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FACT SHEET: HB 174 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. The 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 as state government cuts programs, reduces staff, raids other funds, defers payments to healthcare providers and borrows against the state pensions to balance the budget as required by the state constitution. In short, Illinois is not generating enough revenue to meet existing obligations. The real cause of the state’s budget deficits is not overspending. Despite, having the fifth largest population of any state in the nation, Illinois ranks 45th in spending on services.

The state’s tax system, initially designed in the 1930s, is outdated and does not grow with the modern economy as a result, Illinois generates less revenue than needed to maintain current public service levels, adequately and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

SOLUTION: Illinois needs a comprehensive package of fiscal solutions.

- **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. HB 174 raises approximately \$7 billion in new revenues while modernizing the state’s tax system and making it fairer; doubles the state income tax credit Illinois homeowners receive for property taxes paid on their principal residence; increases the corporate income tax rate from 4.8% to 5%; and makes meaningful new investments in education.
- **Illinois must close the structural deficit.** To attain sound financial footing and fund needed public services into the future, Illinois *must* close this budget hole with new revenue. The state currently has a deficit of \$9.2 billion, while the General Fund is projected to be around \$30 billion. Cutting spending on essential services such as education, healthcare and human services by up to 30% not only makes no sense, it would devastate communities across Illinois, while lengthening the recession.
- **Illinois must reform education funding.** 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. HB 174 would significantly reduce these funding discrepancies by devoting 33 1/3% of all new revenues to the Common School Fund that provides general state aide to K-12 education, particularly in low and middle income communities across the state. HB 174 reduces reliance on property taxes to fund schools by doubling the Illinois residential property tax credit.
- **Illinois must adequately fund human services.** Despite 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. In fact, if Illinois balanced its budget by cutting \$9 billion in spending, the state would lose over 128,000 jobs and increase its unemployment rate to over 11% (state unemployment stands at 10% as

of June 18, 2009.) For more information, please see the Center for Tax and Budget Accountability's [Moving Forward: To Counter the Current Recession, Illinois State Government Should Maintain or Enhance Spending - Even if it Means Progressive Tax Increases - Rather Than Cut its Budget](#), March 2009 report on the website at www.ctbaonline.org.

HB 174 Fiscal Solutions Package

- Mandates a significant increase in the annual appropriation for grants to institutions of Higher Education, that is community colleges through public universities.
- Funds education accountability reforms.
- Maintains and expands grants for high-poverty schools.
- Funds teacher and principal mentoring programs.
- Provides funding for science, math and technology programs.
- Increases the personal income tax rate from 3% to 5%.
- Increases the corporate income tax rate from 4.8% to 5%.
- Expands the sales tax base to cover 39 different consumer services that are already taxed by Illinois' neighbor states.
- Triples the state's Earned Income Tax Credit, providing tax relief to low income, working families.
- Doubles the residential property tax credit homeowners can claim against their state income tax bill from 5% to 10%.
- Provides meaningful support to local governments by fully funding the Local Government Distributive Fund, reducing the pressure on skyrocketing property taxes.

The Illinois State Senate approved a revenue plan that would have funded the state's critical human needs, addressed its long-term structural deficit, and provided some relief from regressive taxation.

On May 31, 2009, HB 174 was passed in the Senate 31-27-1.

HB 174 was never called to a vote by the House before the legislature adjourned.

For More Information:

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