

FACT SHEET

HB/SB 750 Education and Fiscal Responsibility Act

PROBLEM: Illinois' fiscal system is broken.

State revenues cannot meet the cost of existing human services, education, and pension obligations. Even though the state has balanced the budget on paper, reality is that the current revenue system does not keep pace with existing costs, adjusting solely for population growth and inflation over time. This revenue gap or, structural deficit, is reflected every year in the necessity to cut programs, reduce staff, raid other funds, and borrow against the state pensions in order to balance the budget as required by the state constitution. In short, the state is not generating enough revenue to meet existing obligations.

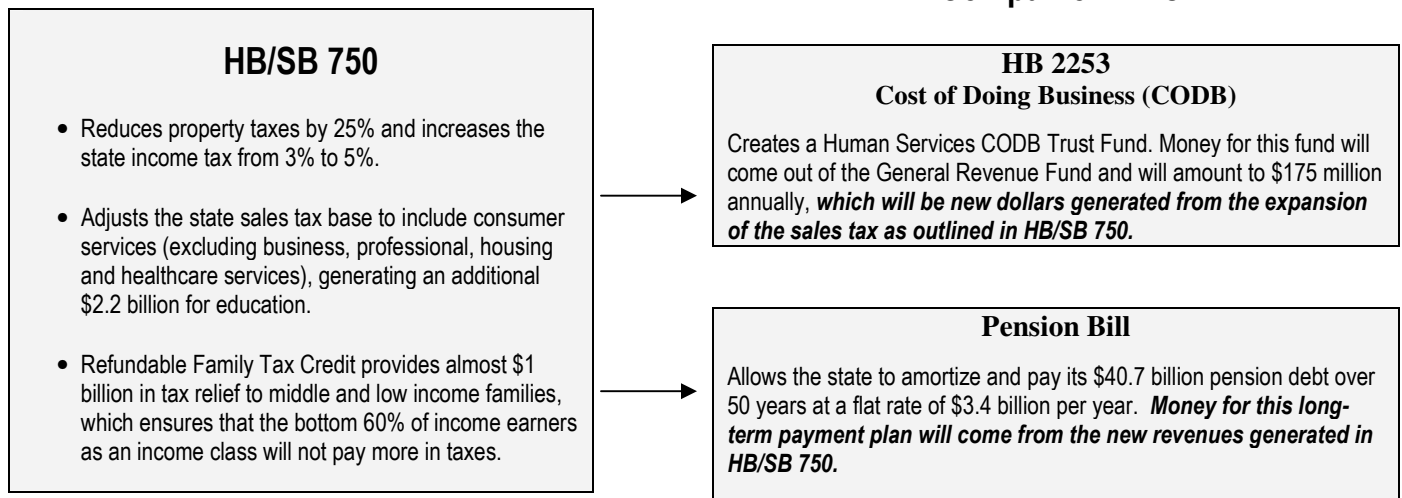
The state's tax system, initially designed in the 1930s, is outdated and does not grow with the modern economy; as a result, Illinois generates less revenue than needed to maintain current public service levels, adequately and fairly fund education, and make the required pension payments from year to year.

SOLUTION: Illinois needs a comprehensive package of fiscal solutions.

- **Illinois must close the structural deficit.** In 2005, the state's structural deficit reached over \$3 billion. In order to regain secure financial footing and fund essential public services into the future, Illinois *must* close this budget hole.
- **Illinois must reform the education funding formula.** Illinois has the most unfair school-funding system in the nation, where spending differences per student can be as high as \$19,000 between districts. Illinois needs a fair and adequate funding formula that does not over-rely on local property taxpayers to foot the bill for public education costs.
- **Illinois must adequately fund human services.** Despite the growing demand for public services, spending on human services decreased by \$387 million, or 10%, between 2001 and 2004, after adjusting for inflation. Without comprehensive fiscal reform, human services funding will continue to decrease and Illinois working families will suffer.
- **Illinois must meet its pension obligations.** Illinois has the largest pension debt in the U.S., totaling \$40.7 billion. This debt is past the point of fiscal crisis and, unless addressed, will require drastically cutting public services for future generations.

Policymakers can fix the state's broken fiscal system. Illinois must modernize the state tax system in order to raise enough money to pay its bills – this requires a **comprehensive package of fiscal solutions.**

Companion Bills



How the HB/SB 750 Fiscal Solutions Package Works:

USE OF NEW REVENUE

➤ **HB/SB 750**

- Money to be designated for education includes:
 - Current state funding base for K-12 Education
 - \$2.7 billion in property tax relief
 - PLUS an additional \$2.1 billion increase in the per-student funding level
- Additionally, HB/SB 750 provides:
 - \$900 million targeted tax relief to the bottom 60% of all taxpayers as an income class
 - \$300 million for higher education
 - \$498 million to increase the special education personnel reimbursement from its current level of \$8,000 per teacher to \$19,000
 - \$110 million to increase the special education non-certified staff reimbursement from its current level of \$2,800 to \$6,550
 - \$300 million to fund educational programs for schools in communities of concentrated poverty
 - \$180 million for early childhood education
 - \$50 million for capital funding
 - Phased-in funding over four years

➤ **HB 2253 - Cost Of Doing Business Companion Bill**

- Creates a CODB Trust Fund. In year one, \$175 million will be deposited in the Fund with new money generated from state sales tax revenue outlined in HB/SB 750.
- The CODB Fund may be used for a cost of doing business adjustment annually for purchase of care contracts and grant agreements.
- Eligible Departments include the Department of Children and Family Services, Department of Human Services, Department of Public Health, Department of Healthcare and Family Services, Department on Aging, Office of the Attorney General, Department of Corrections, Department of Juvenile Justice, Department of Commerce and Economic Opportunity and a private community-based contractual provider or grantee.

➤ **Pension Companion Bill**

- Allows the state to amortize and pay its \$40.7 billion pension debt over 50 years at a flat rate of \$3.4 billion per year, saving the state tens of billions of dollars in the long-term.
- The phase-in of all education funding in HB/SB 750 allows this companion bill to fund the pensions.

REVENUE ENHANCEMENTS IN HB/SB 750

<u>Enhancement</u>	<u>Amount Generated</u>
(a) Increase Individual Income Tax rate from 3.0% to 5.0%	\$5.9 billion
(b) Increase Corporate Income Tax rate from 4.8% to 8.0%	\$950 million
(c) Expand Sales Tax Base to include all consumer services (not business, professional, housing or health care services.) Increased tax burden on low and middle income families is eliminated with a refundable tax credit - this ensures most taxpayers in the state - 60% - will not pay more in taxes under HB/SB750	\$2.2 billion
(e) Total Revenue Generated	\$9.050 billion

For more information, contact the Center for Tax and Budget Accountability:

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