

# CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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## *The Illinois Budget Outlook and Ramifications of the Tax Increase*



For:

Monday, July 11, 2011; 10:00 am

CMAP Human and Community Development Committee

Willis Tower, 233 S. Wacker Drive, Suite 800, Chicago, IL

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
<b>TOTAL FY2012 PROJECTED REVENUE (without the tax increase)</b>	<b>\$26.680 B</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
<b>SUBTOTAL HARD COSTS</b>	<b>\$18.333 B</b>
(iii) Cost of Flat Funding Nominal Dollar Amount of FY2011 GF Appropriations for Services in FY2012	<b>\$24.313 B</b>
<b>(iv) TOTAL FY2012 REVENUE NEEDED TO PAY HARD COSTS &amp; MAINTAIN FLAT FUNDING OF SERVICES</b>	<b>\$42.646 B</b>
<b>(v) INITIAL FY2012 REVENUE SHORTFALL (Before 1/13/2011 tax increases)</b>	<b>(-\$15.966 B)</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.	

**THAT \$15.9 B SHORTFALL  
ENTERING FY2012 WAS A REAL  
PROBLEM BECAUSE.....OVER \$9 OUT  
OF \$10 OF GF ARE SPENT ON:**

- **EDUCATION  
(K-12, PLUS HIGHER ED)                      35%**
- **HEALTHCARE    30%**
- **HUMAN SERVICES                                      21%**
- **PUBLIC SAFETY    5%  
91%**

# AND SPENDING WASN'T THE PROBLEM

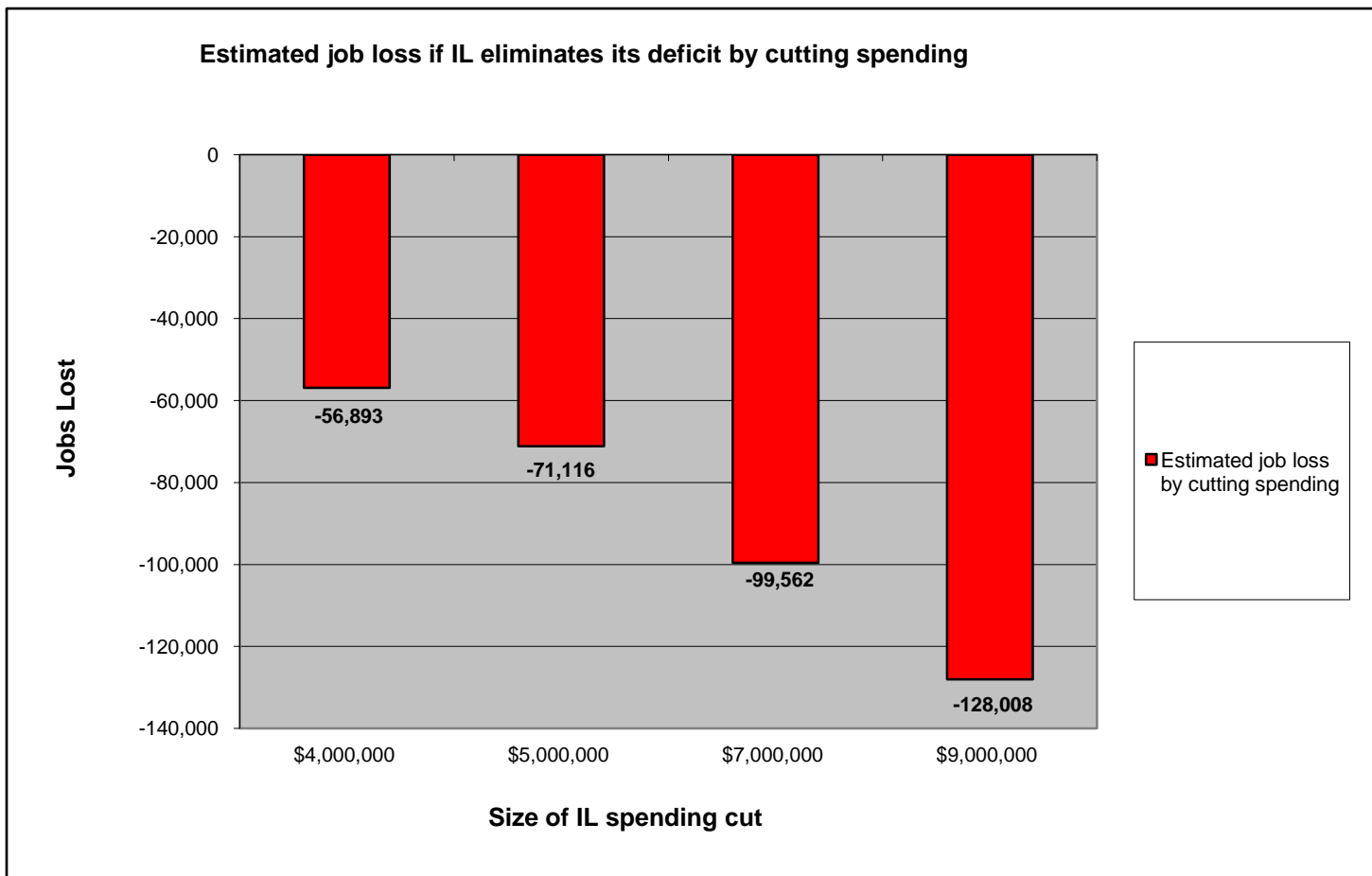
*Is Illinois Profligate?*

CATEGORY	FY2000 ACTUAL	FY2000 ADJUSTED TO FY2011 FOR CPI & POPULATION	FY2011 ACTUAL	DIFFERENCE FY2000- FY2011 CPI & POPULATION	FY2000- FY2011 ECI & POPULATION	DIFFERENCE FY2000- FY2011 ECI & POPULATION
GENERAL FUND	\$21.29 B		\$27.83			
-PENSION	<b>(\$1.23 B)</b>		<b>(\$3.520)</b>			
GENERAL FUND/ CURRENT SERVICES	\$20.06 B	\$26.29	\$24.31	<b>(\$1.98 B)</b> <b>(-7.5%)</b>	\$29.98 B	<b>(\$5.67 B)</b> <b>(-18.9%)</b>

\* NOTE: That after accounting for Inflation and Population Growth, the FY2011 GF of \$24.94 B was 5% less than GF spending in FY1995, under Governor Jim Edgar

OH — & THEN THERE'S

# HURTING THE PRIVATE SECTOR ECONOMY WITH CUTS



**SO, WE GOT HIGHER TAXES!**

# 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
<b>Annual Net to General Fund</b>	<b>\$7.252 B **</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.

# But Who's Gonna Move?

## CORPORATE TAX RATES

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%

\*P.S. Those Marginal Rates, nationally, translate to an effective rate of roughly 2.8%

## REVENUE ESTIMATES:

**GOMB → \$33.93 B**

\$\$\$

**SENATE → \$34.28 B\* (+\$350M)**

???

**HOUSE → \$33.17 B (-\$760 M)**

**House Estimate is \$104 B LESS THAN  
SENATE/ COGFA Estimate**

\* Based on COGFA

# FY2012 GENERAL FUND BUDGETS

	<b>GOVERNOR'S PROPOSED</b>	<b>FINAL</b>	<b>DIFF</b>
<b>PREK-12</b>	<b>\$7.245 B</b>	<b>\$6.751 B</b>	<b>(-\$494 M)</b>
<b>HIGHER ED</b>	<b>\$2.149 B</b>	<b>\$2.089 B</b>	<b>(-\$60 M)</b>
<b>HEALTH CARE</b>	<b>\$7.749 B</b>	<b>\$7.174 B</b>	<b>(-\$575 M)</b>
<b>HUMAN SERVICES</b>	<b>\$4.917 B</b>	<b>\$4.834 B</b>	<b>(-\$82 M)</b>
<b>OTHER</b>	<b>\$2.338 B</b>	<b>\$1.579 B</b>	<b>(-\$759 M)</b>
<b>PUBLIC SAFETY</b>	<b>\$1.533 B</b>	<b>\$1.608 B</b>	<b>\$75 M</b>
<b>TOTAL GEN FUND (EXCLUDING PENSION)</b>	<b>\$25.931 B</b>	<b>\$24.035 B</b>	<b>(-\$1.895 B)</b>

\* Private Sector Job Loss → ≈ 28,000

**FY 2012 ENACTED APPROPRIATIONS  
 COMPARED TO FY2000 ACTUAL APPROPRIATIONS  
 ADJUSTED FOR INFLATION AND POPULATION  
 GROWTH  
 (\$ IN MILLIONS)**

**EVERY MAJOR CATEGORY OF FUNDING  
 FOR CURRENT PUBLIC SERVICES HAS  
 BEEN CUT IN REAL TERMS SINCE FY2000**

Category	FY 2012 Enacted After Gov Veto	FY2000 Adj (ECI and Pop Growth) <sup>4</sup>	Diff FY 2012 - FY 2000 Adj (ECI and Pop Growth) <sup>4</sup>	%Change
<b>General Fund Including</b>				
Pensions	\$28,629	NA	NA	NA
Pension	\$4,594	NA	NA	NA
<b>General Fund Excluding</b>				
Pensions	\$24,035	\$30,829	(\$6,794)	-22.0%
K-12 Education Higher	\$6,750	\$7,443	(\$693)	-9.3%
Education	\$2,089	\$3,306	(\$1,217)	-36.8%
Health Care <sup>1</sup> Human	\$7,174	\$8,952	(\$1,778)	-19.9%
Services <sup>2</sup>	\$4,834	\$7,066	(\$2,232)	-31.6%
Public Safety <sup>3</sup>	\$1,608	\$2,075	(\$467)	-22.5%

Sources: Previous slide, FY 2000 data from COGFA 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.

4) Index value for FY 2000 has been approximated by using 2001 and 2001 ECI.

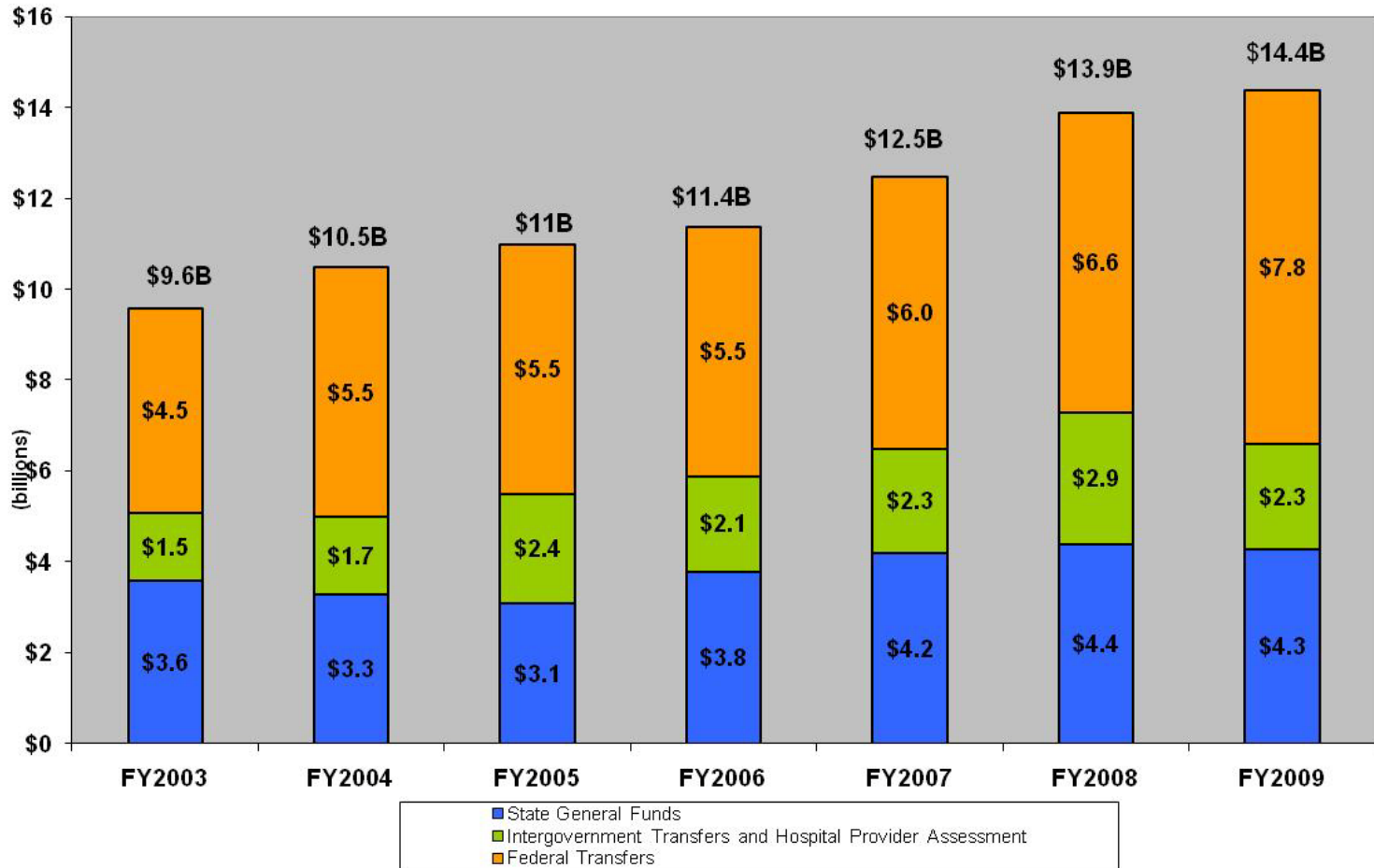
For Health Care Medical Care Midwest CPI (MCMWCPI) has been used.

# LEAVING AN “ADMITTED” FY2010 GRF DEFICIT = \$7.0 BILLION

Category	Amount (\$ billions)	Surplus/Deficit % of Revenue
FY 2012 Approved Appropriations <sup>1</sup>	\$33.07	
Total Projected Revenue <sup>2</sup>	\$34.30	
Initial Operating Surplus	\$1.23	3.29%
Carry forward deficit (unpaid bills and tax refunds) <sup>3</sup>	-\$8.32	
<b>Total FY 2012 Revenue Shortfall</b>	<b>(\$7.09)</b>	<b>-20.97%</b>
Sources:		
1) House Appropriations based on HB 117.		
2) CGFA revenue estimates minus bonus depreciation		
3) Comptroller estimates for FY 2012, April 27, 2011.		

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.

**CHANGE IN PROPOSED GENERAL  
REVENUE FUND APPROPRIATIONS  
TO HUMAN SERVICE AGENCIES**

## Three Agencies Provide 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%)
<b>Total Across Agencies</b>	<b>\$5,128</b>	<b>\$4,860</b>	<b>(-\$266)</b>	<b>(-5.2%)</b>

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

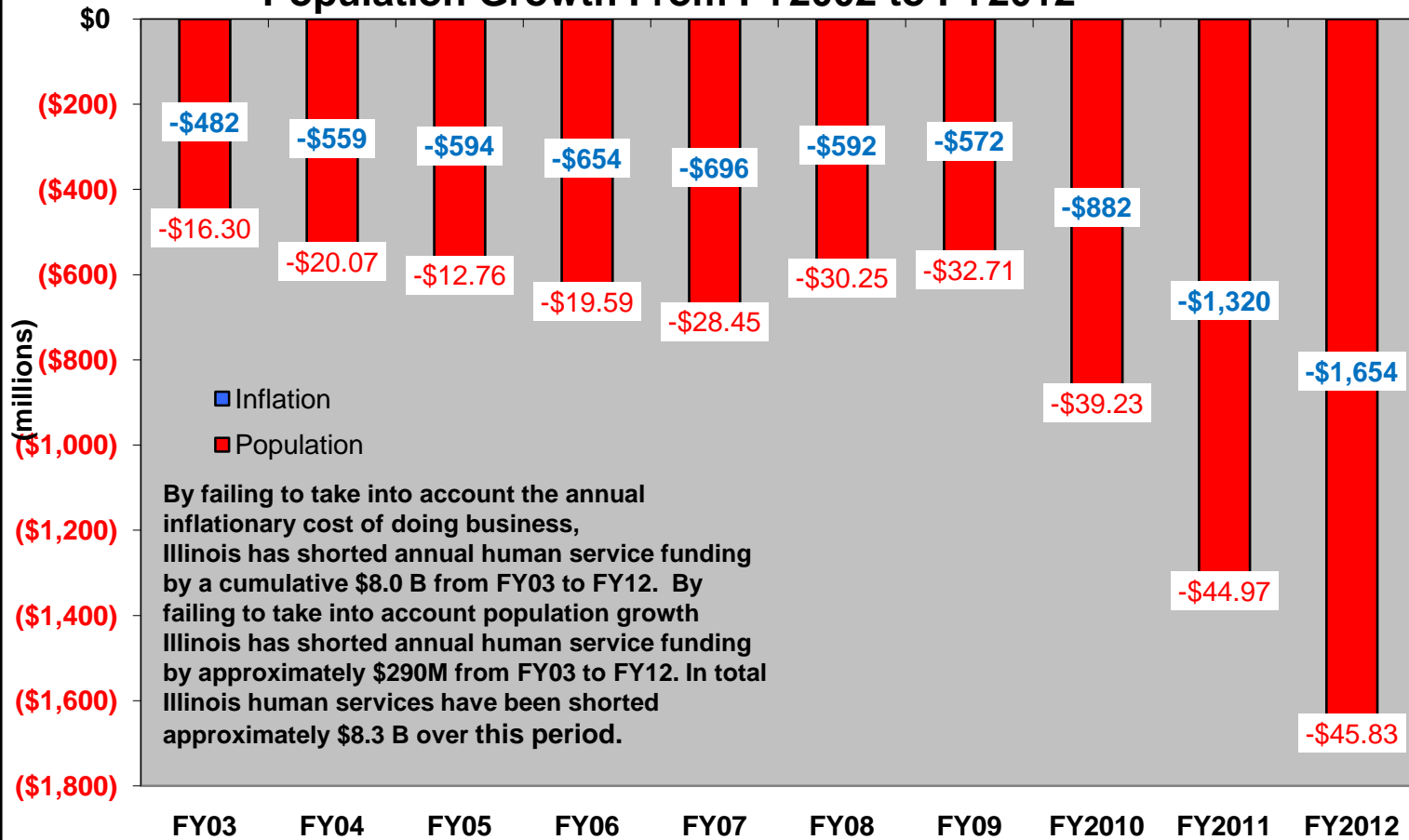
**In 2008 Illinois was 13<sup>th</sup> in per capita income  
but 34<sup>th</sup> in per capita human services funding**

## **CUTS IN SPECIFIC DEPARTMENT OF HUMAN SERVICES PROGRAMS**

<b>Category</b>	<b>FY 2012 Proposed</b>	<b>FY 2011 Enacted</b>	<b>% Change</b>	<b>\$ Change</b>
<b>Circuit Breaker Pharmaceutical Credit</b>	\$0	\$24	<b>-100.0%</b>	<b>(\$24)</b>
<b>Addiction Treatment and Services</b>	\$41	\$97	<b>-57.4%</b>	<b>(\$56)</b>
<b>Child Care Services</b>	\$285	\$618	<b>-53.9%</b>	<b>(\$333)</b>
<b>Domestic Violence Shelters</b>	\$9	\$11	<b>-19.2%</b>	<b>(\$2)</b>
<b>Teen Parent Services</b>	\$1	\$3	<b>-51.0%</b>	<b>(\$1)</b>
<b>Mental Health Grants</b>	\$112	\$146	<b>-23.0%</b>	<b>(\$33)</b>
<b>Total Across Programs</b>	<b>\$449</b>	<b>\$899</b>	<b>-50.1%</b>	<b>(\$450)</b>

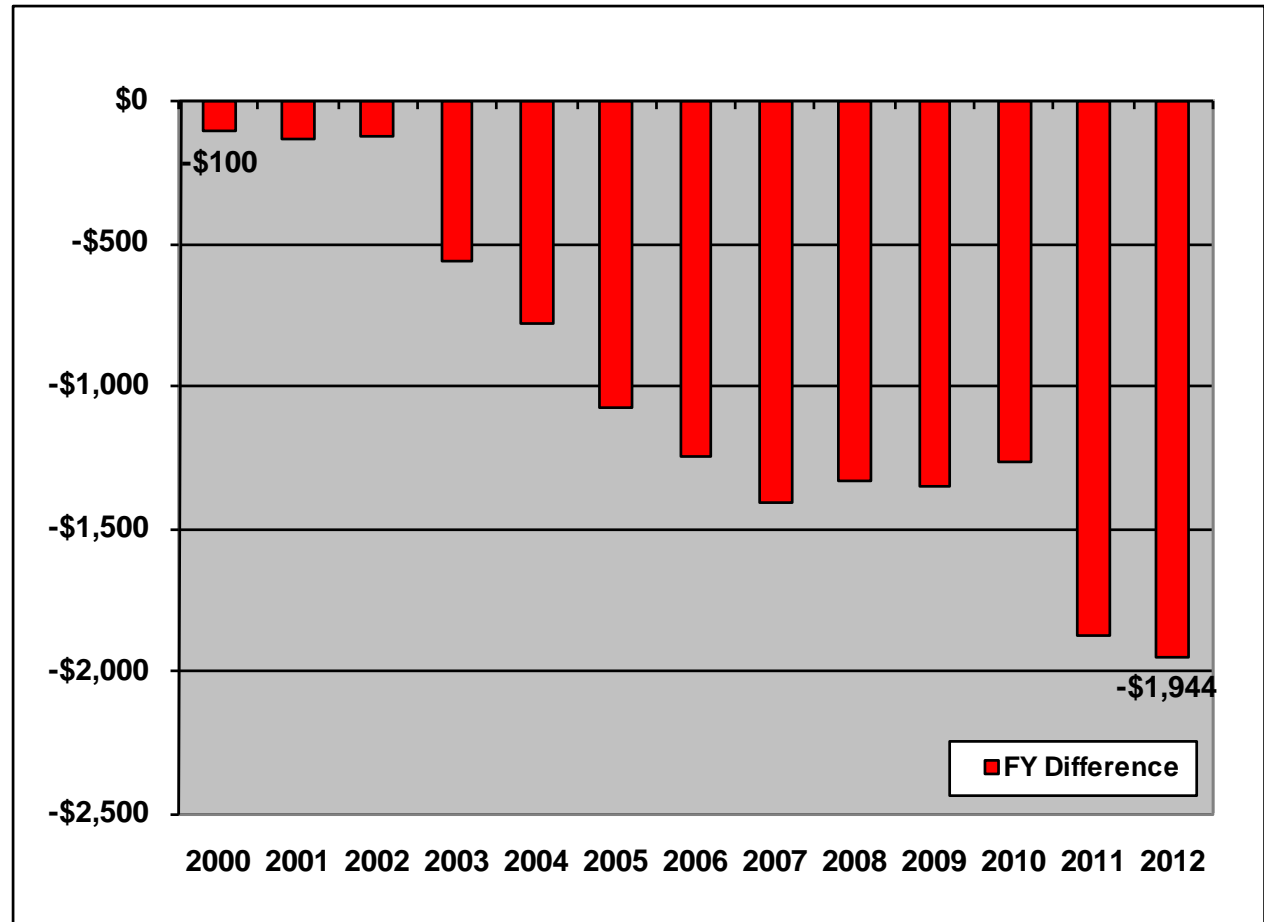
Data Source: GOMB FY2012 Operating Budget.

## Amount by Which State Spending on Human Service Programs Falls Short of Annual Inflationary Costs and Population Growth From FY2002 to FY2012



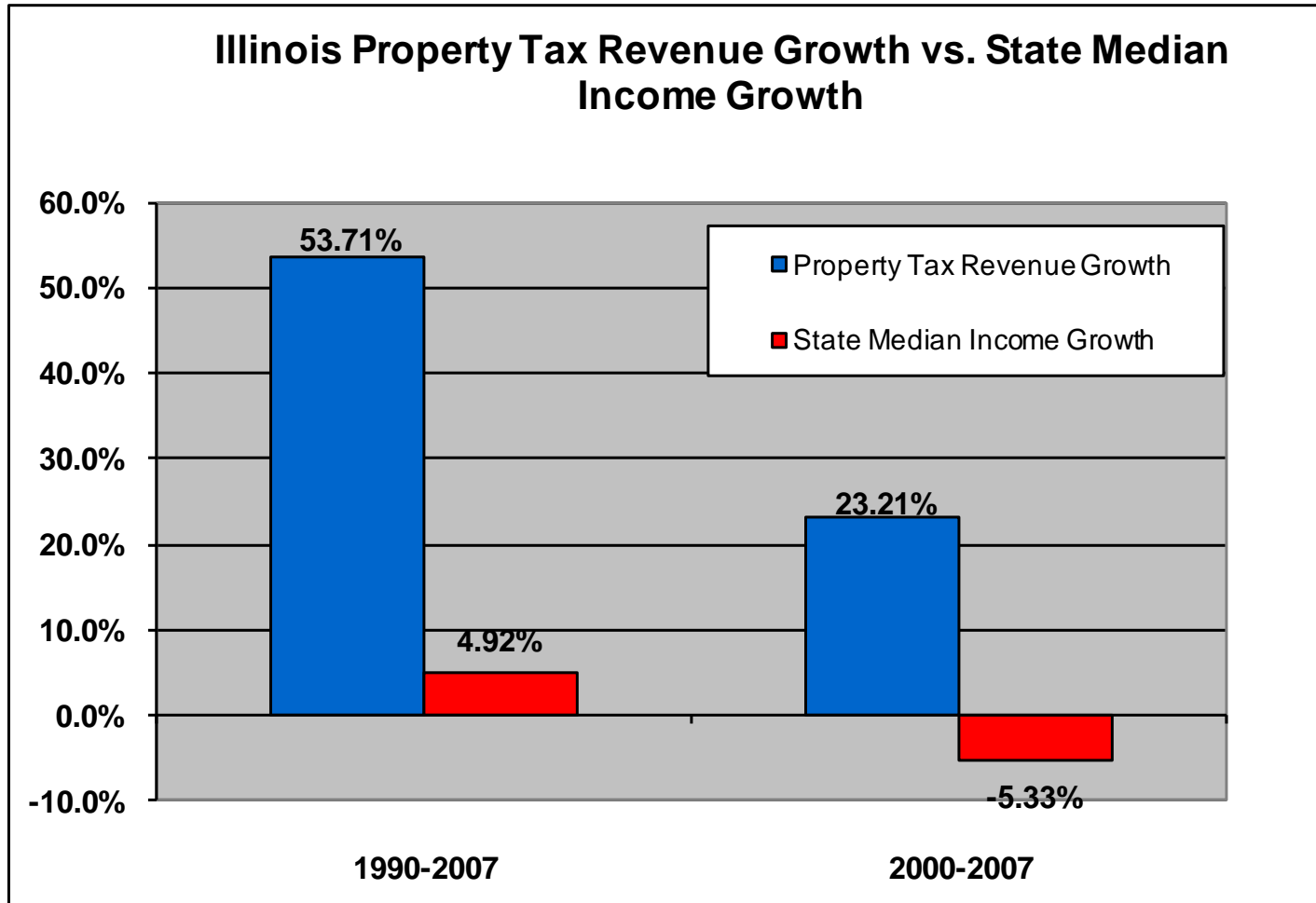
Note: Commission on Government Forecasting and Accountability, Budget Summaries for FY2002 to FY2011. Final General Revenue appropriations for the Illinois Departments of Aging, Children & Family Services, and Human Services. Appropriations shortfalls necessary to maintain real value of FY2002 appropriation based on national all civilian Employment Cost Index (ECI). ECI for FY2011 is assumed to be 0%. Population growth estimate from Illinois Department of Commerce and Economic Opportunity.

# \$ 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.

**“THE BURDEN IS TOUGH”**



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

# Looking Forward

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

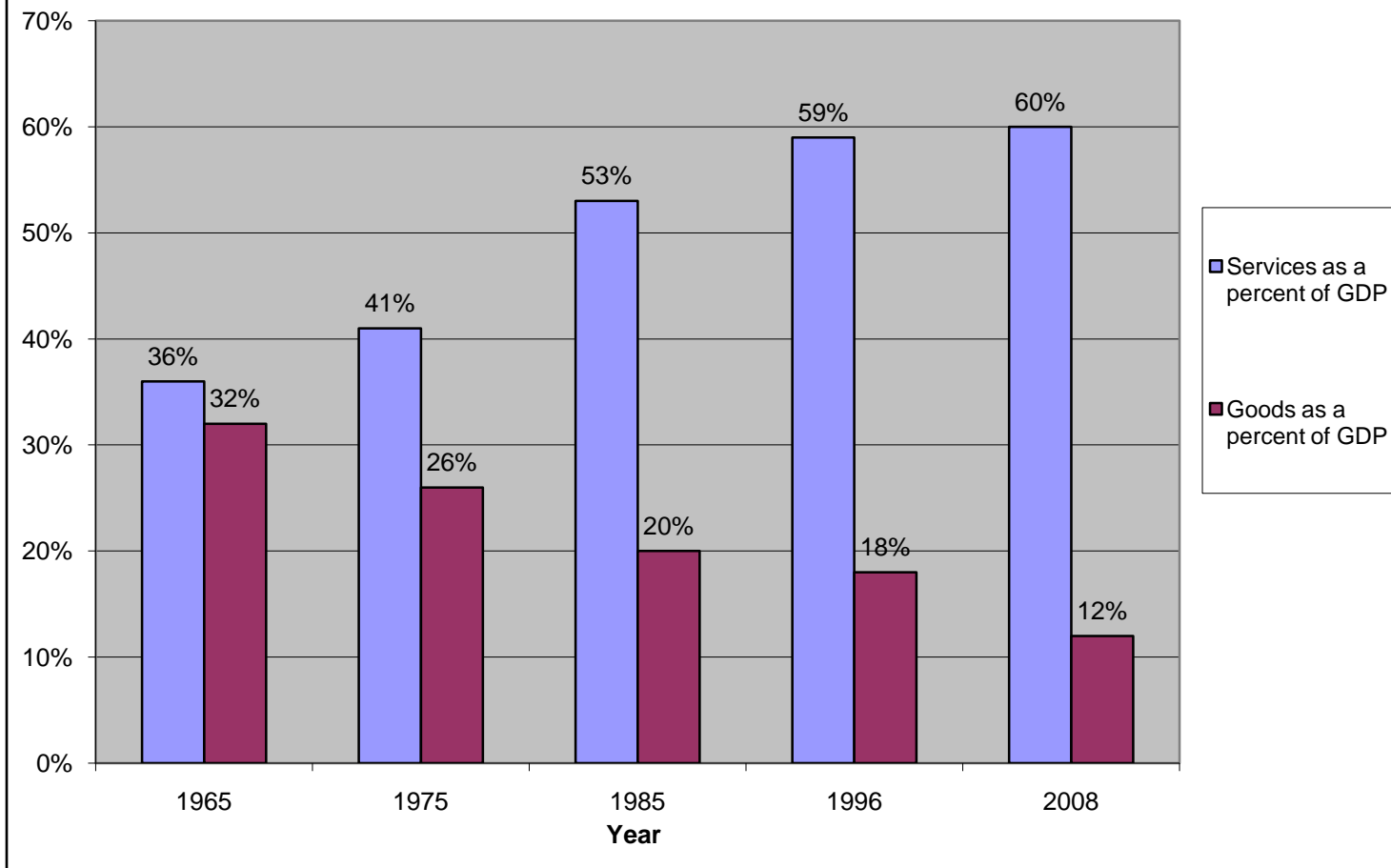
Revenues	2012	2013	2014	2015
State Own Source <sup>1</sup>	\$22.18	\$22.34	\$22.98	\$23.39
Federal <sup>1</sup>	\$4.84	\$5.13	\$5.44	\$5.77
Individual Income Tax <sup>2</sup>	\$6.05	\$6.22	\$6.39	\$2.40
Corporate Income Tax <sup>3</sup>	\$0.77	\$0.80	\$0.84	\$0.17
Estate Tax <sup>4</sup>	\$0.18	\$0.24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

Notes: See Appendix

# **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:**
  - **EXPANDING SALES TAX TO SERVICES.**
  - **TAXING SOME RETIREMENT INCOME**
  - **A PROGRESSIVE INCOME TAX.**

**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**

**ABOVE \$100,000**  **\$111.8 M**

# FOR MORE INFORMATION:

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