

CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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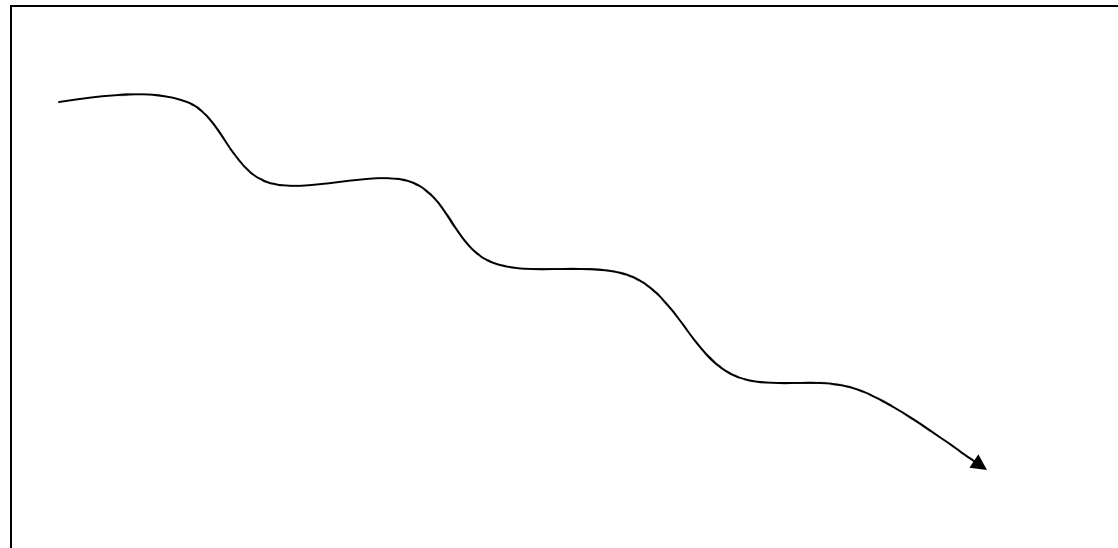
Economics, Education Funding & the State Fiscal System

- In 2004, Illinois ranked fifth nationally with a Gross State Product of \$485.2 billion.

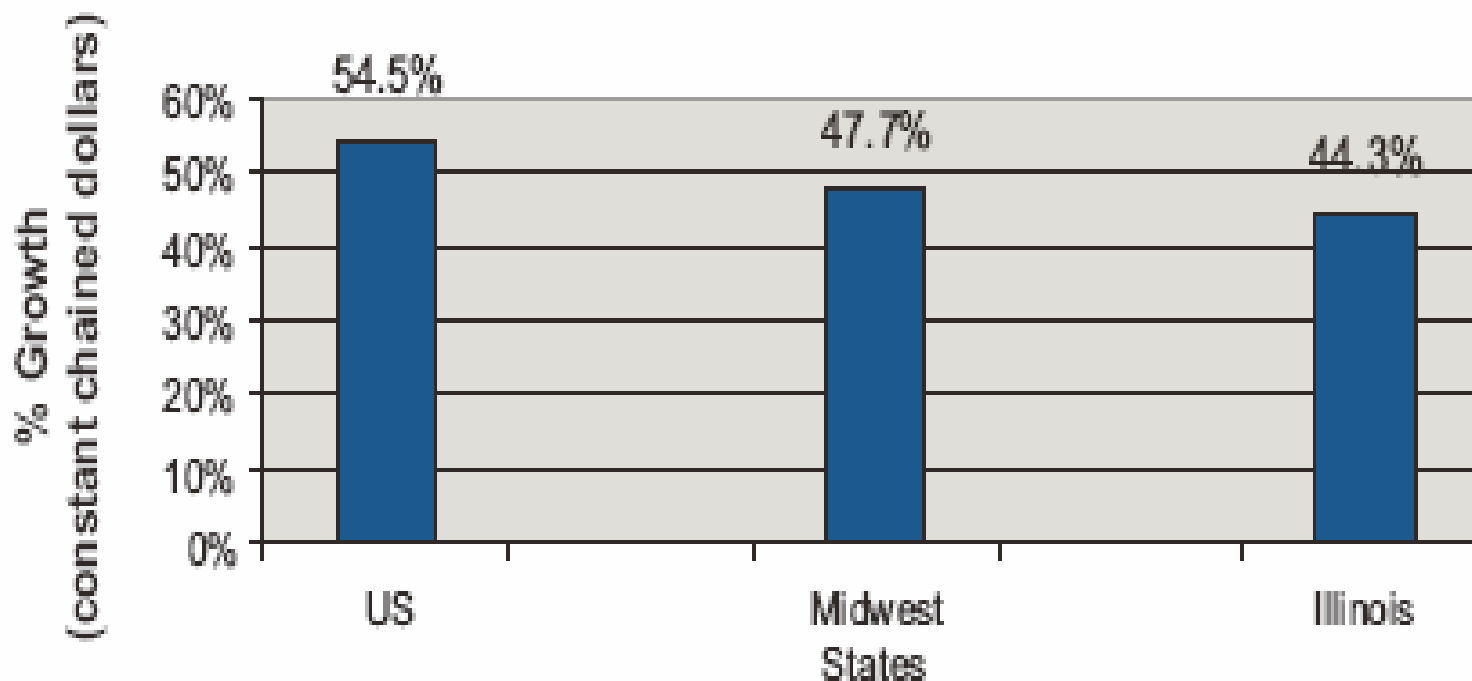


- Context – That would be the 27th largest economy of any nation in the world-greater than Egypt, Saudi Arabia, Columbia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.

But economic growth lagged between 1990 and 2004, ranking 35th among the 50 states.



Illinois Gross State Product Grew Less Than U.S. or Midwest States (1990-2004)



Source: Bureau of Economic Analysis, U.S. Dept of Commerce

- Between 1990 and 2005, Illinois lost 24.3% of its manufacturing industry jobs, a loss of 222,500 jobs.



- All job growth in Illinois came in the service sector.



- Most of these service jobs pay less than the manufacturing jobs they replace – 29% less!

- Private sector employer-provided health insurance coverage has declined from 75.4% of the workforce during the 1979 to 1981 period to 60.8% from 2001 to 2003.



- The percentage of Illinoisans lacking any health insurance coverage has increased from 10.9% in 1990 to 14.0% in 2004.
- By 2004, 27% of the Illinois population was either on Medicaid or uninsured.

- In 1981, 55.6% of the state's workers were covered by private sector employer-provided pension plans.



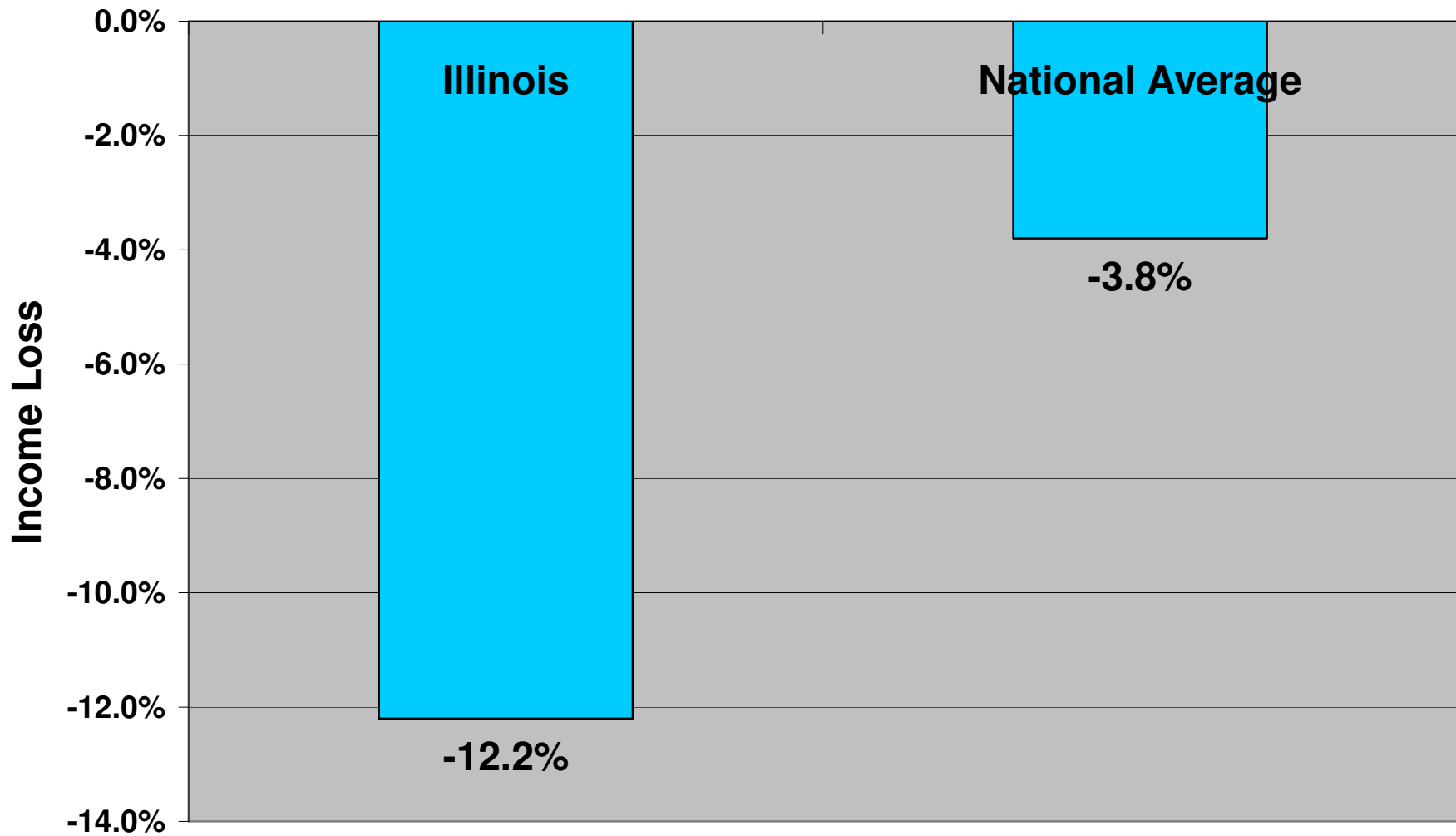
- By 2003, this percentage declined to only 49.8% of the workforce.

Poverty has *worsened* in Illinois over the last 15 years.

- By 2004, 12.2% of Illinoisans were below the national poverty line, as were 17.7% of the state's children under 18 years of age.
- In 2004 nearly a quarter of Illinois workers (23.0%) earned less than \$9.28 an hour—This means their full-time, full-year income **IS BELOW THE POVERTY LEVEL** for a family of four (\$19,311).

- The state's median household income has declined sharply, from a high of \$52,515 in 2000, down to \$46,132 in 2004.
- The post-1999 median income loss was \$6,383 (12.2%)—the second worst decline among all 50 states – whether measured in proportionate or dollar amounts.

Illinois Income Loss in Context



- Why the Economic Problems?
 - NOT TAX BURDEN
- Illinois' total state *AND* local tax burden, as a percentage of personal income ranks only 48th in the nation.
- By far, the lowest tax burden in the Midwest.

- The workforce has become better educated with 58.6% of the workers having attended college.



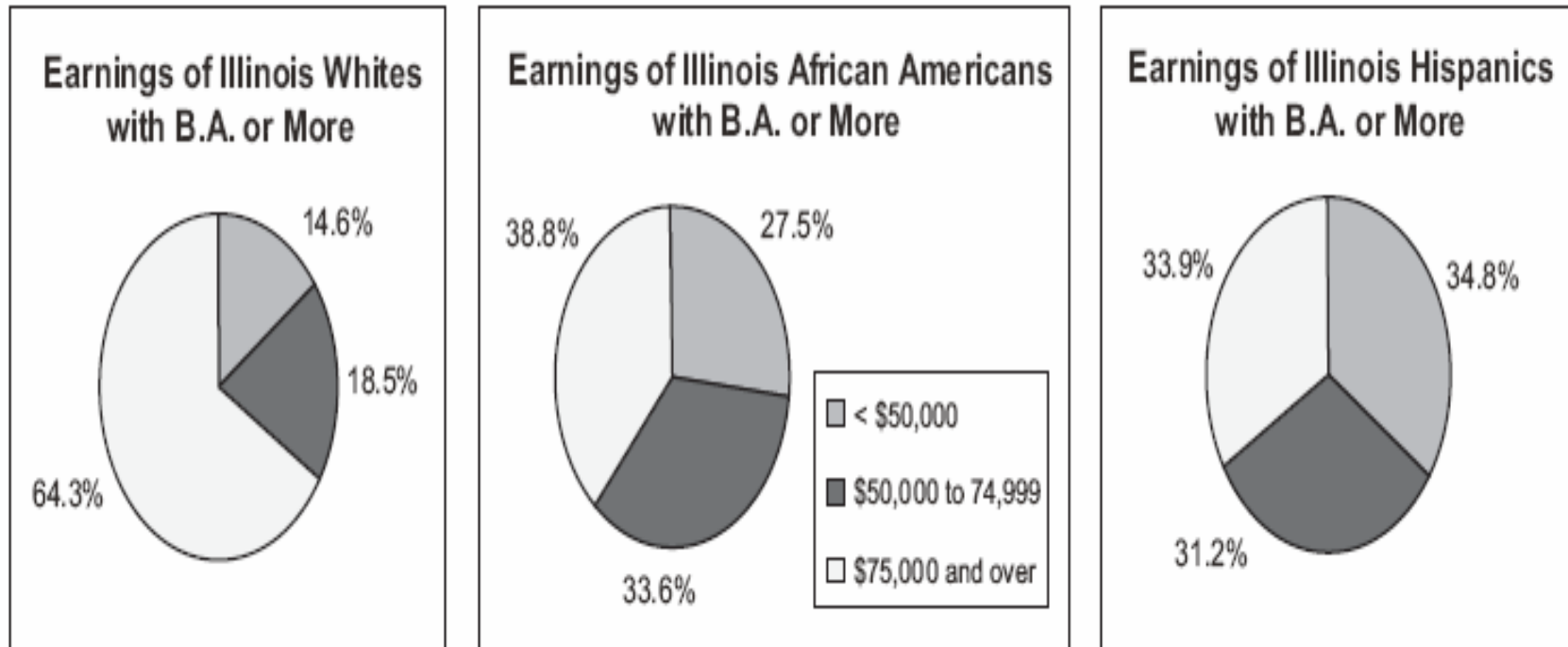
- Education now matters more than ever to economic prosperity:
 - unemployment rates are highest for those with the least education — persons with less than a high school diploma and those who are only high school graduates.

- Among unemployed youth (ages 16 – 24), over half (54.3%) of Whites, nearly two-thirds (61.4%) of African Americans, and *virtually all Hispanics* are both out of work and out of school.
- This leaves them especially vulnerable to long-term detachment from the labor market.

- Education also matters in wages!
- In real dollars, over the last 15 years median hourly wage for those with:
 - Less than a high school diploma dropped 25%
 - Only a high school education dropped 6.2%
 - Some college, increased by 2.2%
 - A B.A. or higher increased by 16.7% - the only sizable gains

- Discrimination appears to impact wages as well.
- The gap in hourly wages between Whites and Hispanics grew by 23.9% since 1980.
- The gap between the hourly wages paid to Whites and African Americans grew by an astounding **162.3%** since 1980.

Whites Have Higher Household Incomes at Top Education Level



Source: Analysis of Current Population Survey data, March 2005

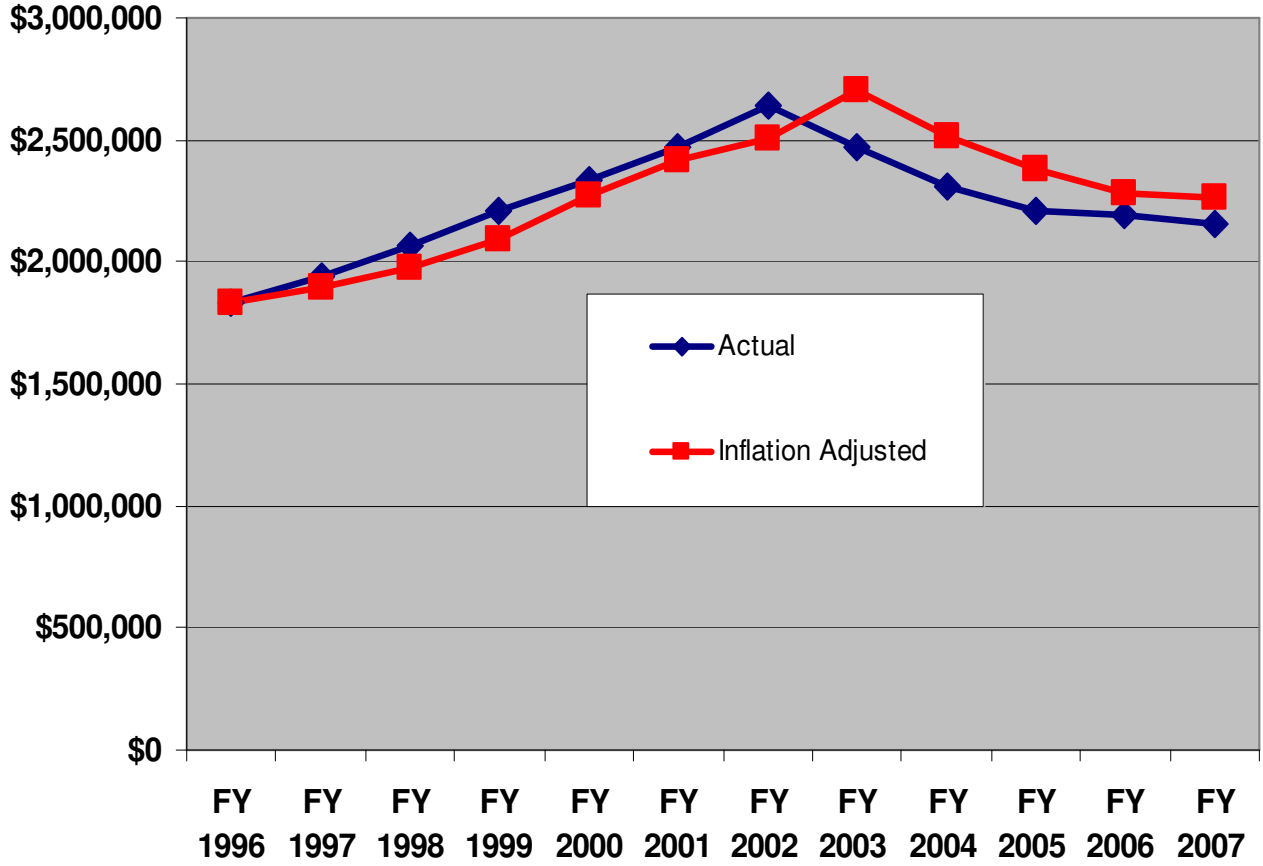
Current Basis for Foundation Level

- The Illinois state “Foundation Level” is the minimum per child guaranteed expenditure for K-12
- Does NOT include: poverty, special ed, transportation, etc.
- Currently \$5,334 – but not tied to any measurable standard

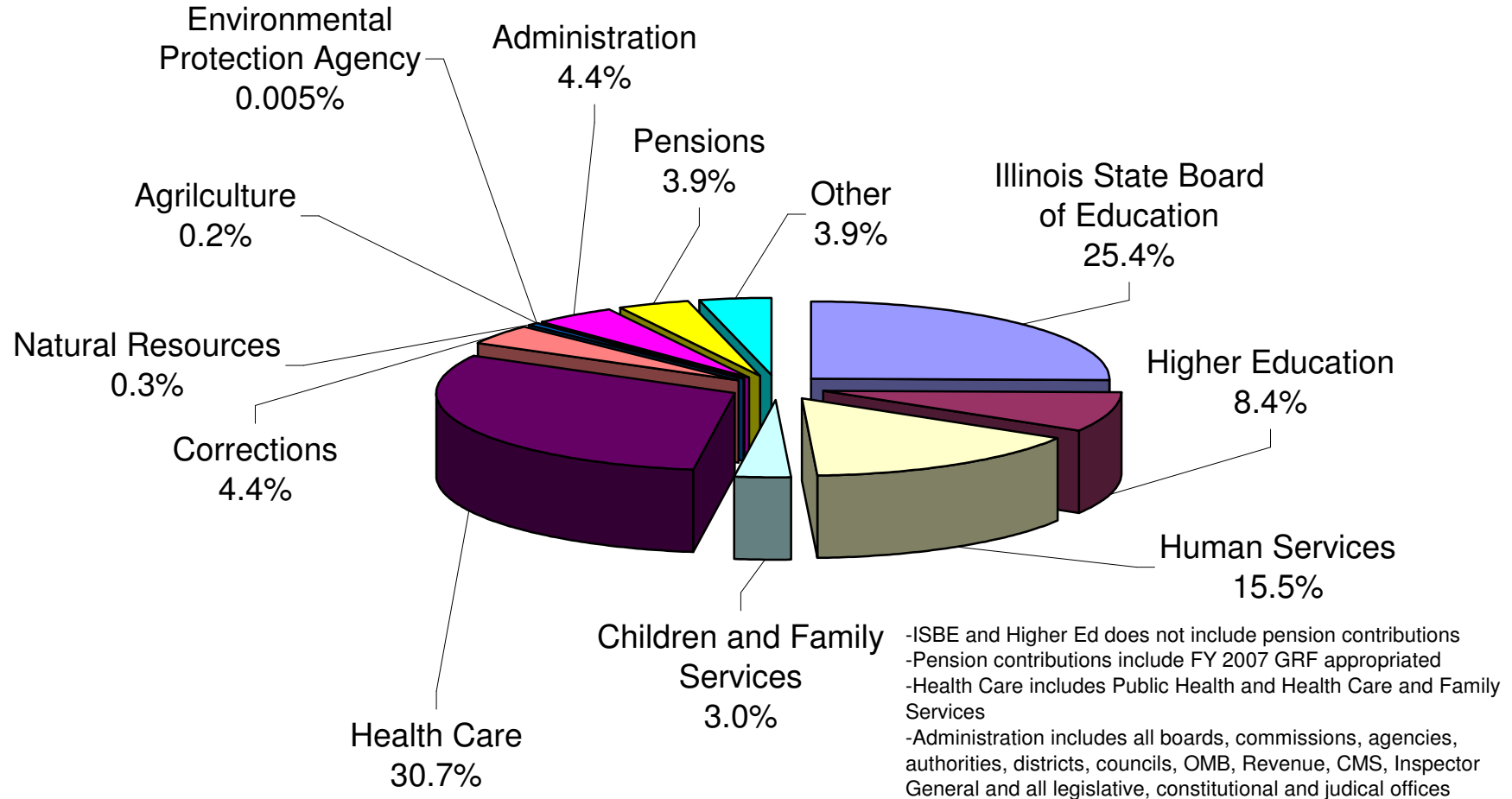
Education Funding Advisory Board ("EFAB")

- Change basis to a measurable outcome standard, predicated on costs and test results
- Foundation Level should be at least \$6,675 (after adjusting for inflation)
- Total cost: \$1.7 - \$2.0 billion

Higher Education Appropriations Have Failed to Keep Pace With Inflation Since 2003



FY 2007 Appropriations by Agency as a Percent of GRF TOTAL GRF: \$25.76 Billion



INFLATION MATTERS!

FY 06 State Budget		FY05 Enacted	FY 05 Inflation Adjusted to FY06**	FY06 Enacted	\$Change FY05ia-FY06	% Change FY05-FY06
Operating	GRF	\$23,817.00	\$24,626.78	\$24,358.00	(\$268.78)	(\$0.011)
Budget	OSF*	\$15,796.00	\$16,333.06	\$15,012.00	(\$1,321.06)	(\$0.084)
	FED	\$5,852.00	\$6,050.97	\$5,023.00	(\$1,027.97)	(\$0.176)
	TOTAL	\$45,465.00	\$47,010.81	\$44,393.00	(\$2,617.81)	(\$0.058)

GRF Expenditures by Category, 1995 - 2006

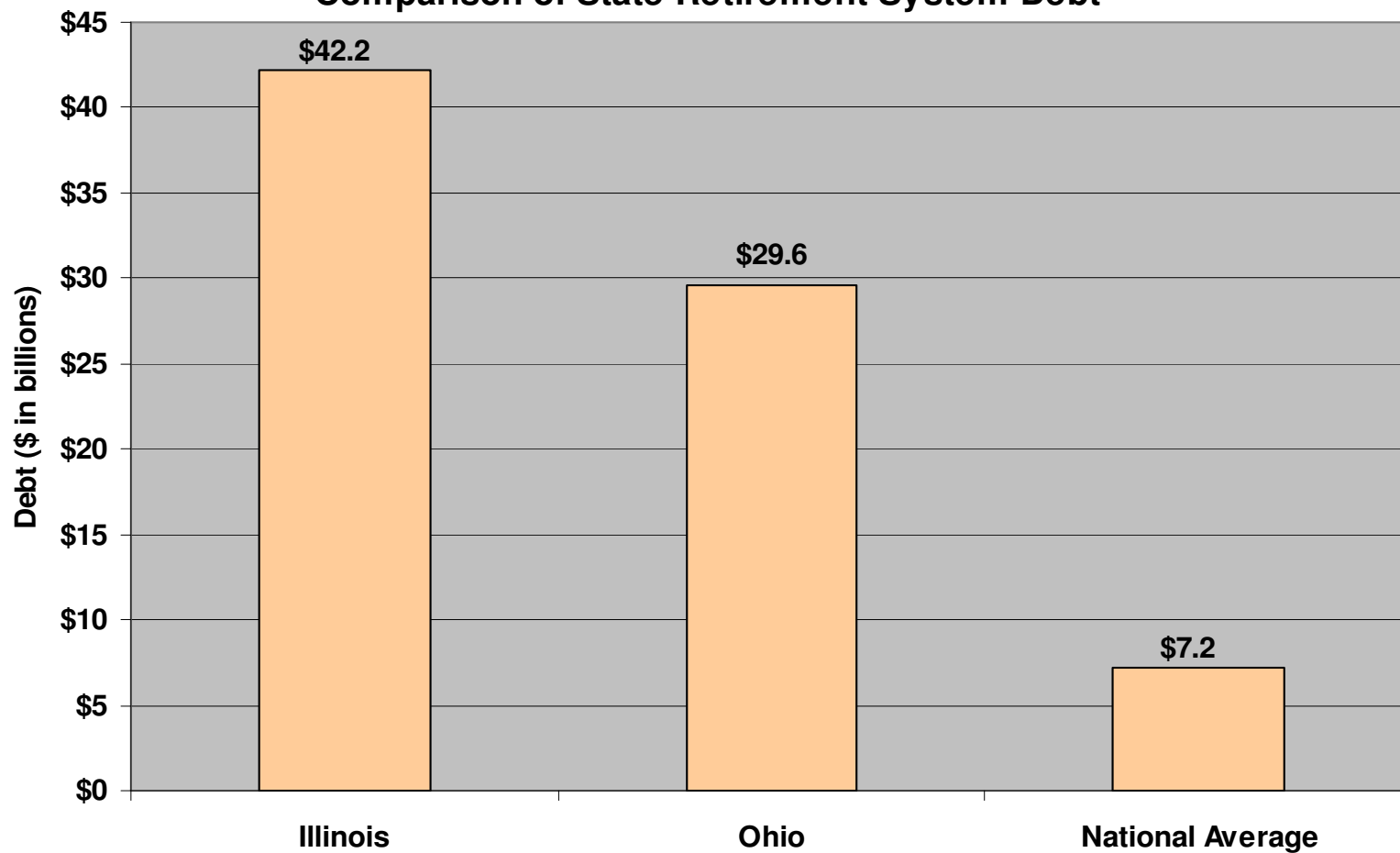
Category	FY 1995 Actual	FY 1995 CPI Adjusted to FY2006		\$ Difference		FY 1995 ECI Adjusted to FY2006	\$ Difference Between 1995 Adj'd for ECI & 2006 Enacted
		FY 1995 Actual	FY 2006 Enacted	Between 1995 Adj'd for CPI & 2006 Enacted	Between 1995 Adj'd for ECI & 2006 Enacted		
General Revenue Fund	\$17,302.0	\$22,613.7	\$24,406.4	\$1,792.7	\$24,776.5	-\$370.1	
Education	\$3,656.0	\$4,778.4	\$6,123.0	\$1,344.6	\$5,235.4	\$887.6	
Health Care	\$4,319.0	\$5,644.9	\$7,034.0	\$1,389.1	\$6,184.8	\$849.2	
Pension	\$519.0	\$678.3	\$938.4	\$260.1	\$743.2	\$195.2	
All public services except Health Care, Education and Pensions	\$8,808.0	\$11,512.1	\$10,311.0	-\$1,201.1	\$12,613.1	-\$2,302.1	

**Notes: Health care includes Medicaid and state employee health insurance

Sources: State of Illinois' Traditional Budgetary Financial Reports and Fiscal Focus Illinois' FY2006 Budget
National Association of State Budget Officers
Comptroller Fiscal Focus, January 1997

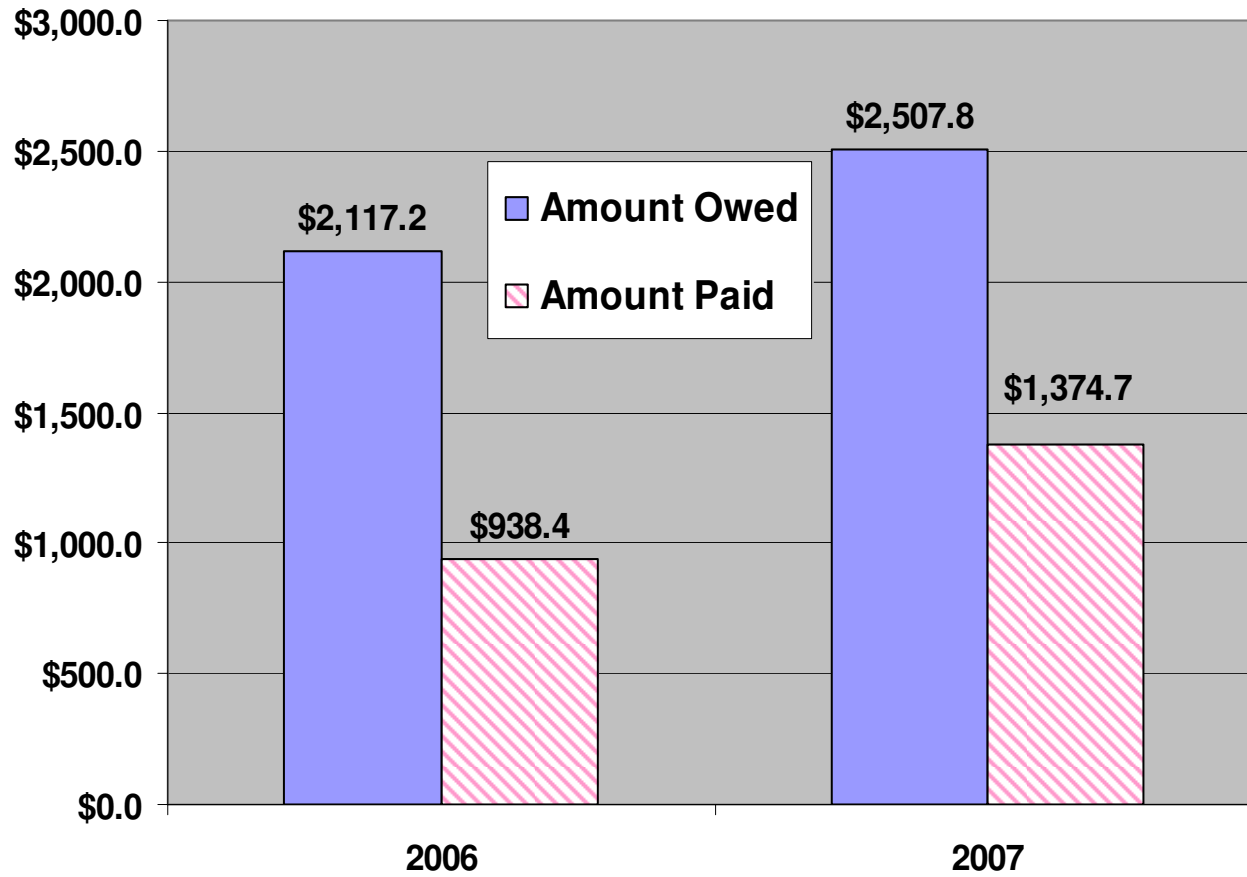
CPI and ECI based on Bureau of Labor Statistics

Comparison of State Retirement System Debt

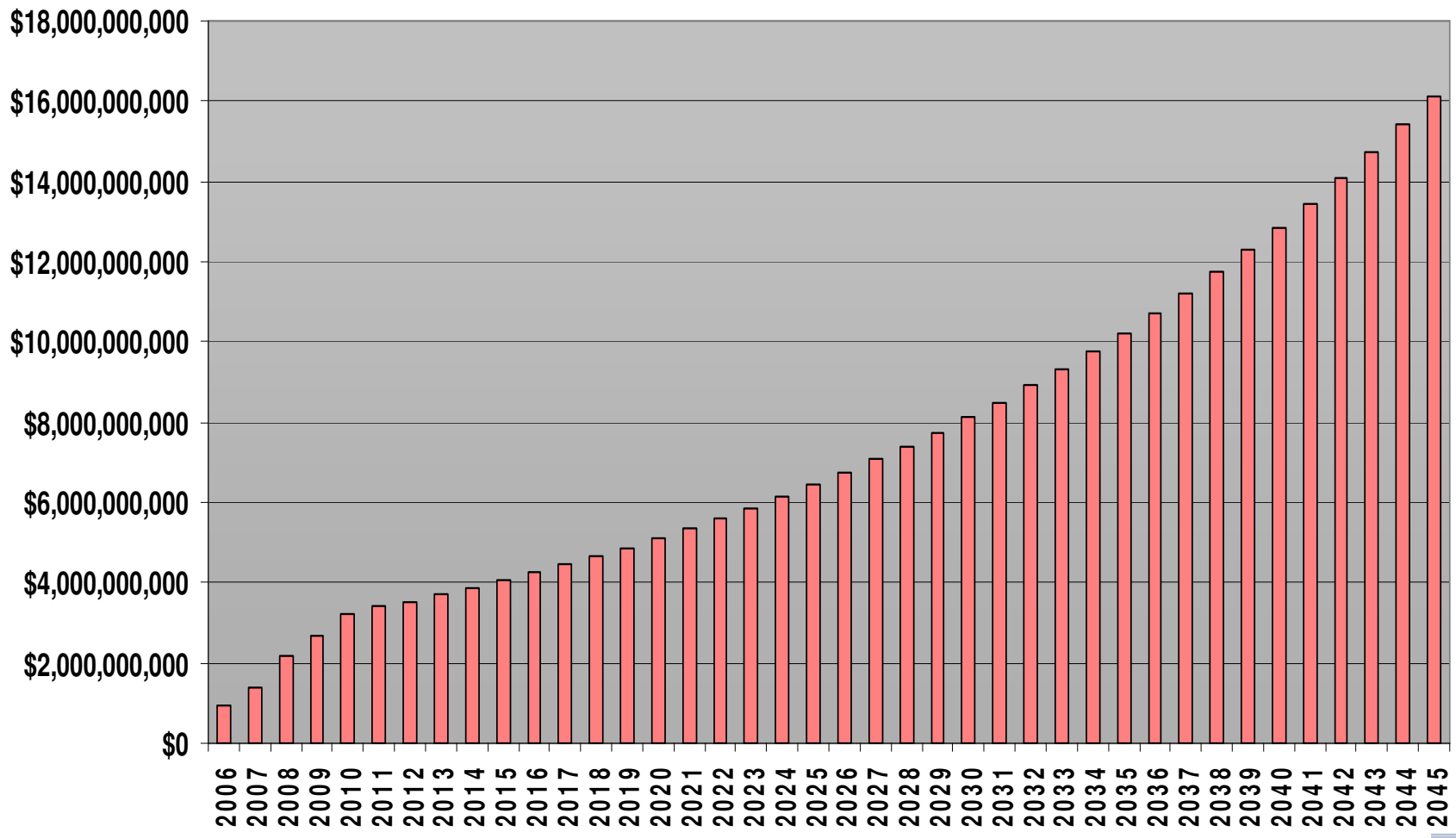


*Ohio Debt and National Average Debt Based on the 2004 Wilshire Report. The current unfunded liability of \$42.23 billion is based on the Commission on Government Forecasting and Accountability, *Report on the Financial Condition of the Illinois Public Employee Retirement Systems, August, 2006*.

FY 2006 and 2007 Pension Holiday



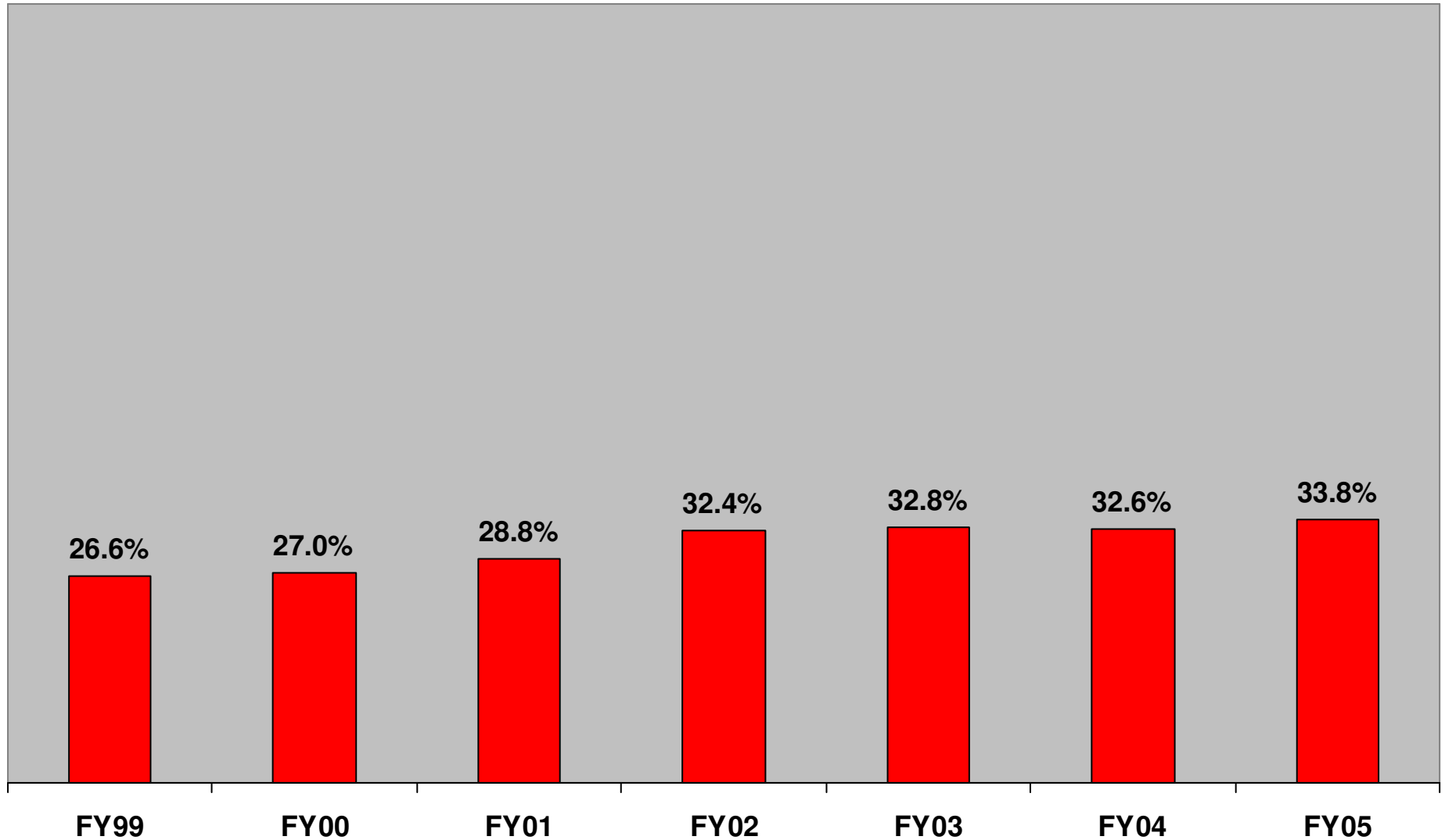
Required Yearly Pension Payments: FY 2006 - FY 2045



- The media focuses on wasteful, excessive state spending

- The data show the opposite:
 - Illinois is low spending, ranking only 42nd nationally
 - Illinois is a low headcount state, ranking 50th in public employees per capita
 - Illinois is efficiently operated, only 4.4% going to administrative costs and has good priorities

Medicaid Expenditures Continue to Increase as a Percentage of the General Revenue Fund



Source: NASBO State Expenditure Reports; Illinois State Comptroller revenue data

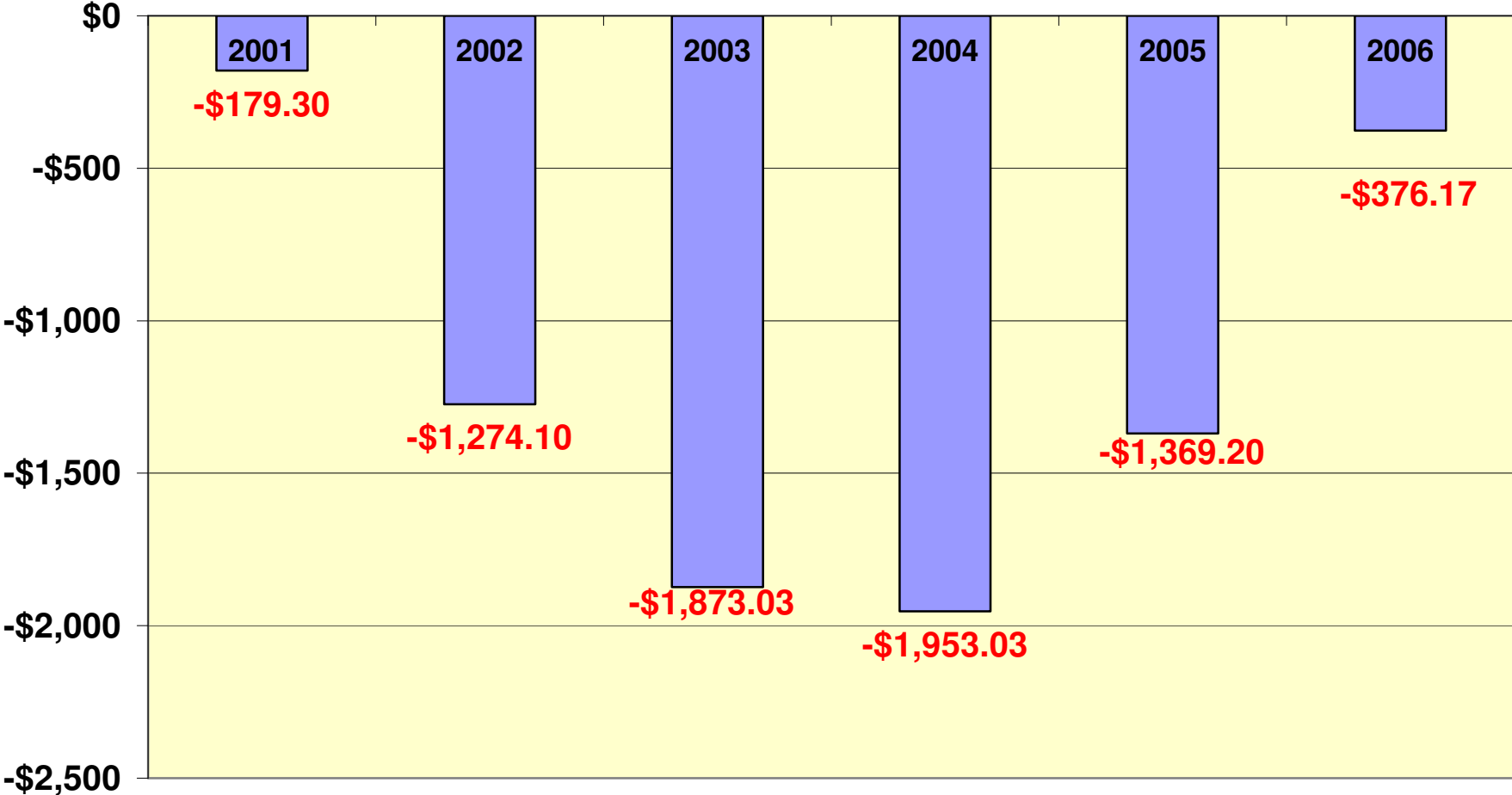
Impacts on Illinois of Federal Budget Cuts Over the Next Five Years

Program	Cuts in Millions
Elementary and Secondary Education	\$477.1
Education for the Disadvantaged	\$32.9
Special Education	\$335.5
School Improvement Programs	\$162.9
Vocational and Adult Education	\$227.5
Nutrition Programs for Women Infants and Children	\$23.7
Children and Family Services	\$135.0
Low Income Home Energy Assistance	\$12.7
Ryan White HIV Funding	\$20.4
Cuts to Strengthening Americas Communities Block Grant	\$447.2
Grants in Aid to States and Localities	\$2,932.8
Total	\$4,807.7

Revenue Underperformance of the Four Major Illinois Taxes Since 2000

\$ in Billions

\$ in Billions



FY 2007 Budget Spending Covered by Debt & One-Time Revenues

Underfunding the Pension	\$1.133
Special Fund Sweeps	\$.159
Deferred Medicaid Liabilities	\$1.800
TOTAL Deficit Spending in Current Budget	\$3.092

Amounts expressed in billions of dollars

Business/Government Comparison

Business

- \$ ↓
- D ↓
- Fire employees
- Cutback production plants
- D ↑
- \$ ↑
- Rehire
- Increase/add back
- Maintain Profits!

Government

- \$ ↓
- D ↑
- Provides public services
- In some basic respects, cannot operate government like a business, because it is not!

Elements of a Sound and Fair Fiscal System

FAIR

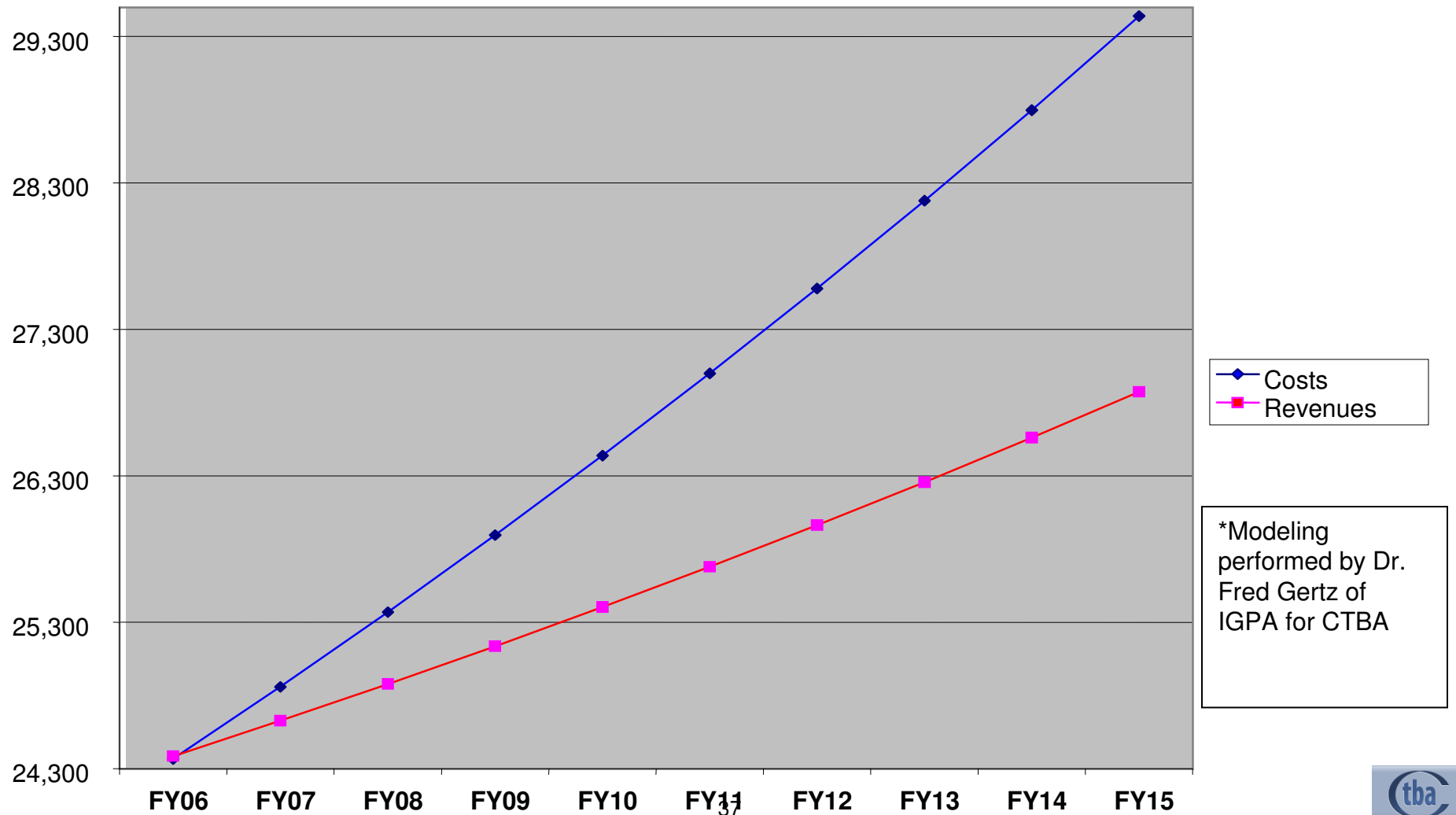
RESPONSIVE

STABLE

EFFICIENT

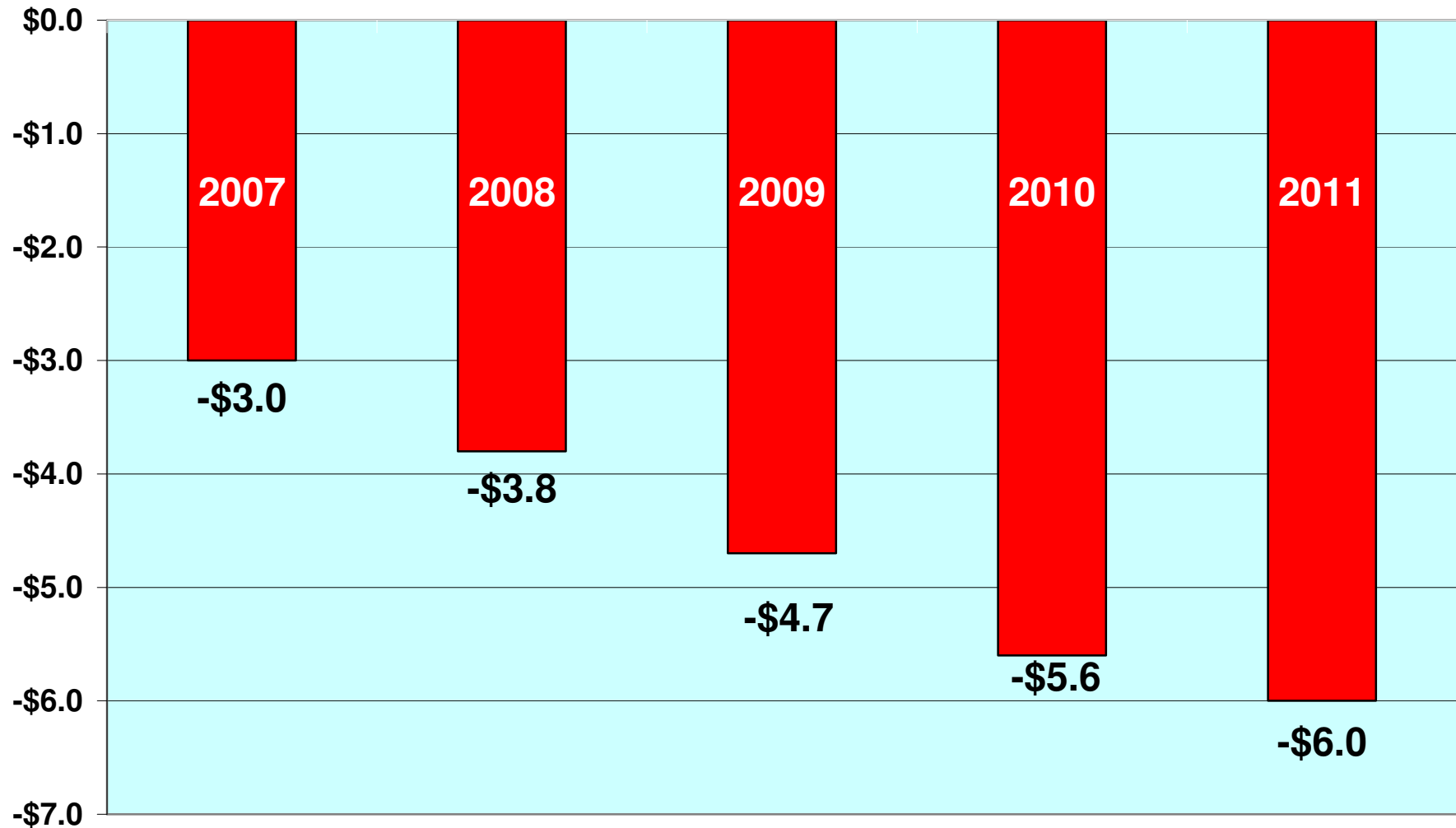
Illinois Structural Deficit

This model assumes continuation of current services, assumes no new programs or service expansions, adjusts solely for inflation & population growth, & assumes an economy growing at 4% per year

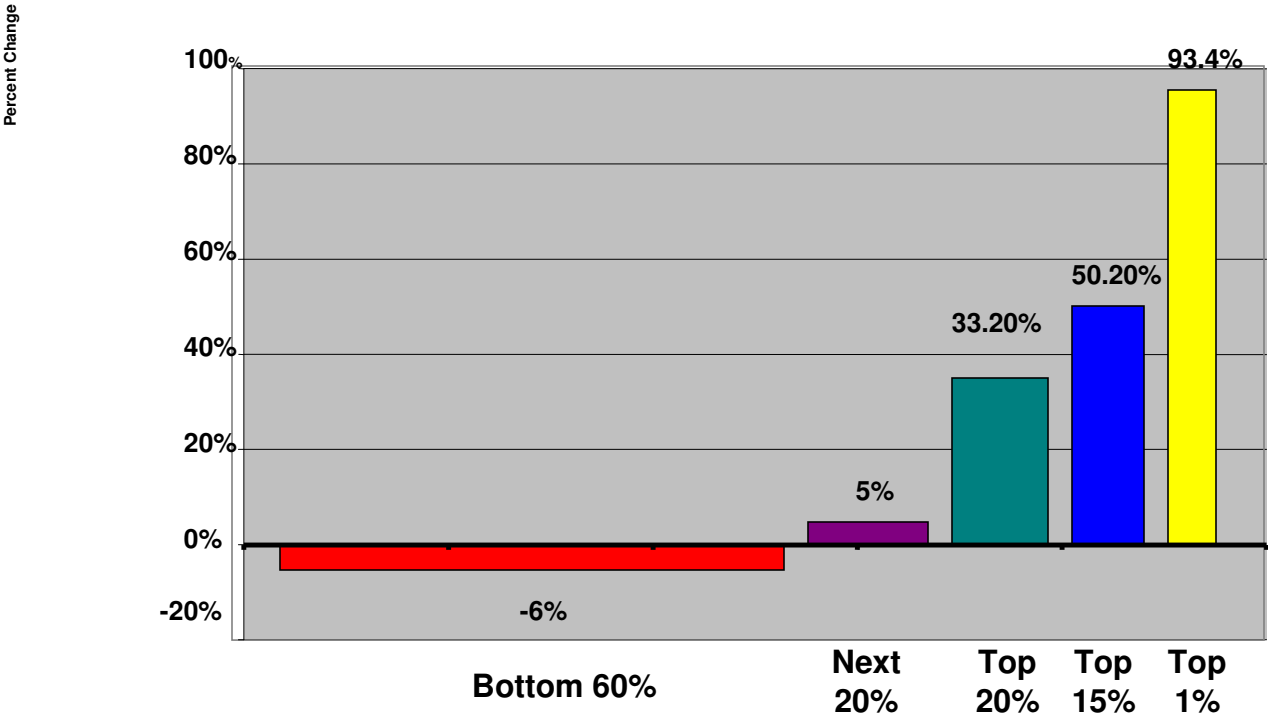


Five Year Growth in the Illinois Structural Deficit

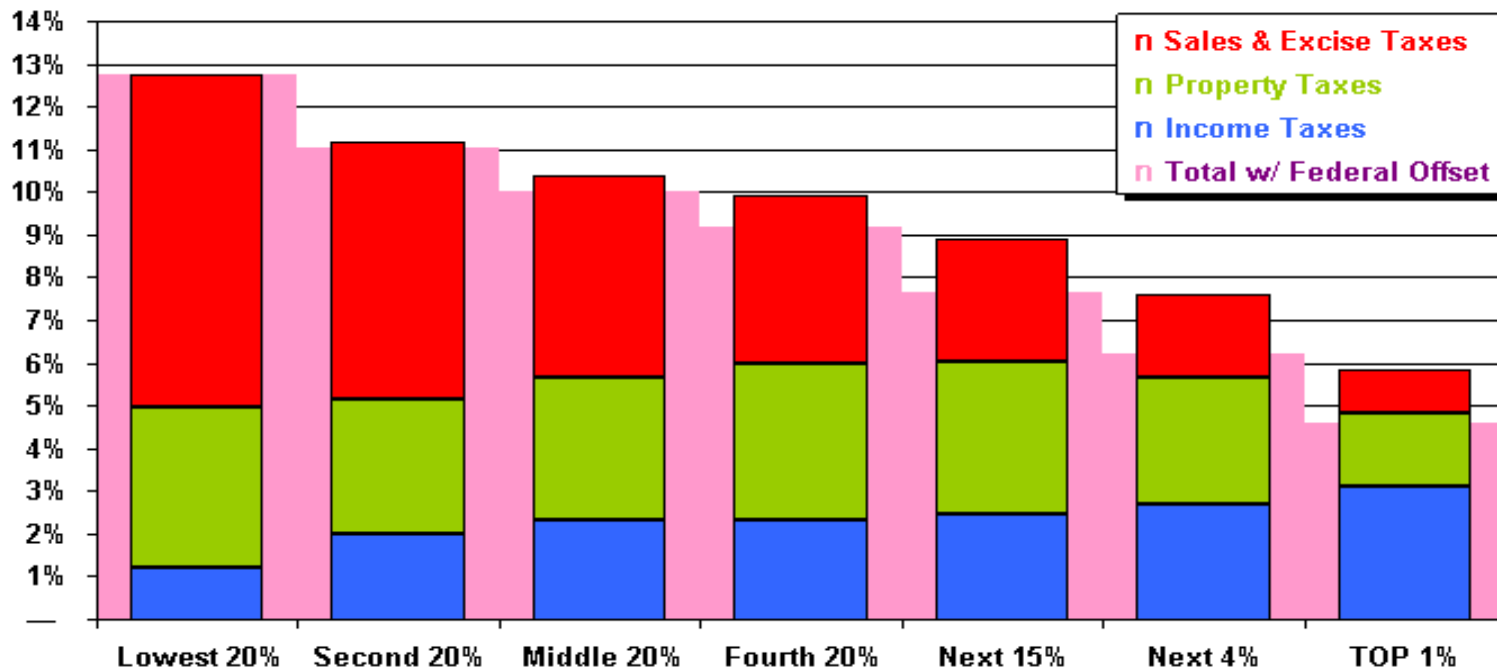
\$ in Billions



Income Growth in the United States 1979-1999 (Real 1999 Dollars) *Source U.S. Census Data



State & Local Tax Burden as a Percentage of Income



Income Range	Less than \$16,000	\$16,000 – \$30,000	\$30,000 – \$48,000	\$48,000 – \$77,000	\$77,000 – \$148,000	\$148,000 – \$295,000	\$295,000 or more
Average Income	\$8,900	\$22,600	\$38,500	\$61,100	\$101,400	\$203,600	\$1,322,100
Tax Burden	12.7%	11%	10%	9.2%	7.7%	6.2%	4.6%

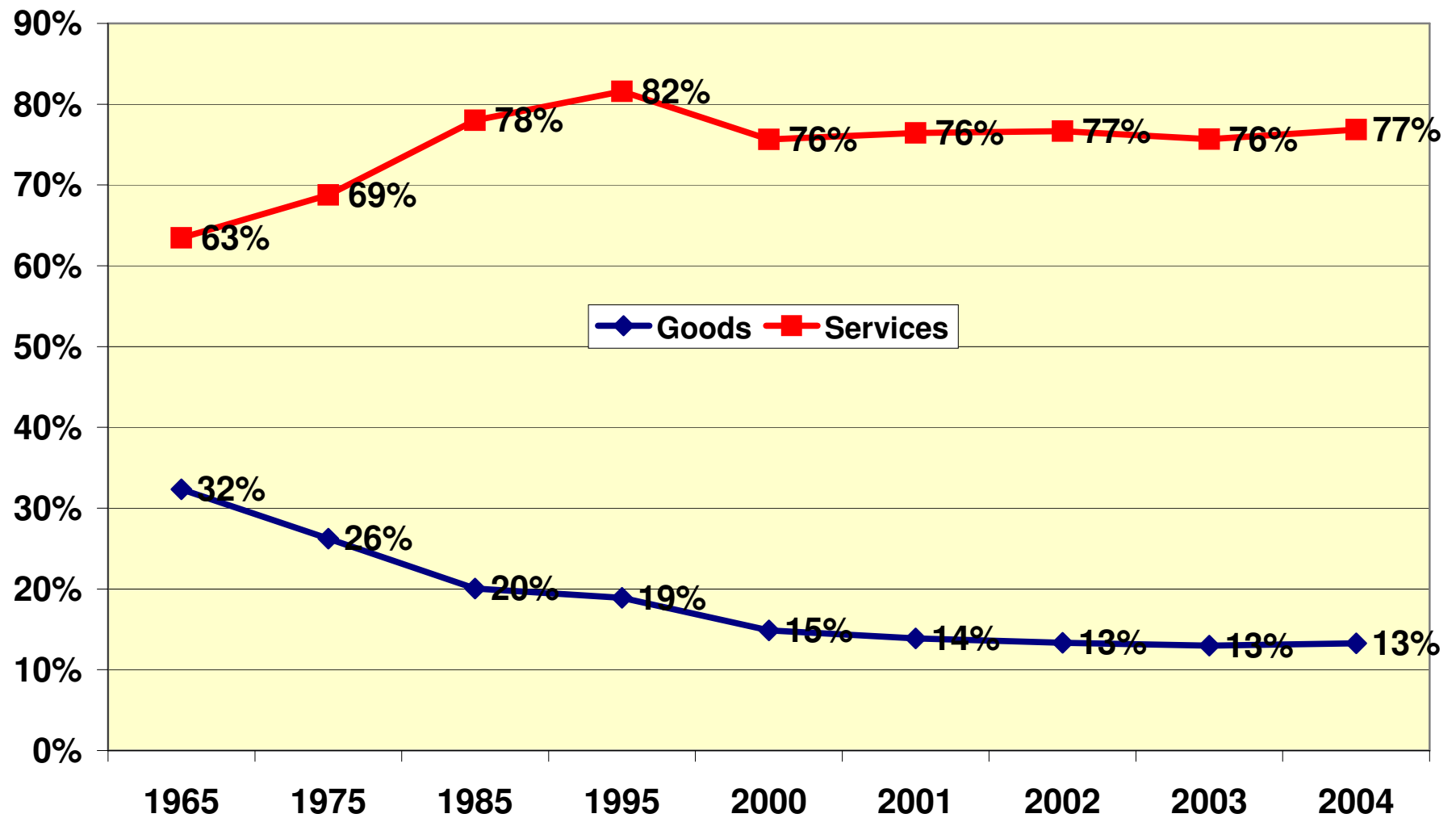
INCOME TAX INCREASE

3% → 5%

3% + 2% = 5%

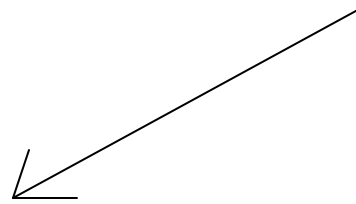
2/3 = 67%

Goods and Service Sectors as a Percentage of the Total Illinois Economy



REFUNDABLE CREDIT

• Tax Credit of	\$500
• Income Tax Liability	<u>\$200</u>
• Balance	\$300



- Taxpayer receives a \$300 check for the balance, offsetting sales, excise and property taxes paid.

PROPERTY TAX RELIEF

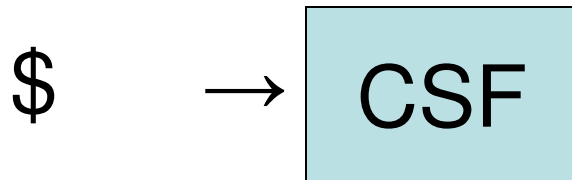
AMOUNT: \$2.5 billion, statewide
 METHOD: Abatement of 25% of the property taxes that fund education
 TRANSPARENCY: Amount of abatement shown on individual property tax bills

<u>River Forest</u>	<u>Description</u>	<u>Chicago Heights</u>
\$13,000	Total Bill	\$3,000
\$ 9,000	School Levy	\$1,800
(\$2,250)	Portion of School Levy already paid by the state	(\$ 450)
\$10,750	Net Paid by Property Tax Payor	\$2,550

LOTTERY

Goods News

Lottery Proceeds



Bad News

For Every

Lottery \$



\$ Other

Funding Sources

CONTINUING APPROPRIATION

A
↓

+

B
↓

+

C
↓

FY BR

\$2.0 billion GSA

ECI
CPI



\$2.5 billion Property Tax



Special Education Mandate

BENEFITS OF HB750

FOR EDUCATION

- The current Foundation Level of \$5,334 is increased by more than \$1,300 per child, fully implementing the FY 2007 EFAB recommendation of \$6,675
- 96% of school districts receive a real increase in funding
- NO DISTRICT LOSES ANY FUNDING
- The State of Illinois will assume 51% of the cost of funding education, the national average. Currently the state only provides 30% of school funding, the lowest in the nation
- School funding is guaranteed with a Continuing Appropriation
- Illinois gains more school funding fairness, by bringing the bottom and middle up, not taking the top down
- The state's structural deficit is eliminated, so the funding reform is sustainable

FOR HOME OWNERS AND RENTERS

- Property tax burden is reduced by \$2.5 billion statewide

FOR ALL TAXPAYERS

- A \$900 million tax credit to low and moderate income families
- Direct taxation of businesses decreases
- The bottom 60% of all income earners realize no tax increase after the reform
- The bottom 20% of income earners actually realize a net tax decrease
- Illinois remains a low-tax state, after HB 750 passes the state will rank only 42nd in the nation in total state and local tax burden, up from its current ranking of 48th
- Illinois' tax system becomes fairer, more sound and sustainable



HB750, Senate Amendments 1 and 2 2004-2005 General State Aid Increase and Property Tax Relief by Region



Chicago

\$427,067,725 GSA

\$351,398,947 Relief

Other Cook

\$239,461,893 GSA

\$608,320,599 Relief

Downstate

\$699,591,846 GSA

\$541,627,409 Relief

FY04 Final GSA assumes the \$7.6 M Supplemental/Transfer – Recommend \$30 M for Final Adjustments for FY05 Phase 2 of the Poverty Formula Assumes a 66% Hold Harmless and 50% increase.

- Projections: more than half of the new jobs created in Illinois over the next decade will pay *less* than the current, average occupational wage

- Projections do not have to materialize

- Recognizing Illinois' inherent strengths and likely challenges
- Making appropriate investments in infrastructure, implementing integrated economic/workforce development strategy
- A Better Future for Everyone