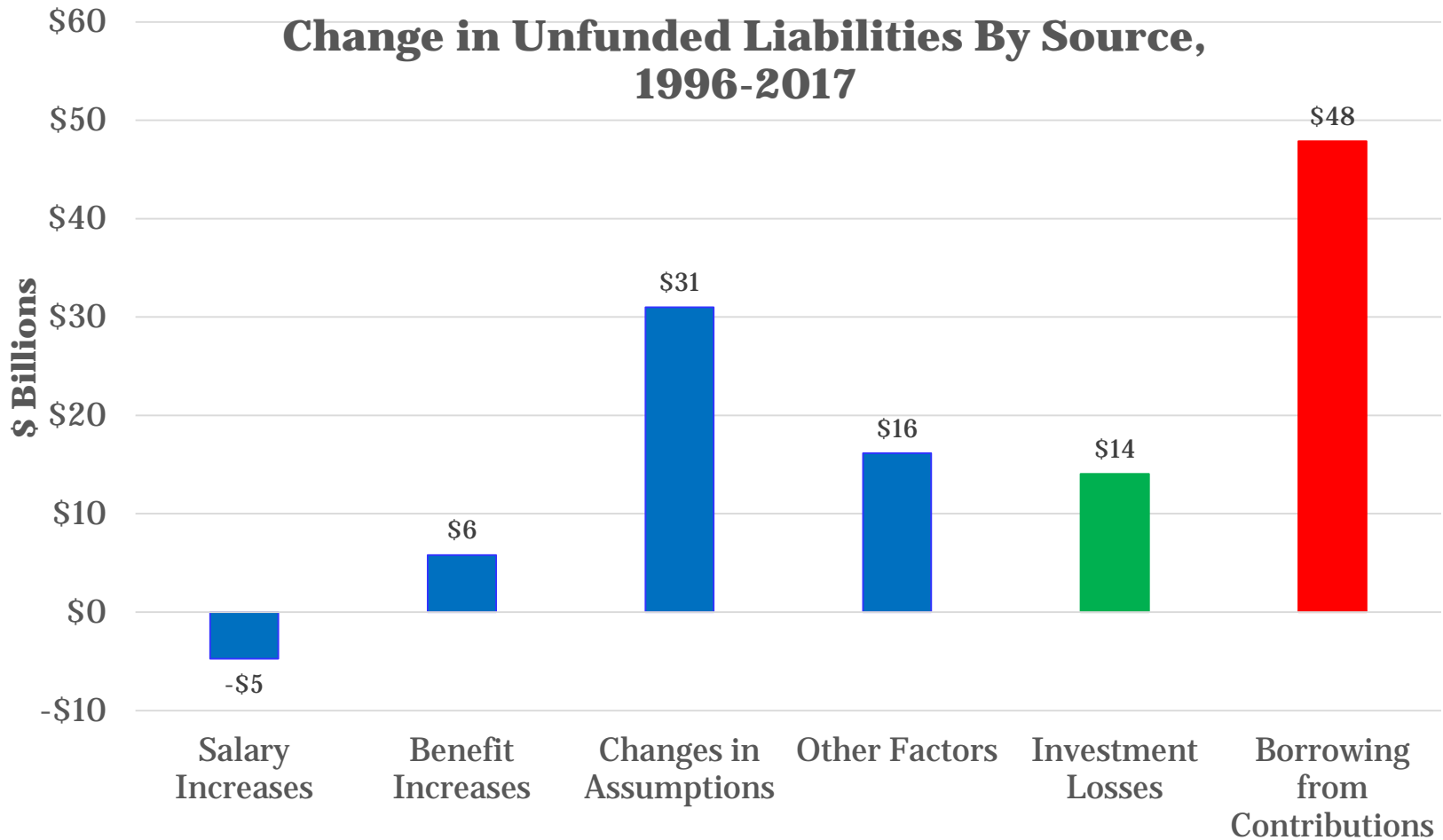


## **Borrowing Against Pensions to Hide the Structural Deficit!**

- **By 1994 the unfunded liability was \$17 billion**
- **This was almost double the \$8.7 billion unfunded liability just five years earlier in 1989**

# Pension Benefits Have Not Driven the Problem

(\$ in Billions)



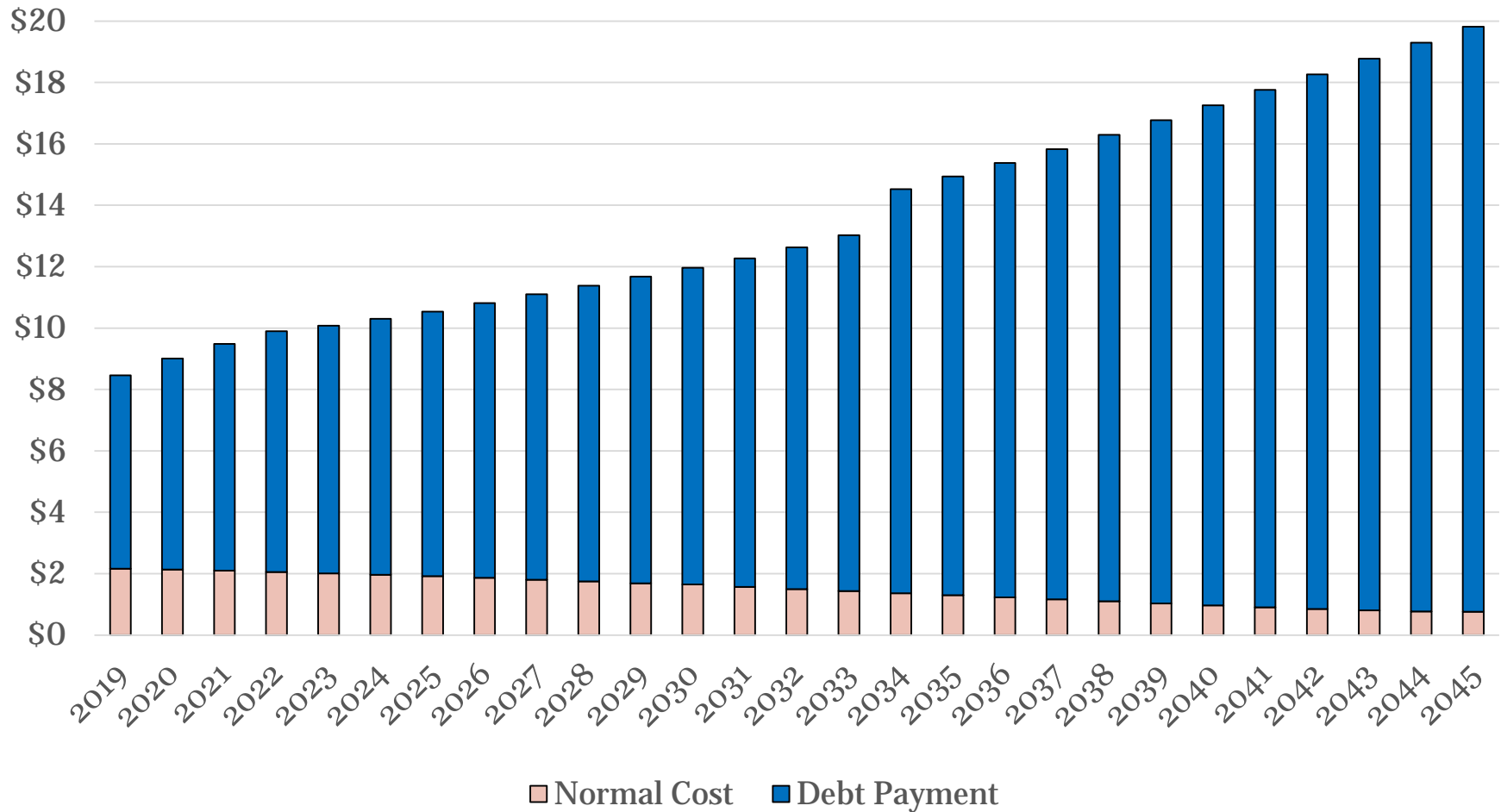
Source: COGFA

Note: Growth from \$17.5 B to over \$130 B by 2019 (≈ \$118 B in 2017)



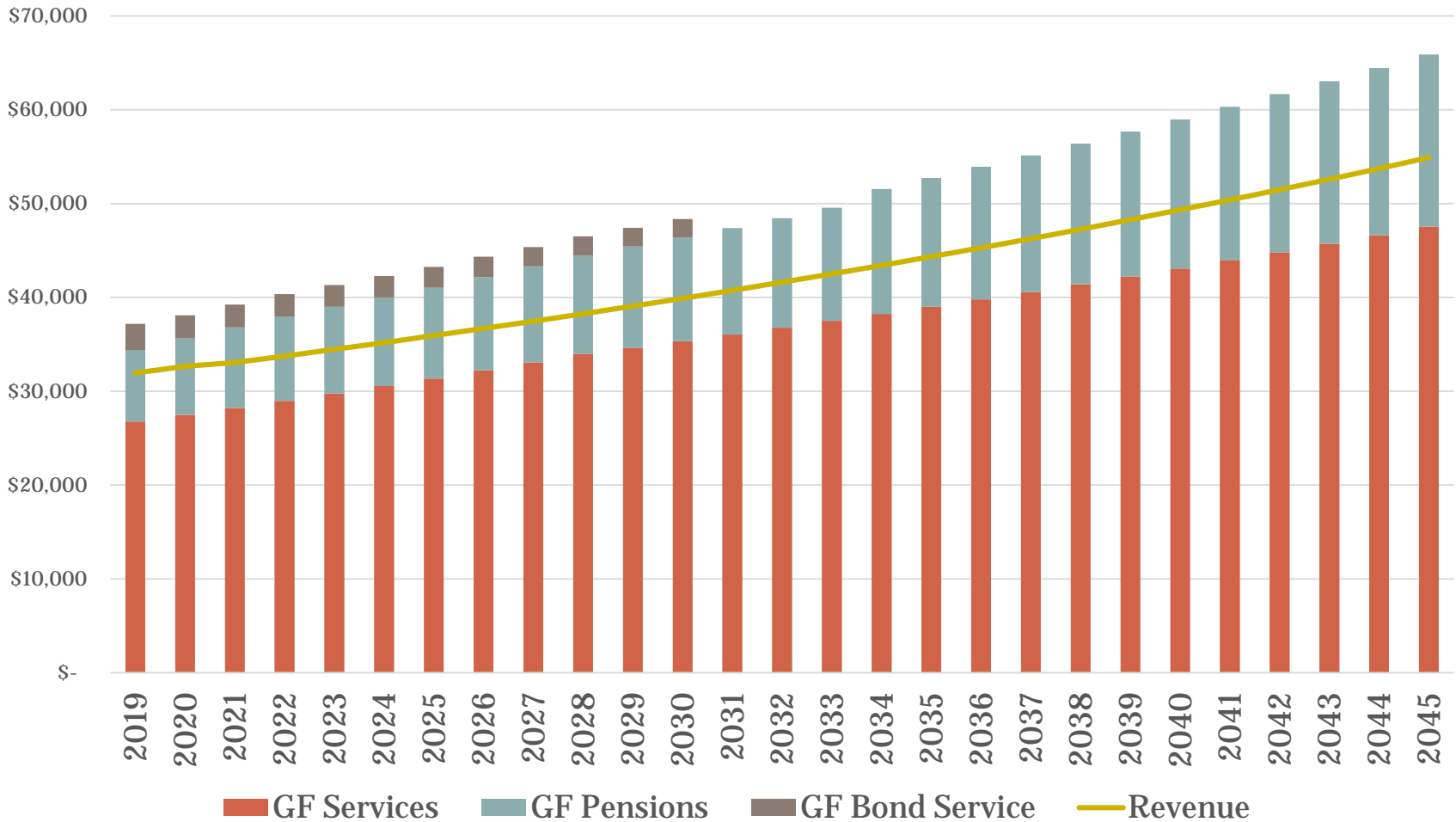
# THE BOTTOM LINE: The Ramp Is a Debt Structure Problem: Normal Cost of Benefits Not the Driver

(\$ Billions)



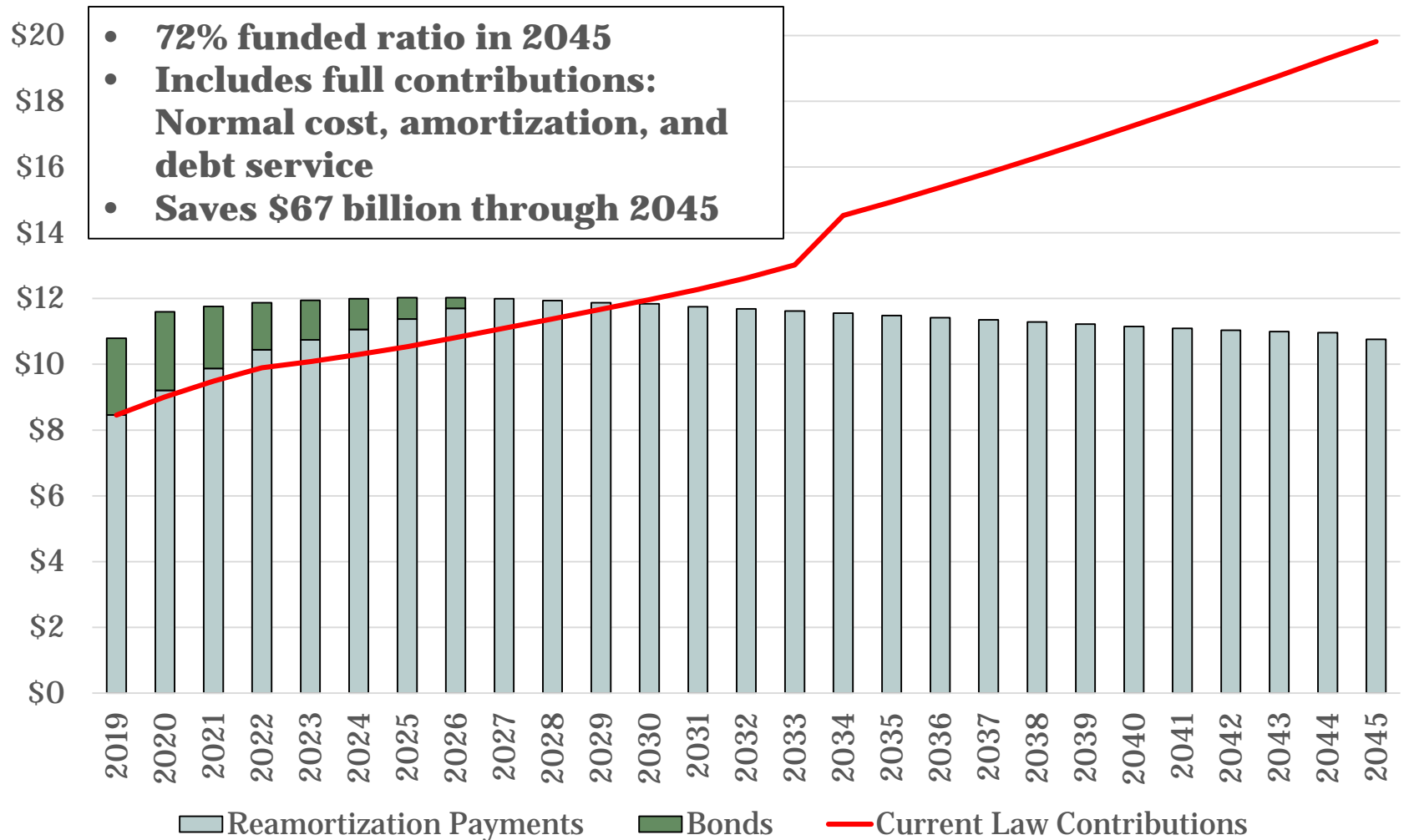
Source: State pension funds actuarial valuations

# The Pension Ramp Plays a Key Role In Illinois' Structural Deficit (\$ Millions)



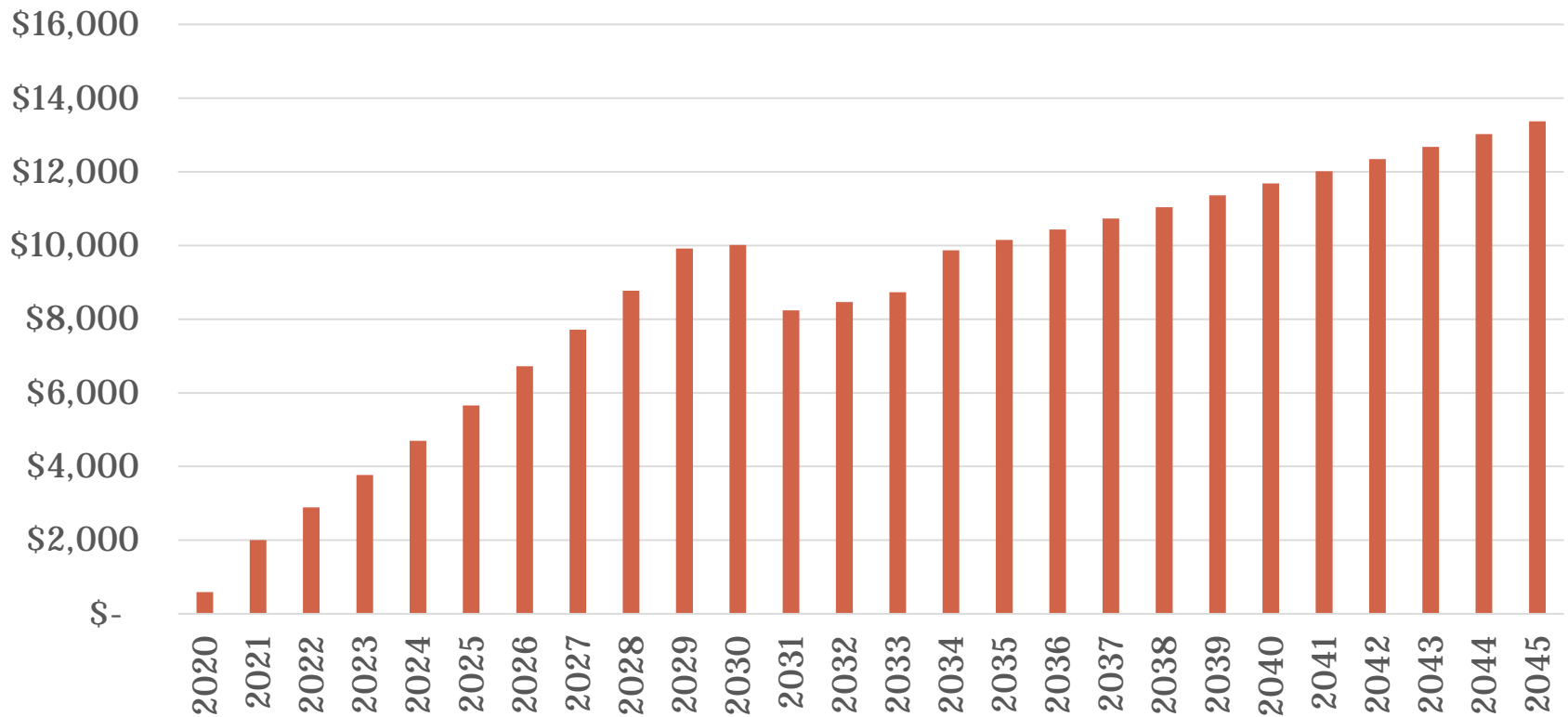
Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.

# The Rational Way to Solve Problems is to Re-Amortize Pension Debt (\$ Billions)



# Pensions Play a Key Role In Illinois' Structural Deficit (\$ Billions)

## Cuts to General Fund Services Required to Fund Pension Ramp

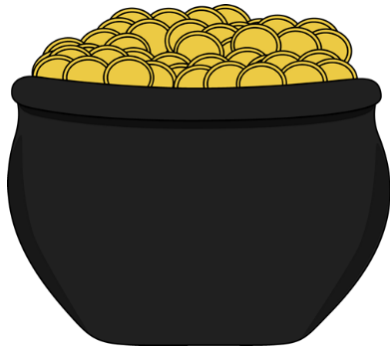


Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.



**OF COURSE, WHEN A STRUCTURAL  
DEFICIT EXISTS—TAX INCREASES -  
ARE GENERALLY NEEDED TO SOLVE  
THE PROBLEM LONG TERM—  
ESPECIALLY WHEN OVER-SPENDING  
IS CLEARLY NOT THE ISSUE**

# Which Implicate Tax Fiscal Policy Issue No. 1:



Where needs are greatest  
Resources are least



## 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.'"

# A Snapshot of Income Inequality

The long-term trends in income distribution in America demonstrate growing disparity.

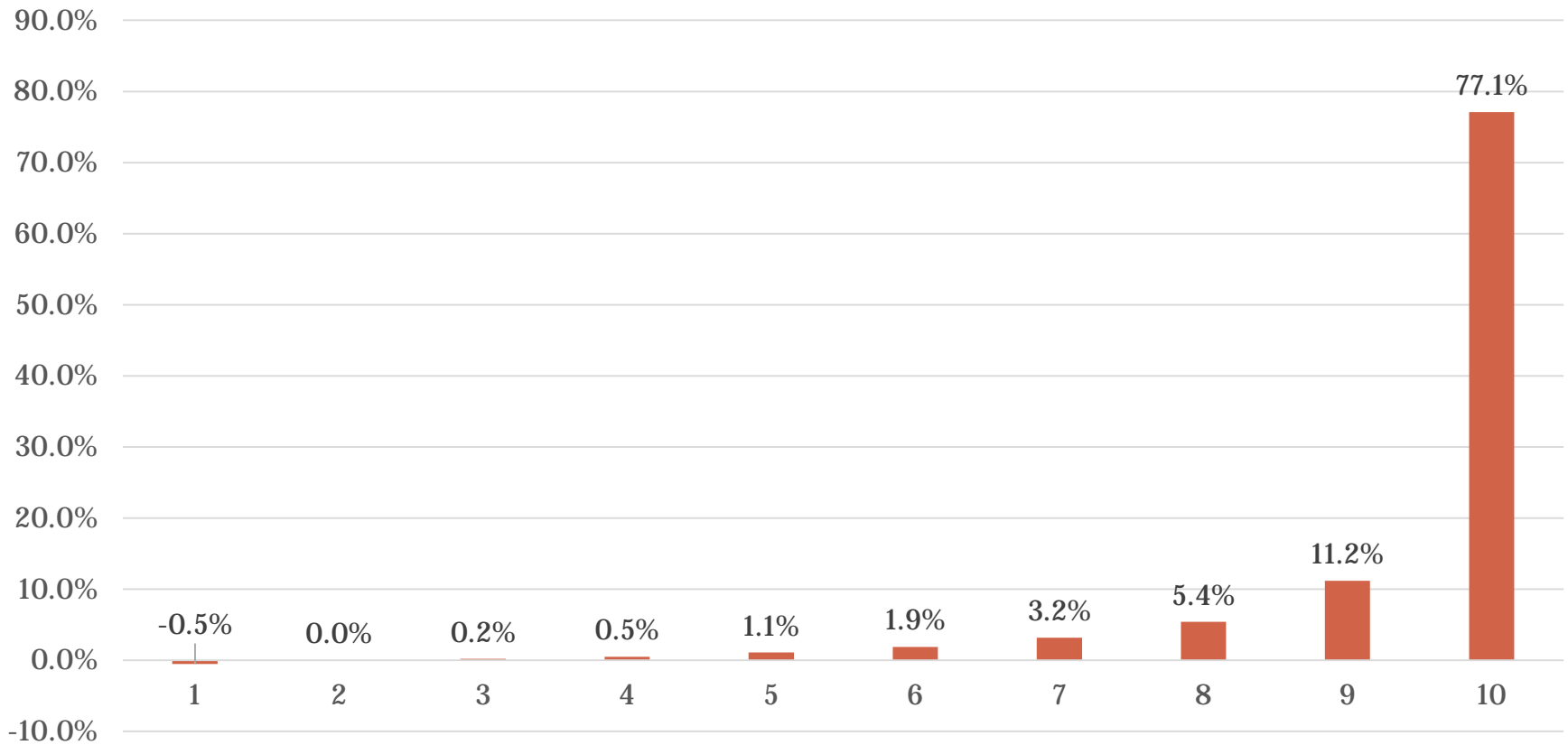
Change in Average US Income Accounted For By Income Group	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

Change in Average US Income Accounted For By Income Group	
Income Group	1979 — 2015
Top 10%	108.4%
Bottom 90%	-8.4%

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 2015 in Excel format, January 2013), <http://eml.berkeley.edu/~saez/> .

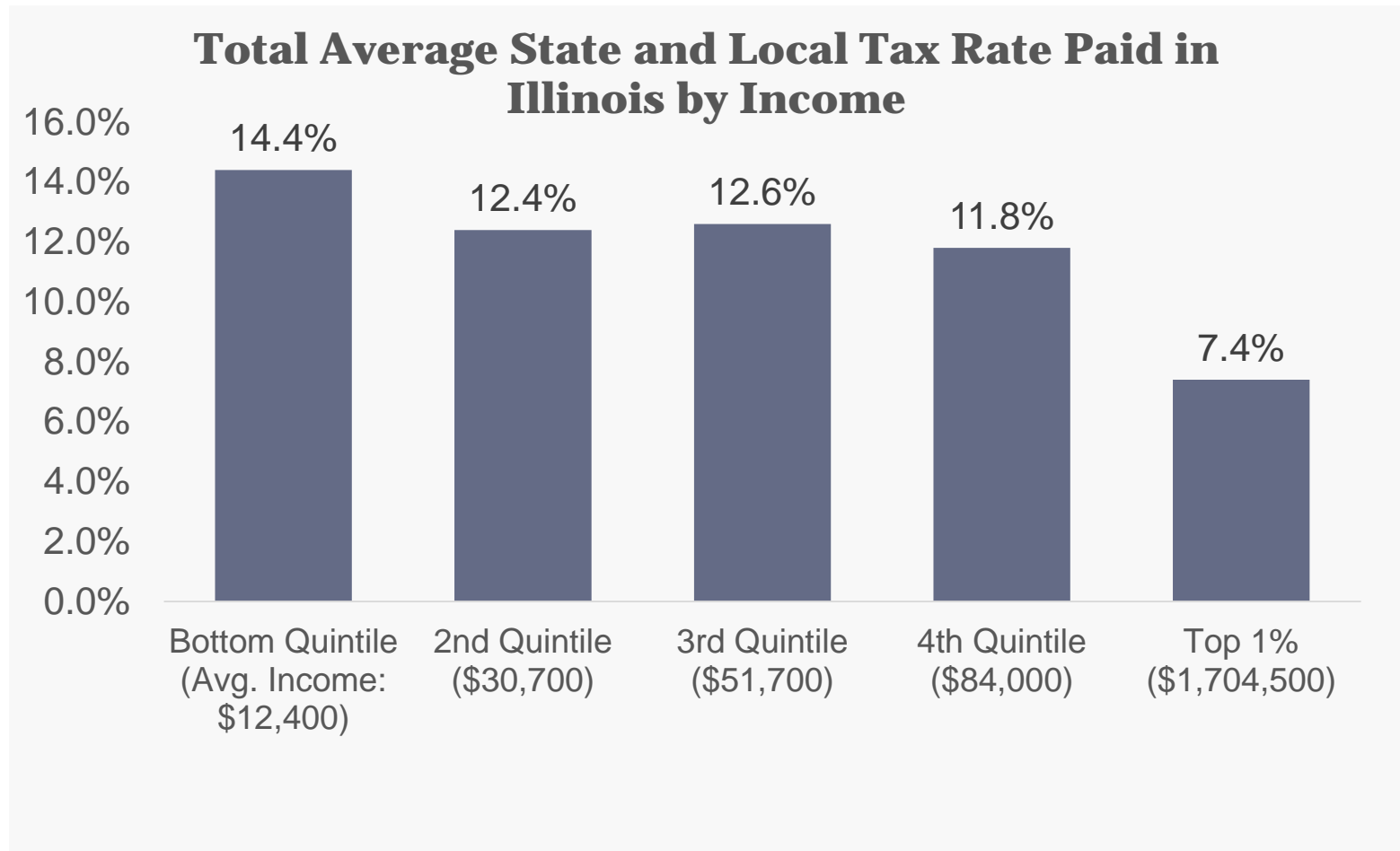


# National Wealth Held by Income Decile



Source: Survey of Consumer Finances

# The Illinois Tax System is Currently the Opposite



Source: ITEP, "Who Pays?"

# Pritzker's Fair Tax Details

<b>Income Above</b>	<b>Income Below</b>	<b>Marginal Rate</b>	<b>Percent of Taxpayers</b>
\$0	\$10,000	4.75%	27.2%
\$10,001	\$100,000	4.90%	58.9%
\$100,001	\$250,000	4.95%	11.1%
\$250,001	\$500,000	7.75%	1.9%
\$500,001	\$1,000,000	7.85%	0.6%
\$1,000,001	-	7.95%	0.3%

## Pritzker's Fair Tax Details, continued

- Increases property tax credit from 5 percent to 6 percent of total bill
- Creates \$100 per child tax credits that phase out at \$80,000 (single) or \$100,000 (joint)
- The top bracket is not marginal—a “recapture” provision taxes all income for earners over \$1 million at 7.95 percent, similar to CT, NE, NY, and AR
- Corporate tax increases from 7.00 to 7.95 percent
- Raises \$3.4 billion in net revenue

# The Governor's Proposed "Fair Tax" Meets Good Government Principles

Principle	Fair Tax Proposal	Does It Meet?
Cut taxes for low- and middle-income taxpayers	Cuts taxes for 97 percent of taxpayers—only the top 3 percent see an increase	Yes
Raise at least \$2 billion in revenue	Raises \$3.4 billion	Yes
Keep top rates within range of neighboring states' <ul style="list-style-type: none"> <li>• Minnesota – 9.85%</li> <li>• Iowa – 8.98%</li> <li>• Wisconsin – 7.9%</li> </ul>	Top rate: 7.95%	Yes

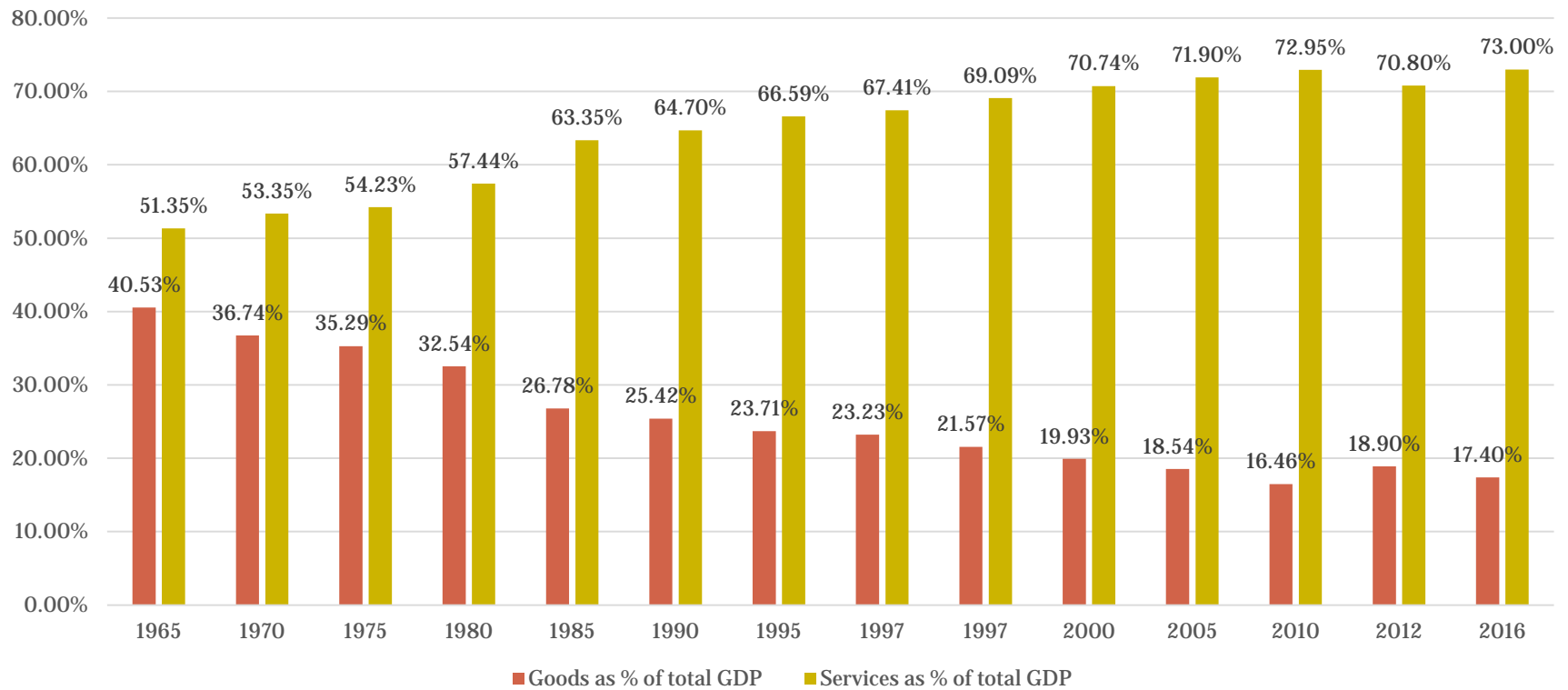
# Other Sound Alternatives for Raising Tax Revenue

- ❖ Expand the sales tax base to include consumer services  
= \$2.0 B
- ❖ Tax some retirement income  
= \$1.2B



# For State-Level Stability: A Broad-Based Sales Tax is Needed

Goods and Service Sectors as a Percentage of Total Illinois Gross Domestic Product:  
Illinois (SIC 1965-1985, NAICS: 1997-2016)



Source: Bureau of Economic Analysis

**BUT WAIT.....**

**WON'T TAX INCREASES KILL THE ECONOMY?**





# NOPE:

## Economic Growth

- **A rigorous 2012 study commissioned by the U.S. Small Business Administration (SBA) found:**
  - “No evidence of an economically significant effect of state tax portfolios on entrepreneurial activity.”  
*Can State Tax Policy be Used to Promote Entrepreneurial Activity, Small Business Economics, 2012.*
  - The Harry S. Truman Institute @ University of Missouri found that when benefit of a tax break is measured against the economic loss generated by spending cuts—there is always a **NET ECONOMIC LOSS**.
  - The CBO found no correlation between tax policy & job creation. . . . Private sector demand is what counts.

# Two Clear Examples:

- **Kansas**

- Cut top personal income tax rate from 6% to 4.5% in 2012
- Projected to reduce revenue by \$920 million in FY2017
- Income tax as share of state revenue fell from 50% to 40%



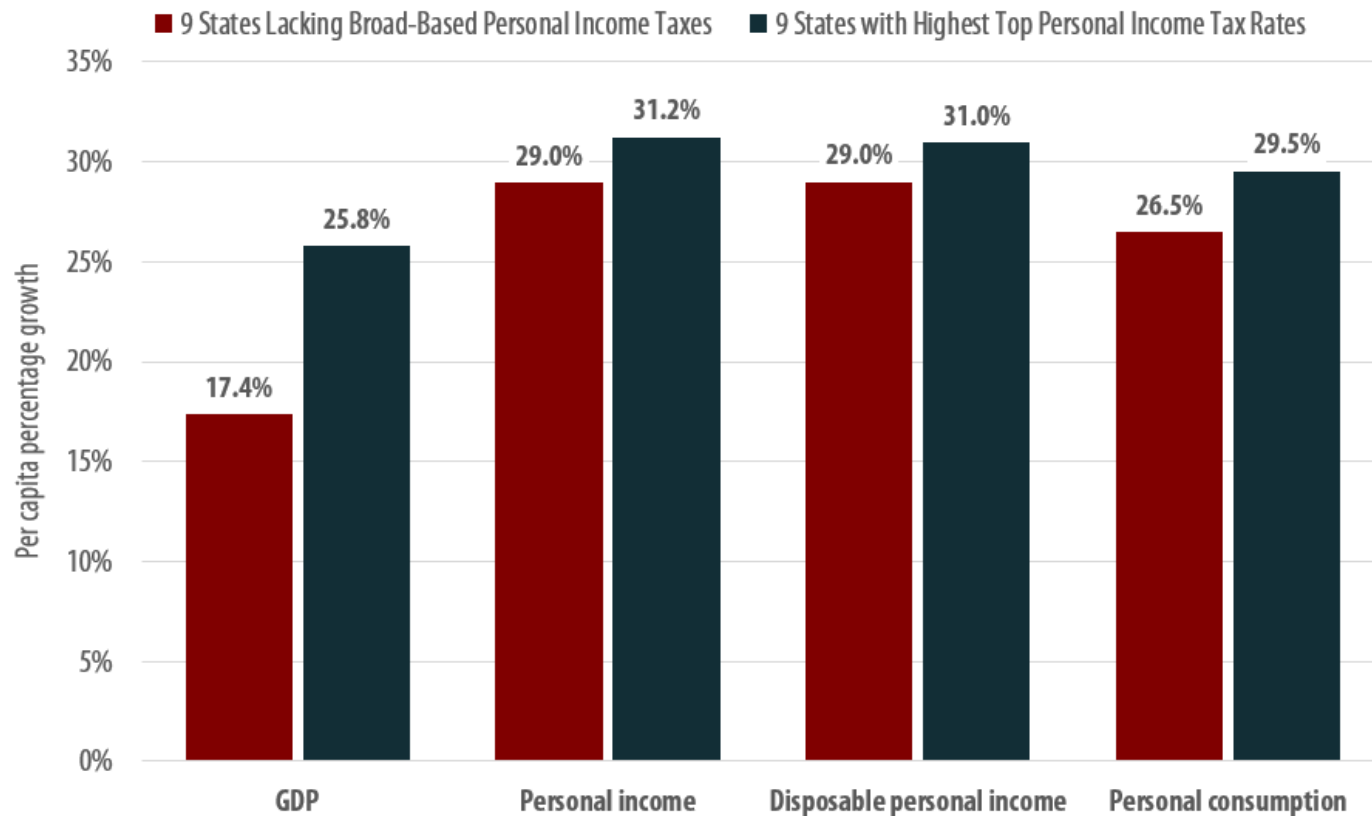
- **Minnesota**

- Raised income taxes in 2013
- Third-highest top marginal personal income tax rate (9.85%)
- Middle rates, covering income from \$25,180 to \$146,270, are 7.05% and 7.85%
- \$1.4 billion budget surplus for FY2018-19



# Taxing the Right Way Doesn't Hurt the Economy

## Economic Growth in the States, Per Capita 2006-2016



Source: ITEP calculations based on data from the Bureau of Economic Analysis. State averages are unweighted.

# Oh, & When Illinois Raises Taxes

- People won't run screaming out of the state:
  - Since 1925, IL has had net outmigration every year except one
  - Illinois' outmigration rate actually declined in 2011, the first year of the temporary tax increase
  - A greater % of the populations of IN and WI moved into IL since the temporary tax increase, than vice-versa

# For More Information

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