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Fiscal Challenges Evident in the Fiscal Year 2019 General Fund Budget

THURSDAY, OCTOBER 18, 2018; 6 PM
COMMUNITY FORUM HOSTED BY
REPRESENTATIVE STEPHANIE KIFOWIT

Presented by:
Ralph M. Martire, Executive Director

FY2019 General Fund Budget

Category	Appropriation	
1. Total General Fund Appropriation		
Total Hard Costs		**$12,773**
Debt Service (Pension & Capital Bonds)		$3,312
Other Statutory Transfers Out		$396
Pension Contributions		$7,039
Group Health Insurance		$2,026
2. General Fund Service Appropriations (Gross)		**$26,823**
Healthcare (including Medicaid)		$8,056
Early Childhood Education		$494
K-12 Education		$7,891
Higher Education	96%	$1,787
Human Services		$5,671
Public Safety		$1,855
Other		$1,069
Unspent Appropriations		($953)
Net General Fund Service Appropriations		**$38,643**

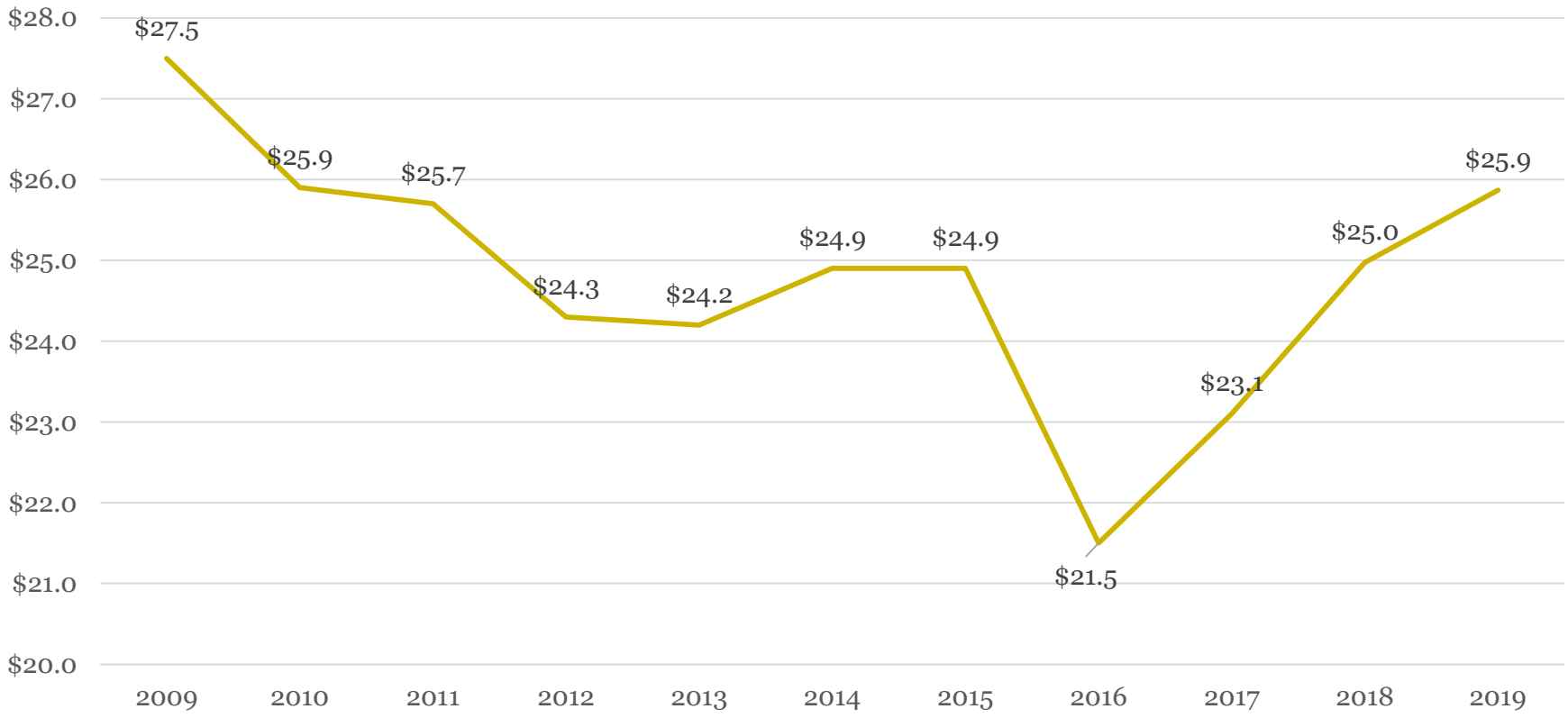
Sources: CTBA analysis of P.A. 100-0586, P.A. 100-0587, Governor Bruce Rauner's Fiscal Year 2019 Proposed Budget, COGFA, *State of Illinois Budget Summary Fiscal Year 2019*

FY2019 Estimated Accumulated Deficit

Step	Revenue	$ Millions	Spending	$ Millions	Remaining Revenue (Revenue – Spending)
(i)	FY2019 Revenue	$38,220	**FY2019 Hard Costs**	$12,773	$25,447
(ii)	Revenue After Hard Costs	$25,447	**Accumulated Deficit Carry Forward from FY2018**	($8,994)	$16,453
(iii)	Projected Net FY2019 General Fund Revenue Available for Services	$16,453	**Projected Net General Fund Service Appropriations after Unspent Appropriations**	$25,870	($9,417)
(iv)	Assumed Savings from Pension Buyout	$445	**Surplus/Deficit Remaining after General Fund Service Spending (Net)**	($9,862)	($9,862)
Projected Accumulated FY2018 General Fund Deficit		**($9,862)**			
Projected Deficit as a Percentage of General Fund Service Appropriations		**-38.1%**			

Revenue figure does not include $300 million from the expected sale of the Thompson Center. Sources: CTBA analysis of P.A. 100-0586, COGFA, FY 2019 Economic Forecast and Revenue Estimate and FY2018 Revenue Update, and CTBA *Governor Rauner's FY2019 General Fund Budget Proposal Neither Balanced Nor Addresses Long-Term Structural Fiscal Issues*.

Change in Net General Fund Budgeted Appropriations



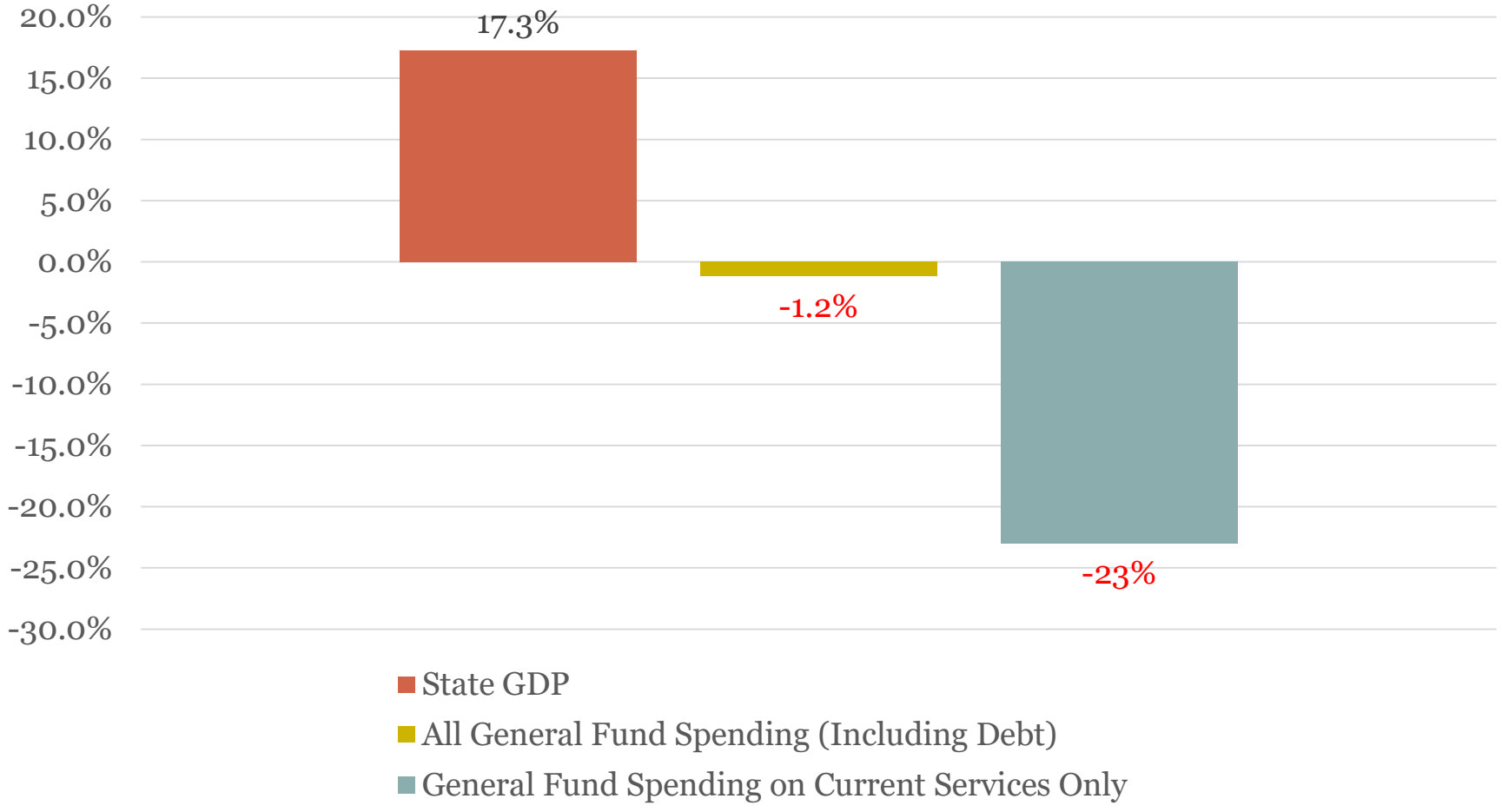
Source: CTBA analysis of P.A. 100-0586 and COGFA data.

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

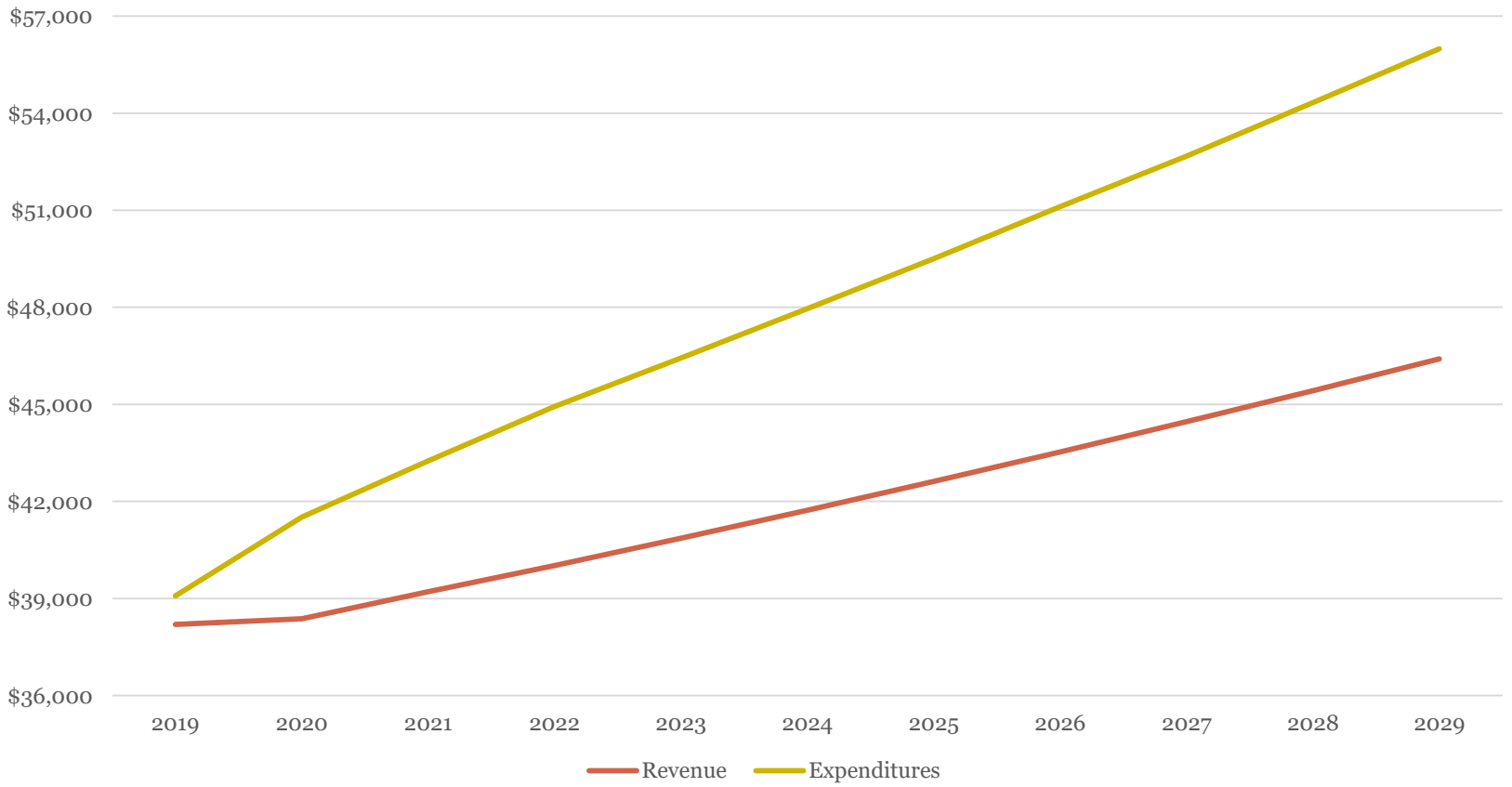
Category	FY2000 Enacted General Fund Budget (Nominal)	FY2000 Enacted General Fund Budget (Adj for Inflation & Population)	FY2019 Enacted General Fund Budget	$ Difference (ECI and Pop Growth Adjusted)	% Change
K-12 Education	$4,673.8	$8,094.2	$7,891.1	-$203.2	-2.5%
Early Childhood Education	$170.2	$294.8	$493.7	$199.0	67.5%
Higher Education	$2,152.0	$3,726.9	$1,787.1	-$1,939.8	-52.0%
Healthcare	$5,022.0	$10,328.8	$8,055.9	-$2,272.9	-22.0%
Human Services	$4,599.0	$7,964.7	$5,670.9	-$2,293.8	-28.8%
Public Safety	$1,350.0	$2,338.0	$1,855.0	-$483.0	-20.7%
Net General Fund Service Appropriations	$17,967.0	$32,747.2	$25,708.7	-$7,038.5	-21.5%

Bigger Picture

Spending on State Services has Greatly Lagged GDP Growth

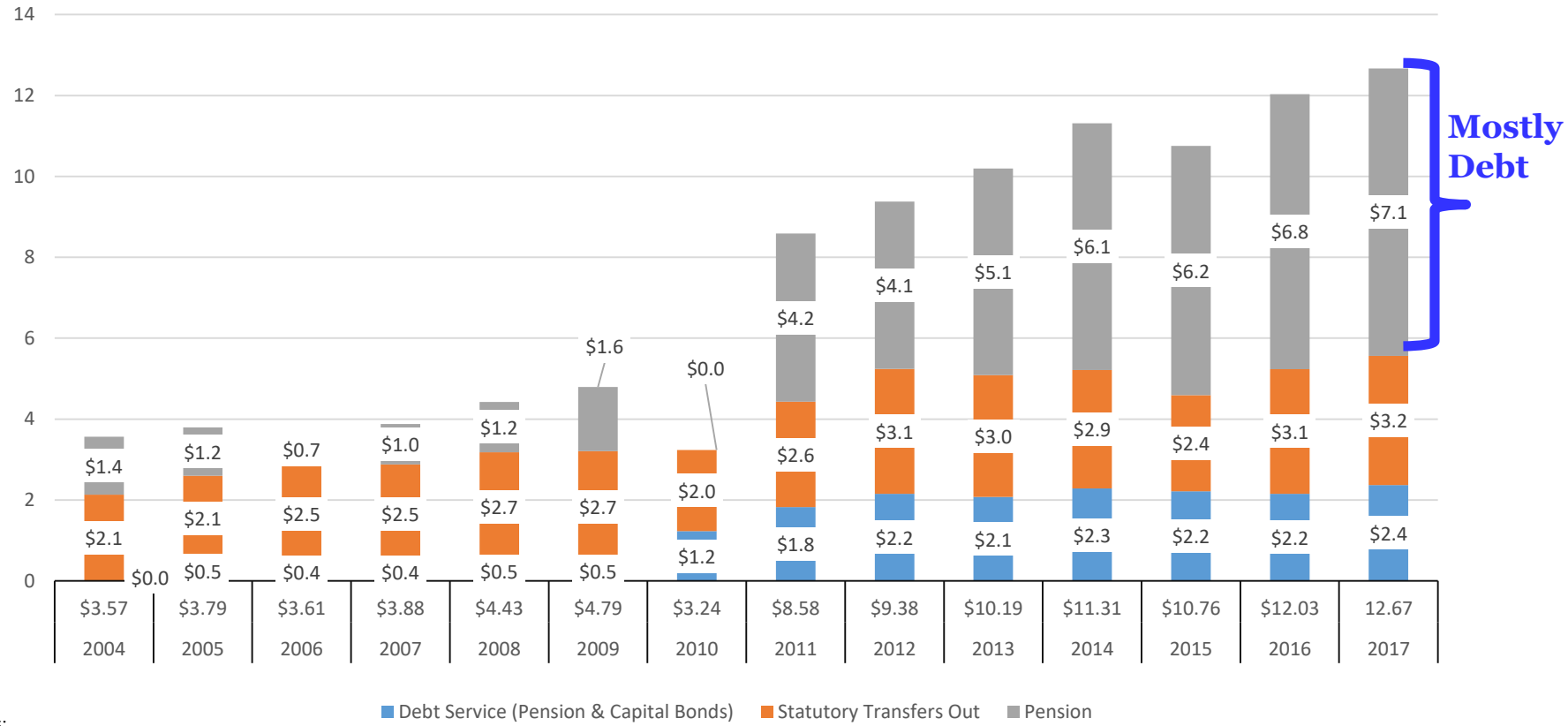


The Problem Remains: Illinois has a Structural Deficit (Full Funding of EBF)



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.

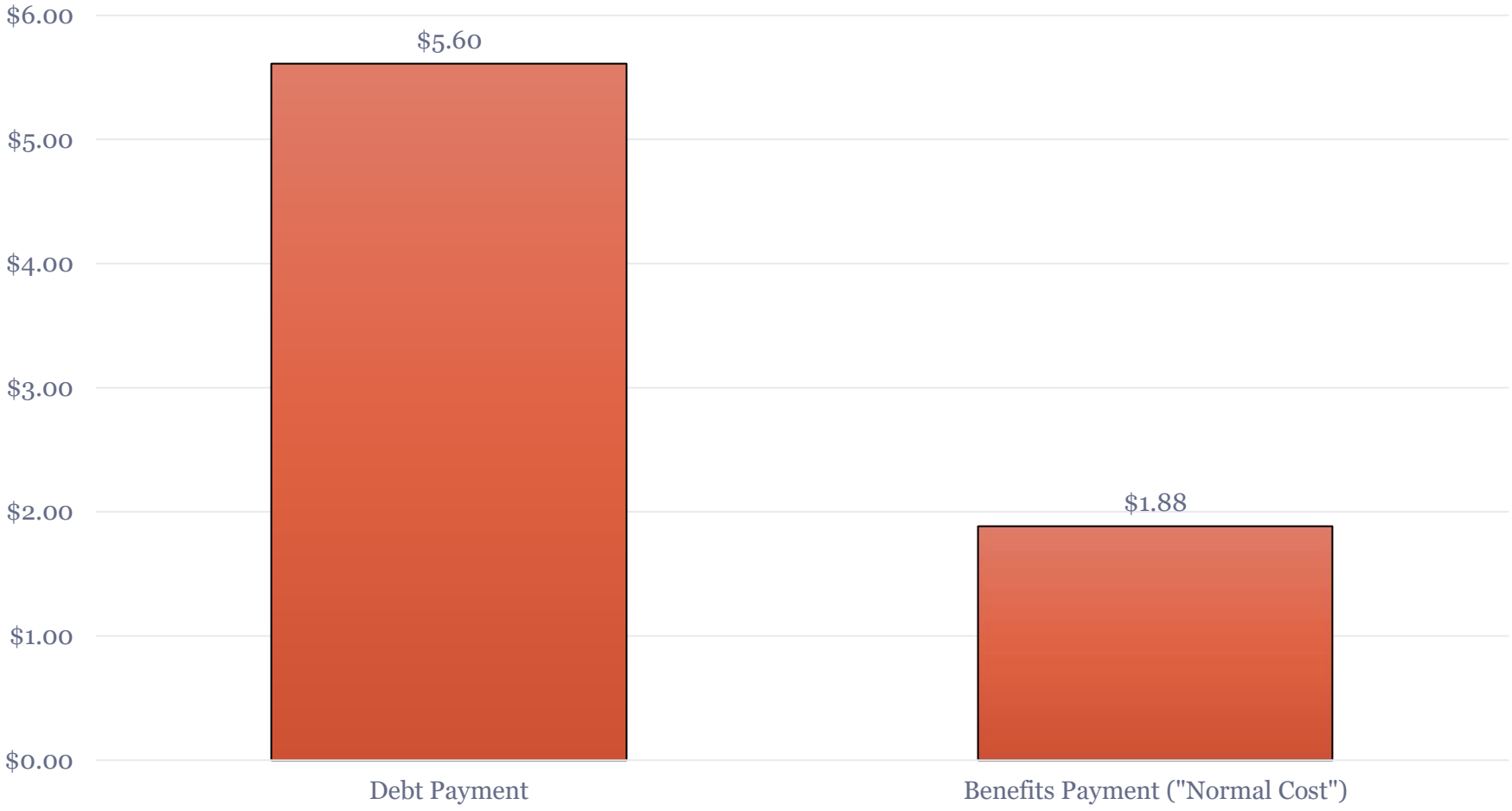
Growth in Hard Costs for Debt Service



Notes:

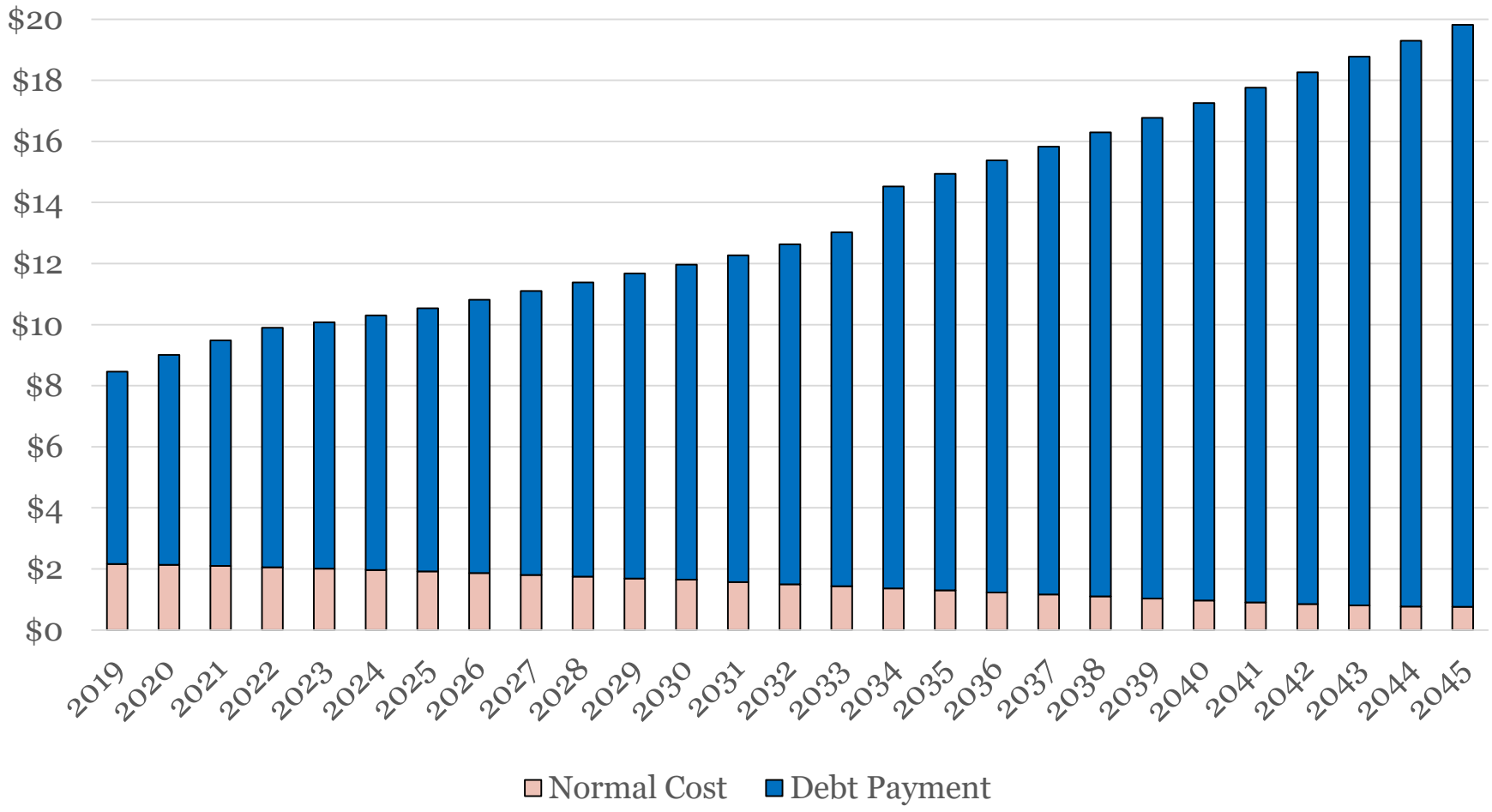
- Legislation passed in 2005 cut the state's pension contributions for fiscal years 2006 and 2007
- In 2010 the state used Pension Obligation Bonds to pay its pension contribution
- In 2011, the state also used Pension Obligation Bonds. AS such, while the state budgeted for $4.2 billion in General Fund 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

Initial FY2019 General Funds Contribution by Normal Cost and Debt Payment ($ Billions)



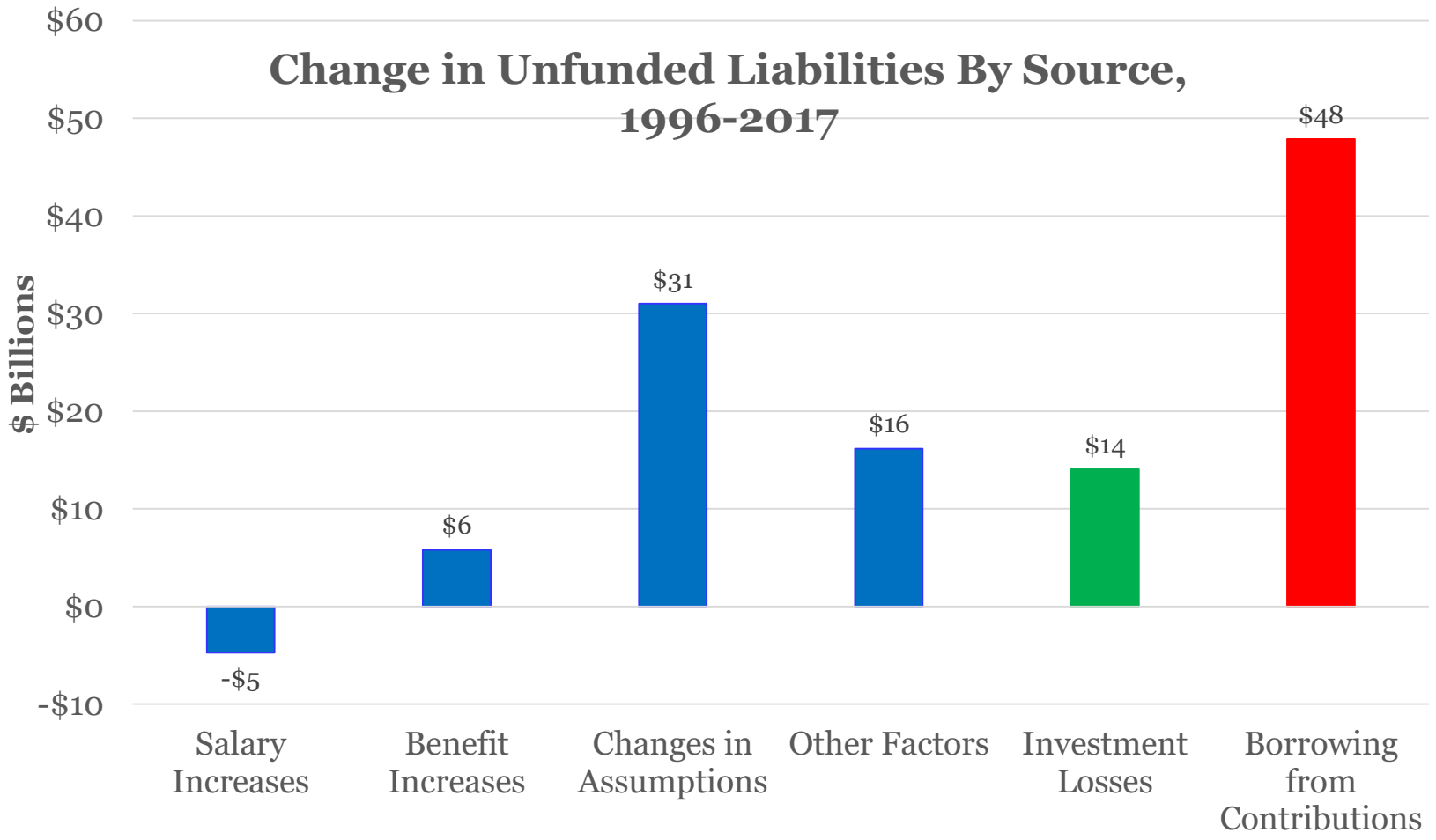
Source: Pension funds' actuarial valuation reports.

The Ramp Is a Debt Structure Problem: Normal Cost of Benefits Not the Driver ($ Billions)



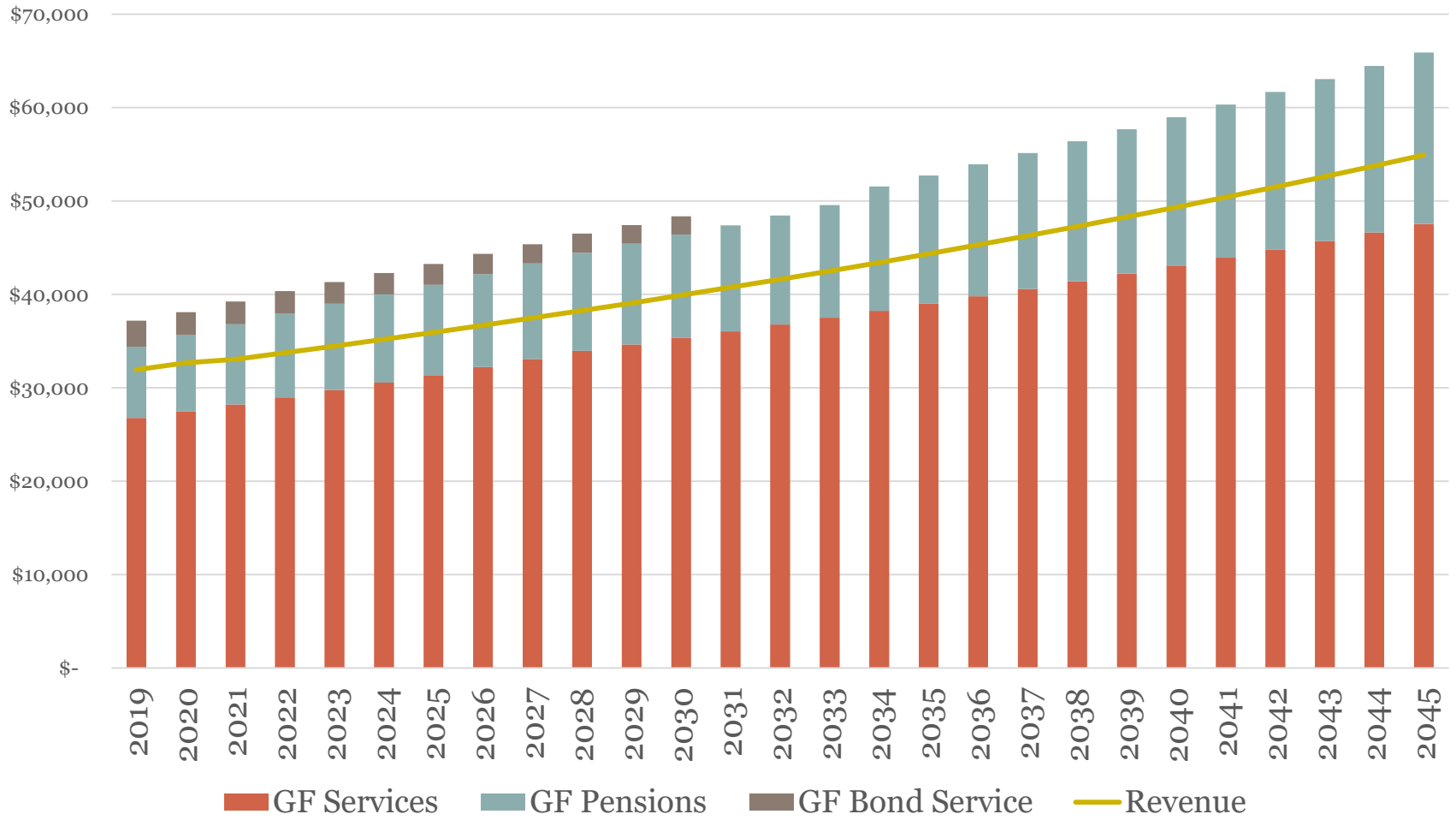
Source: State pension funds actuarial valuations

Pension Benefits Have Not Driven the Problem



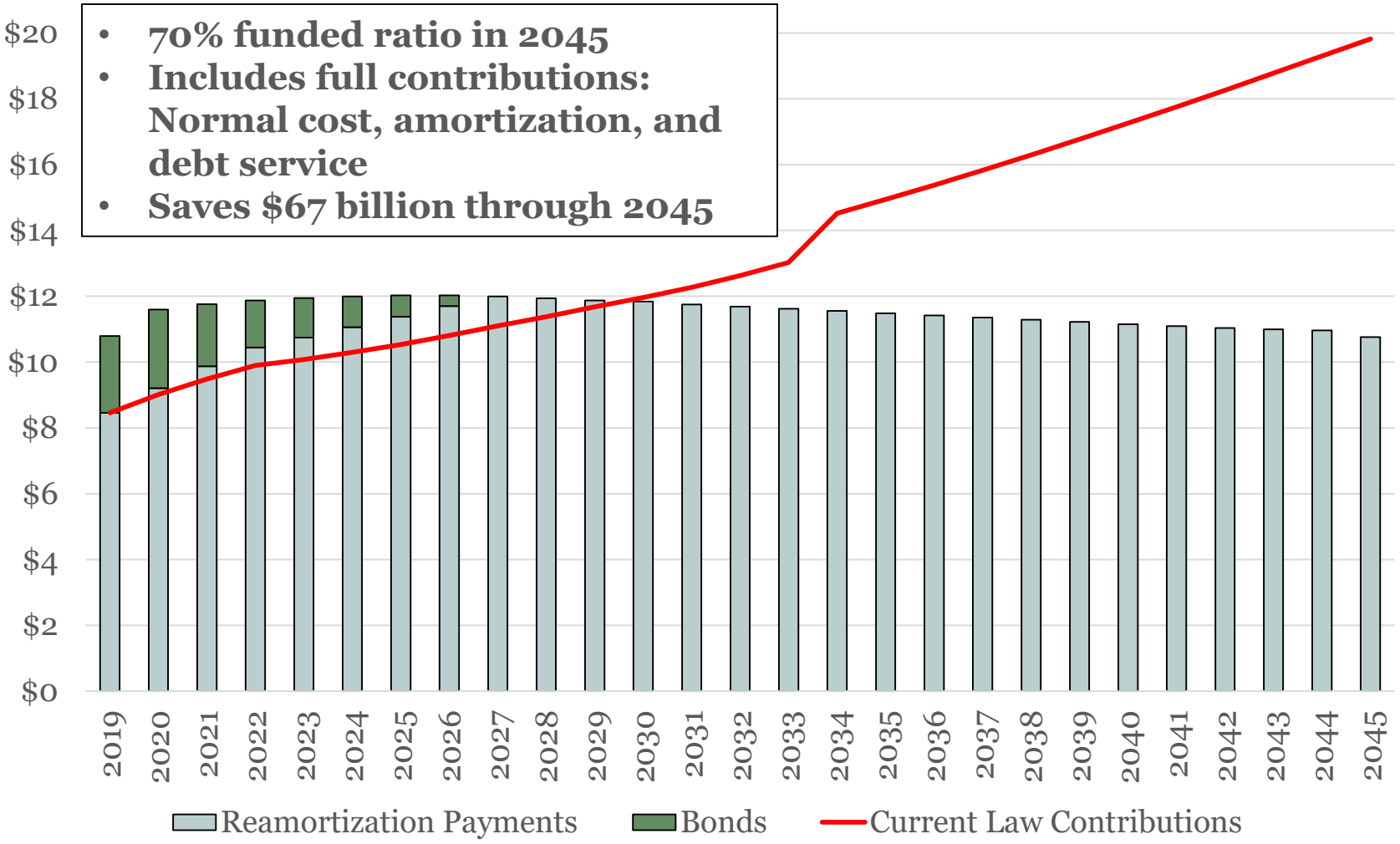
Source: COGFA

The Pension Ramp Plays a Key Role In Illinois' Structural Deficit ($ Billions)



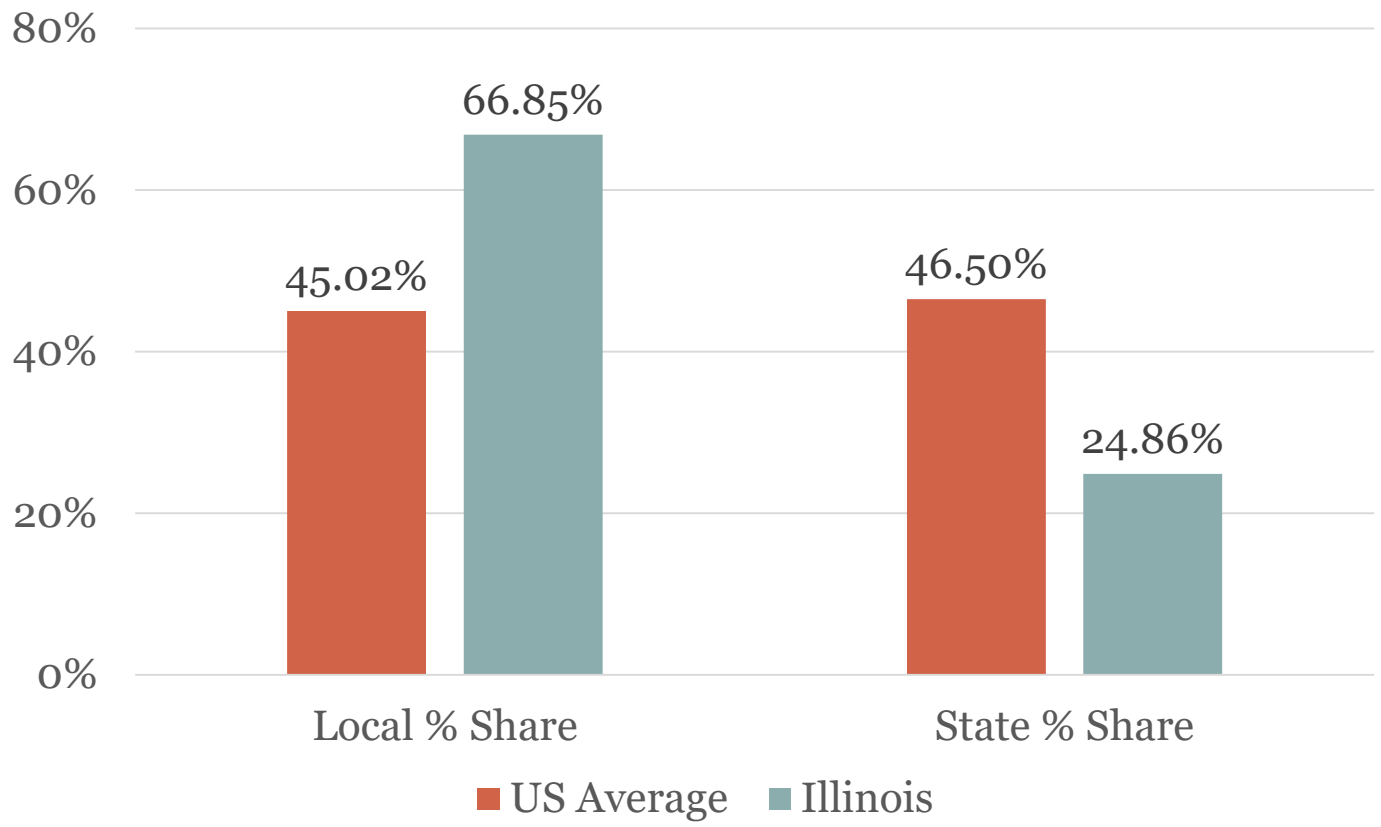
Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.

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

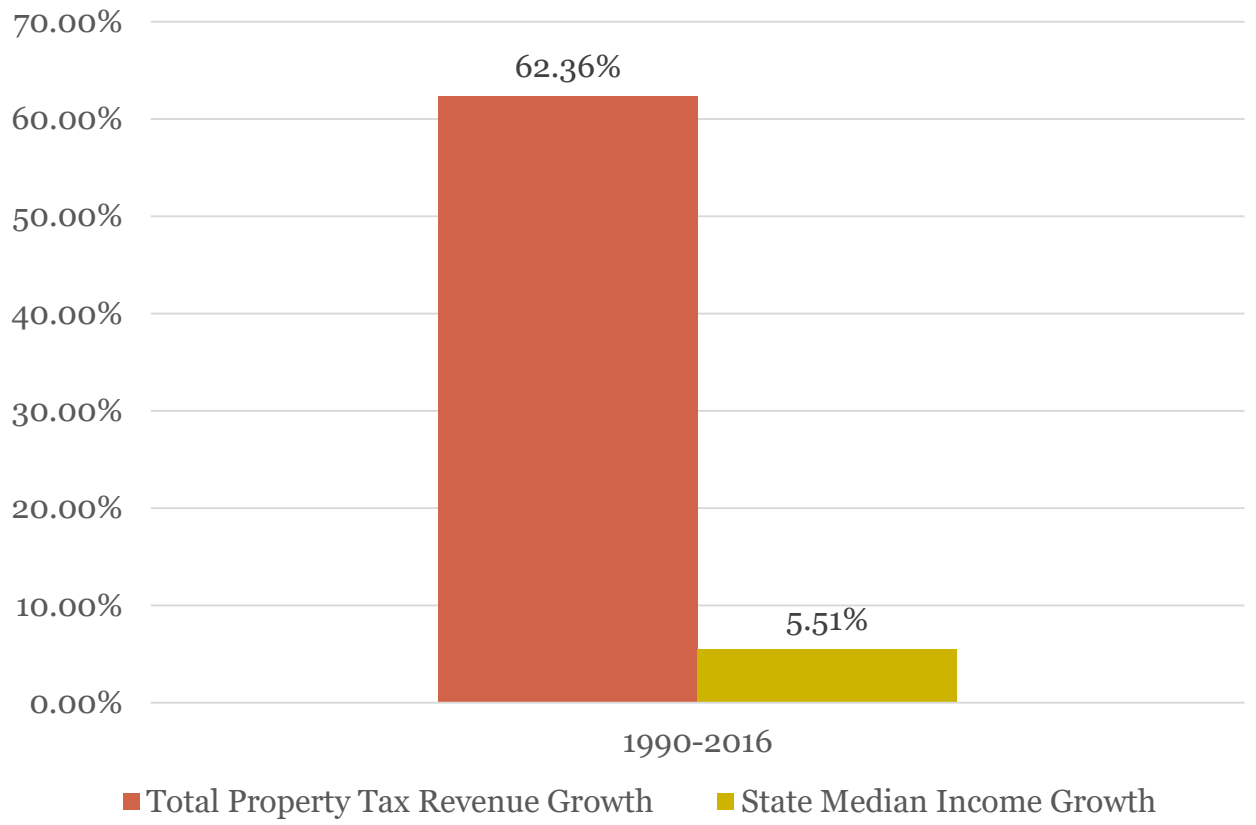


EDUCATION FOCUS:

Local and State Share of Education Funding Spending, FY2016



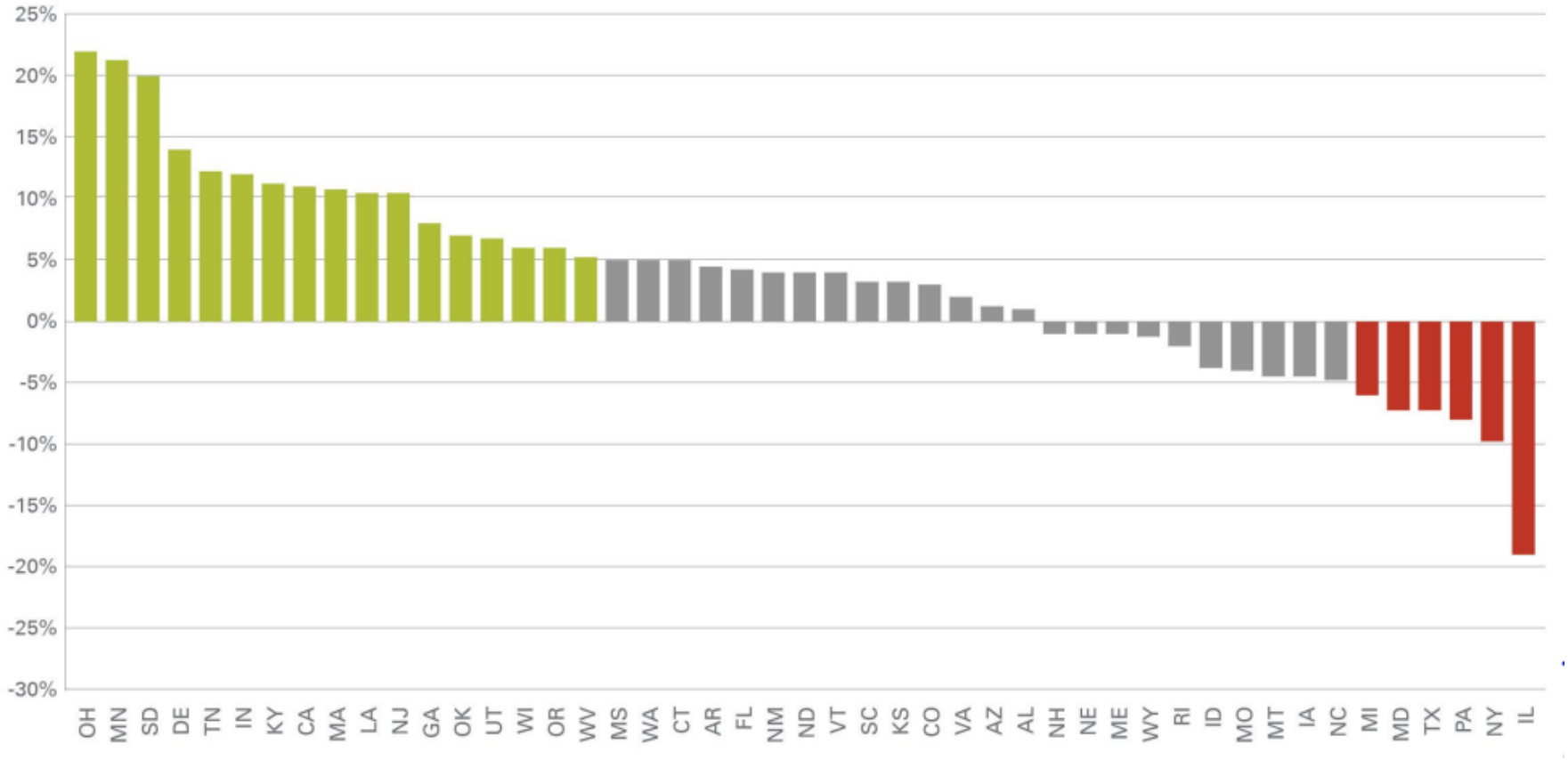
Illinois Total Property Tax Revenue Growth vs. State Median Income Growth



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

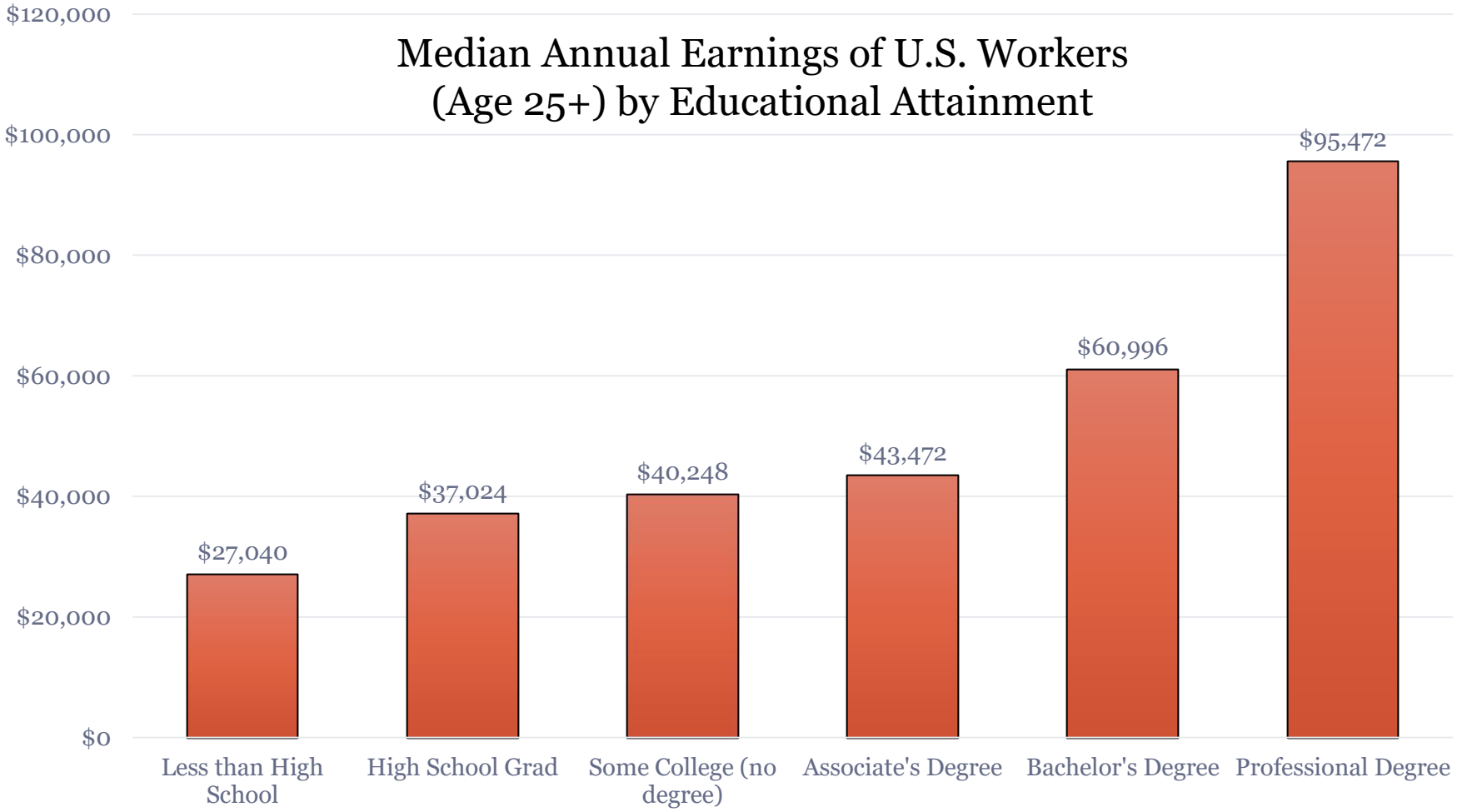
Bottom Line: Bottom Feeder Funding Gaps

Figure 1: Gaps in State and Local Revenues per Student Between Districts Serving the Most and the Fewest Students in Poverty[11]



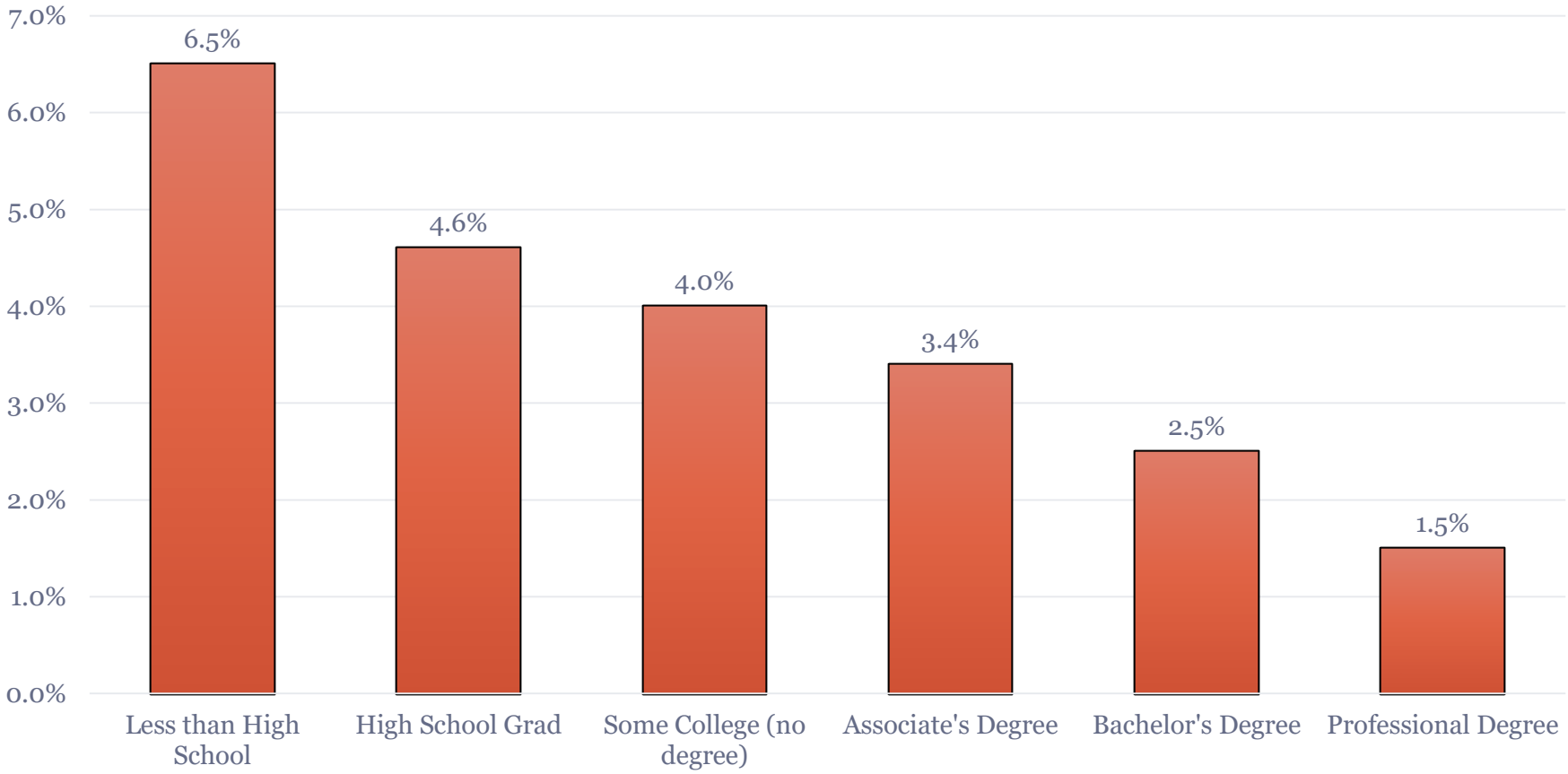
Source: Funding Gaps 2015, The Education Trust
"By far the largest gap is in Illinois, where the highest poverty districts receive nearly 20% less state and local funding than the lowest poverty districts."

Which Makes No Sense Because…….



Source: Bureau of Labor Statistics, 2017

Unemployment Highest Among Least Educated



Source: Bureau of Labor Statistics, 2017

Strong Correlations Between Investment in K-12 and Economic Benefits

CTBA analysis of Census data on per pupil spending in all 50 states and Washington, D.C., confirms that those states that did the best job investing in K-12 education;

- have higher median and mean wages and income than other states;
- with per pupil spending being strongly correlated with:
  - median income (.668),
  - mean hourly wage (.635),
  - median hourly wage (.668), and
  - annual mean wage (.634).

2016 Data

Who Did The Old System Disadvantage

Demographic Breakdown of K-12 Enrollment (FY2017)

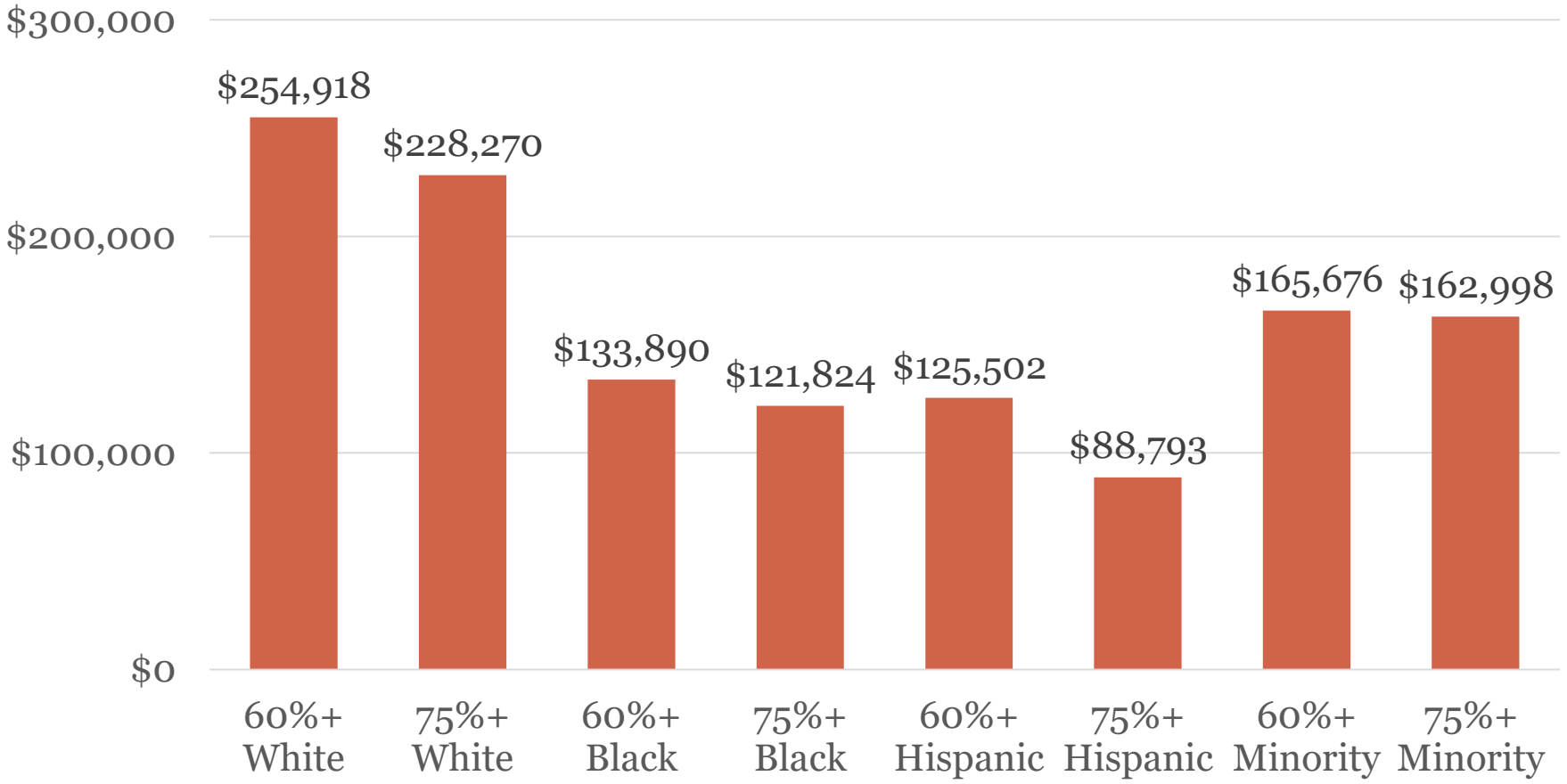
Demographic	White	Black	Latino	Asian	Two or More Races
<10% Low-Income	7.37%	0.61%	1.32%	9.13%	4.38%
10-25% Low-Income	28.00%	7.14%	9.22%	32.55%	21.52%
25-50% Low-Income	33.99%	9.70%	15.47%	26.17%	24.66%
50-75% Low-Income	24.11%	25.26%	27.06%	15.88%	33.81%
>75% Low-Income	6.53%	57.29%	46.93%	16.27%	15.63%
Total	100%	100%	100%	100%	100%

So: 82.6% of black students in districts with >50% low income
67.9 % of Latino students
30.6% of white students

Source: ISBE School Report Card

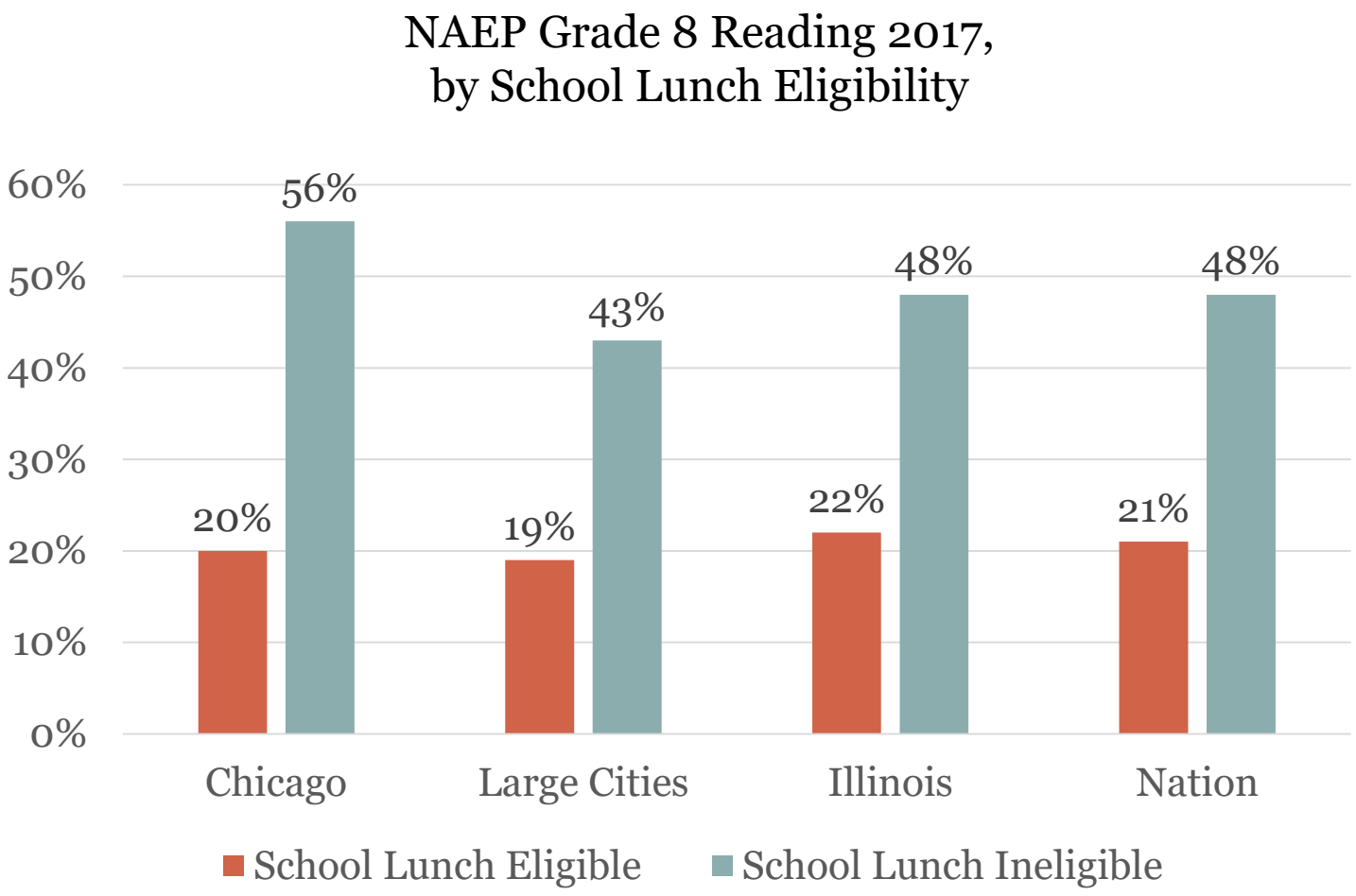
Over-Reliance on Property Taxes a Key Driver of Inequity

EAV per Pupil, by Race/Ethnicity

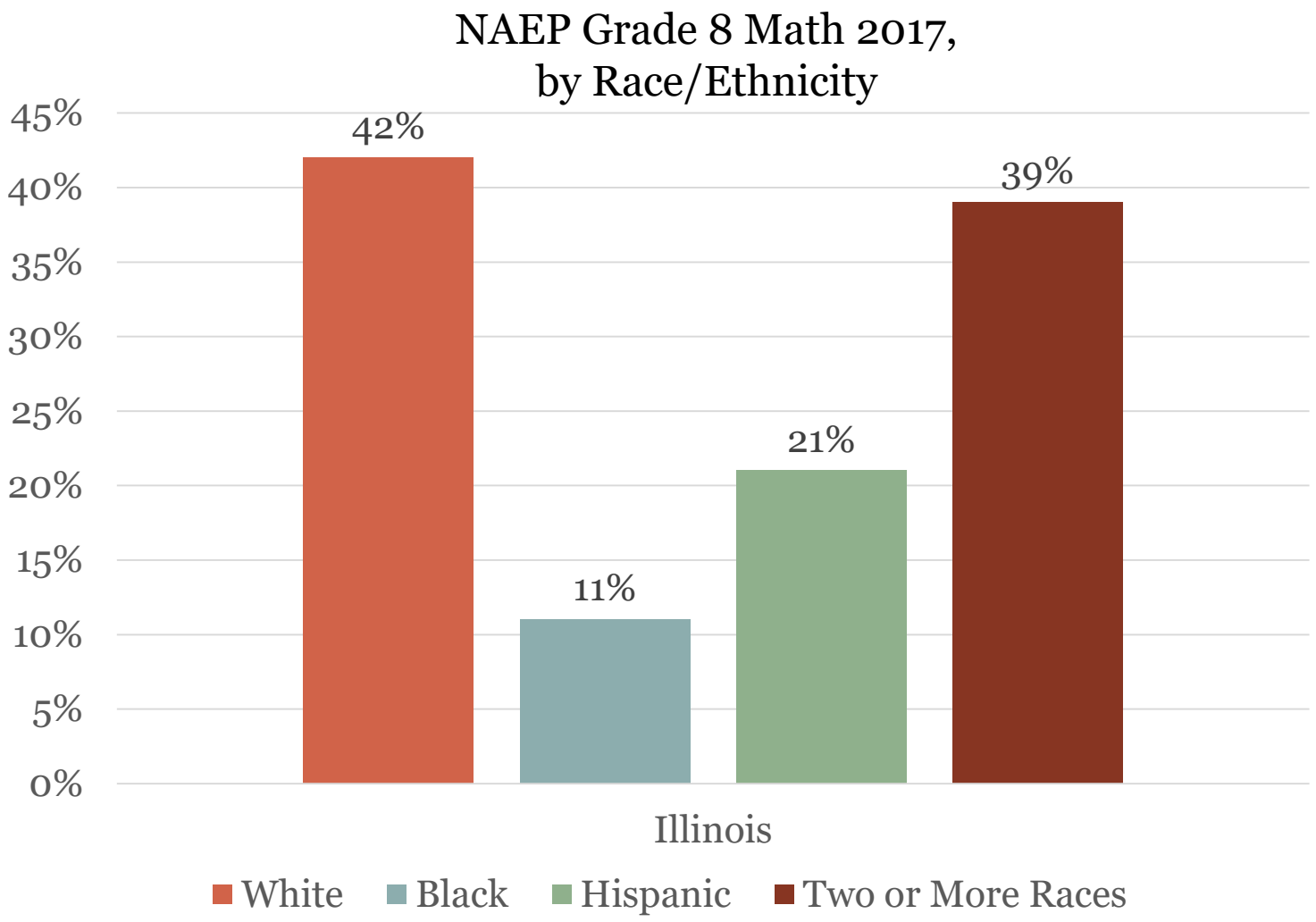


Source: CTBA analysis of ISBE 2016-2017 Report Card Data

Some Objective Proof of Inequitable Consequences #1



Some Objective Proof of Inequitable Consequences #2



Bottom Line: Over Reliance on Property Taxes Has Contributed to Racial Inequities

Median hourly wages for Whites increased modestly between 1980 and 2014, but :

- The White-Hispanic wage gap is larger in amount, growing from $4.36 per hour in 1980 to $5.98 in 2014, an increase of 37% over 1980
- Median wages for African-Americans declined, in real terms. The hourly wage gap between Whites and African-Americans grew from $1.74 in 1980 to $5.18 in 2014, an increase of 197% over 1980

STEP 1 Calculate Cost of 34 essential elements


Reading Interventionists


Student Activities

Full-day Kindergarten

Special Education Teachers & Aides


Smaller Class Size


Technology


Nurses & Guidance Counselors


Professional Development


Up-to-date materials

STEP 2 Apply essential elements to individual districts based on demographics


Enrollment


English Learners

Special Needs


Low-Income

STEP 3 Adjust salary-based elements for regional wage differences

= **DISTRICT ADEQUACY TARGET**

Hold Harmless/Base Funding Minimum

- Each District receives prior year's state funding for:
  - GSA (w/ Equity Grant and/or Tier Funding)
  - Supplemental Poverty Grant
  - Bilingual
  - PTEL Adjustment
  - Special Ed Personnel
  - Special Ed Child Funding
  - Special Ed Summer School
- Base Funding will be:

  Sum of above grants

This $ is still for Special Ed—even though it is rolled into the BFM

- BFM increases annually after 2018

*NOTE: all other mandated categoricals—like Transportation and Early Childhood—are NOT part of the new, EBM formula and remain separately funded

Local Capacity Target or "LCT" Identifies Dollar Value of Local Resources Available to Support Education

- The LCT is the dollar amount a district would ideally contribute towards its Adequacy Target, based on a comparison of all districts in the state.

Districts With Higher Property Wealth Are Expected To Contribute More

That All Leads To:

1. PERCENT OF ADEQUACY

YEAH!! WHAT??

$$\% = \frac{\text{LCT + PPRT + BFM}}{\text{ADEQUACY TARGET}}$$

2. AND THAT IDENTIFIES A DISTRICT'S TIER FOR NEW STATE FUNDING PRIORITY

PPRT = Personal Property Replacement Tax

Distribution

- Districts in one of 4 Tiers based on current percent of Adequacy %
  - Tier 1 = all districts 64% or more below Adequacy get 50% of new state $
  - Tier 2 = all districts Above Tier 1, but with less than 90% Adequacy share next 49% of new state $ with Tier 1, pro-rata
  - Tier 3 (.9% of New State $) = all districts between 90 and 100% Adequacy
  - Tier 4 (.1% of New State $) = all districts over 100% Adequacy

*NOTE, this is for FY2018 only—scoring for Tier 1 and 2 is dynamic thereafter

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
Districts Spending Above Adequacy Targets	146	17.12%	67.62%	4.08%	14.40%
Districts Spending Below Adequacy Targets	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
Cook (not CPS)	**378,972**	**$597,179,619**	**$1,575.79**
CPS	390,938	$2,030,547,291	$5,194.04
Collar Counties	570,881	$1,384,627,905	$2,425.42
Downstate	777,762	$2,553,750,024	$3,283.46
Total	2,150,697	$6,566,104,840	$3,053.01

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, All Districts

	Average Enrollment, 2015-2017	Total Adequacy Gap, Weighted	Adequacy Gap per Pupil
White	1,066,578	$2,288,734,953	$2,145.87
Black	361,658	$1,588,044,088	$4,391.01
Latino	534,120	$2,286,338,270	$4,280.57
Total	2,150,697	$6,566,104,840	$3,053.01

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
White	854,854	$2,829,200,598	$3,309.57
Black	348,085	$1,620,778,837	$4,656.28
Latino	489,610	$2,386,295,960	$4,873.87
Total	1,838,110	$7,369,105,965	$4,009.07

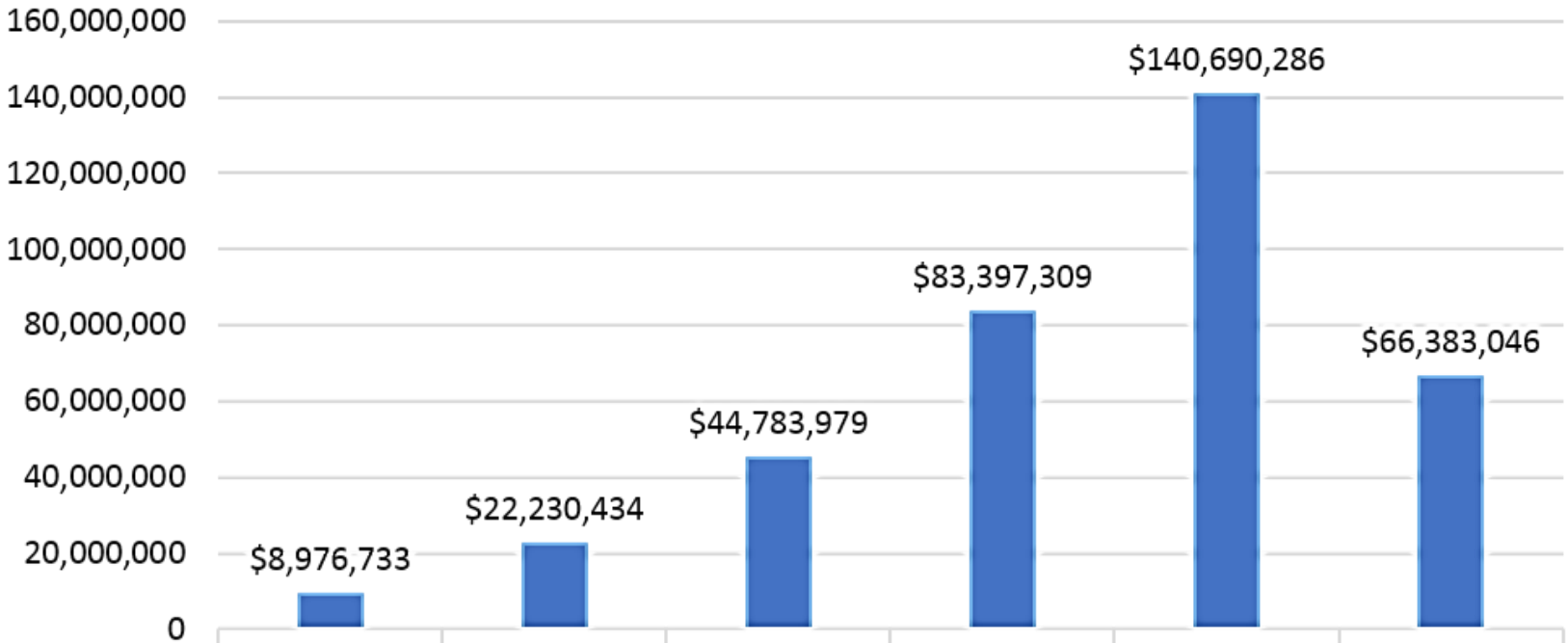
Source: CTBA analysis of ISBE FY2015, FY2016, and FY2017 Illinois Report Cards; CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations

FY2018 EBF Funding Distribution

	New $	% of New Money
Tier 1	$326,630,217	89.09%
Tier 2	$36,313,680	9.91%
Tier 3	$3,299,490	0.90%
Tier 4	$366,609	0.10%
Total	$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

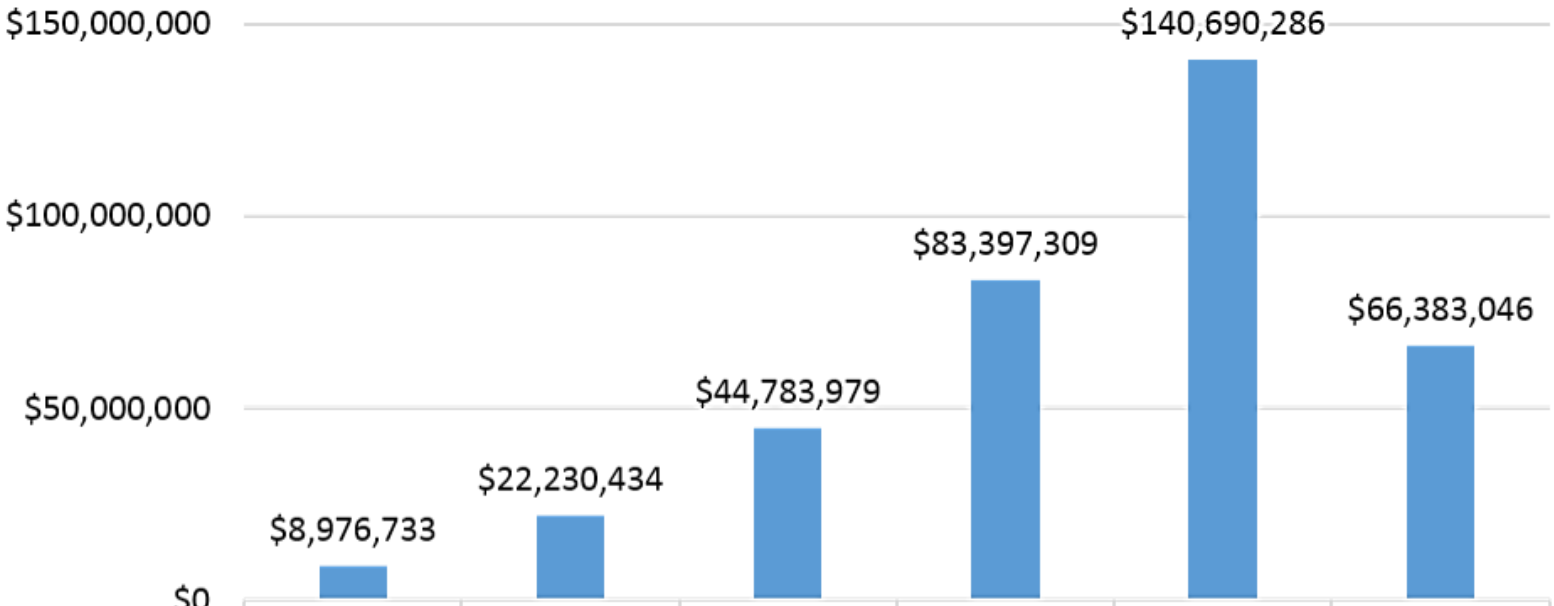


District % Low Income	0%-22%	23%-35%	36%-52%	53%-66%	67%-100%	CPS 78%
Enrollment	303,341	318,877	321,280	325,870	320,156	369,203
New Funding Per Pupil	$29.59	$69.71	$139.39	$255.92	$439.44	$179.80

79% of New Funding

Source: CTBA analysis of FY2018 EBF Distribution Full Calculation

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



District Low Income %	0%-22%	23%-35%	36%-52%	53%-66%	67%-100%	CPS 78%
% of all White Students in State	23.0%	22.7%	23.6%	17.5%	8.7%	3.9%
% of all Black Students in State	3.9%	5.6%	5.5%	13.0%	29.5%	42.4%
% of all Latino Students in State	5.1%	9.7%	10.2%	16.9%	23.7%	34.4%

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

Geographic Breakdown of FY2018 EBF Distribution as Percentage of State Total

As a % of Illinois	% Final Tier Funding	% Supplemental English Learner Grant	% Total New Money from EBF	% Enrollment (ASE)	% Low Income	% EL
Cook	19.3%	18.3%	19.2%	18.7%	18.3%	26.4%
Collar Counties*	28.4%	30.4%	28.6%	28.5%	20.1%	31.6%
Downstate	34.2%	9.3%	32.4%	34.0%	31.8%	10.3%
CPS	18.1%	42.0%	19.9%	18.8%	29.8%	31.7%

As a % of County, Area, District	% Low Income	% EL
Cook	48.2%	14.0%
Collar Counties*	34.7%	11.0%
Downstate	46.2%	3.0%
CPS	77.9%	16.7%
Illinois	49.3%	9.9%

Source: CTBA Analysis of ISBE Data, FY 2018 EBF Distribution Quick Facts, 4/30/2018

- Cook County does NOT include CPS

*Note: Collar Counties consist of DuPage, Kane, Lake, McHenry, and Will Counties.

Additional Funding through the EBF Model, if Fully Funded, by Tier

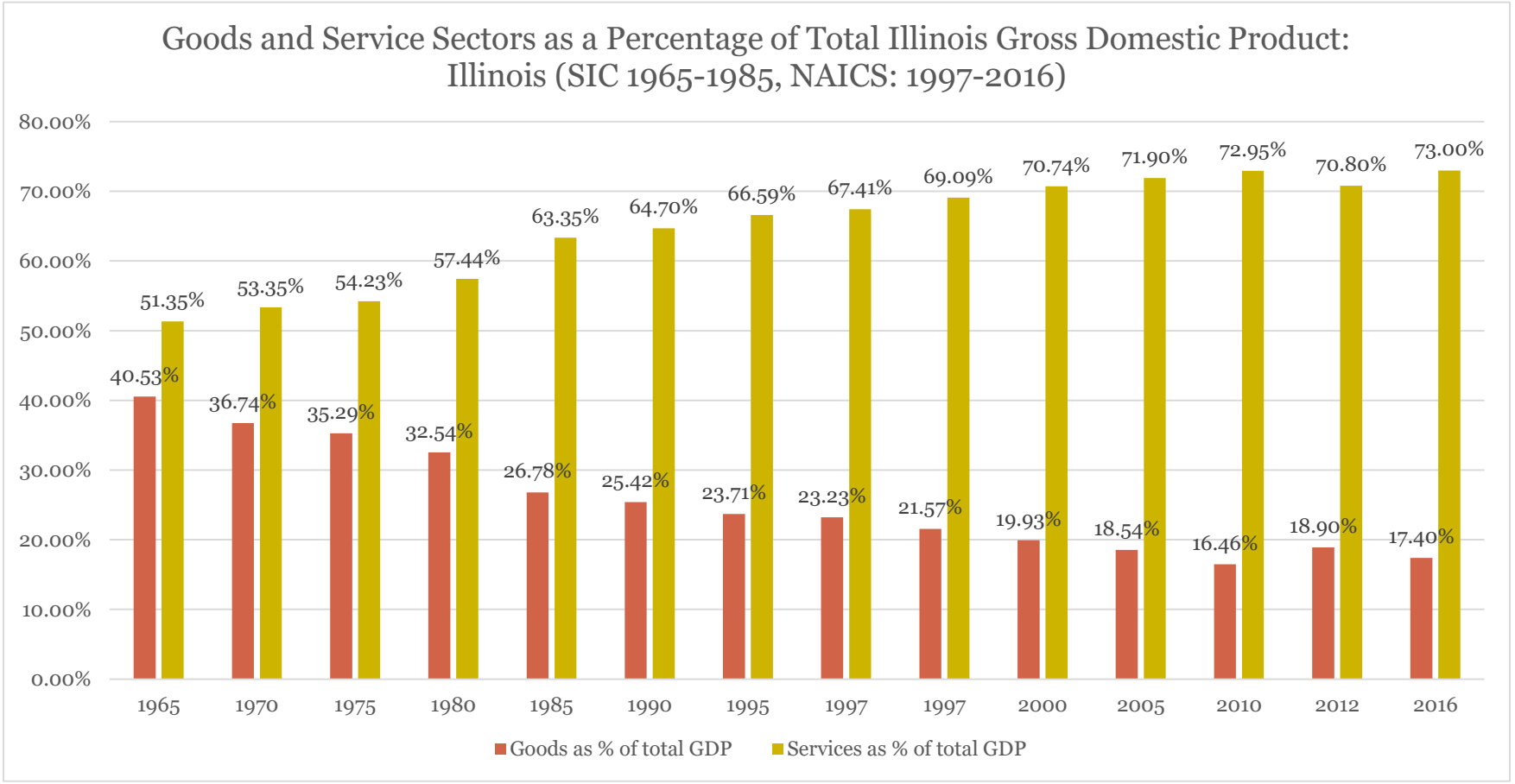
Tier	Adequacy Gap	Total ASE	Per Pupil	% of All Funding
Tier 1	$5,469,702,470	1,012,495	$5,402	74.4%
Tier 2	$1,806,795,297	563,994	$3,204	24.6%
Tier 3	$73,804,623	114,054	$647	1.0%
Tier 4	$0	256,770	$0	0.0%
Total	$7,350,302,391	1,947,312	$3,775	

Source: ISBE Evidence-Based Funding Distribution Calculations for Fiscal Year 2019 from August 2018.

MORE TAX REVENUE IS NEEDED

- Expand the sales tax base to include consumer services
  = $2.0 B
- Tax some retirement income
  = $1.2B
- Work for a Graduated Rate Income Tax

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



Source: Bureau of Economic Analysis

Tax Fairness from A Capitalist Standpoint

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

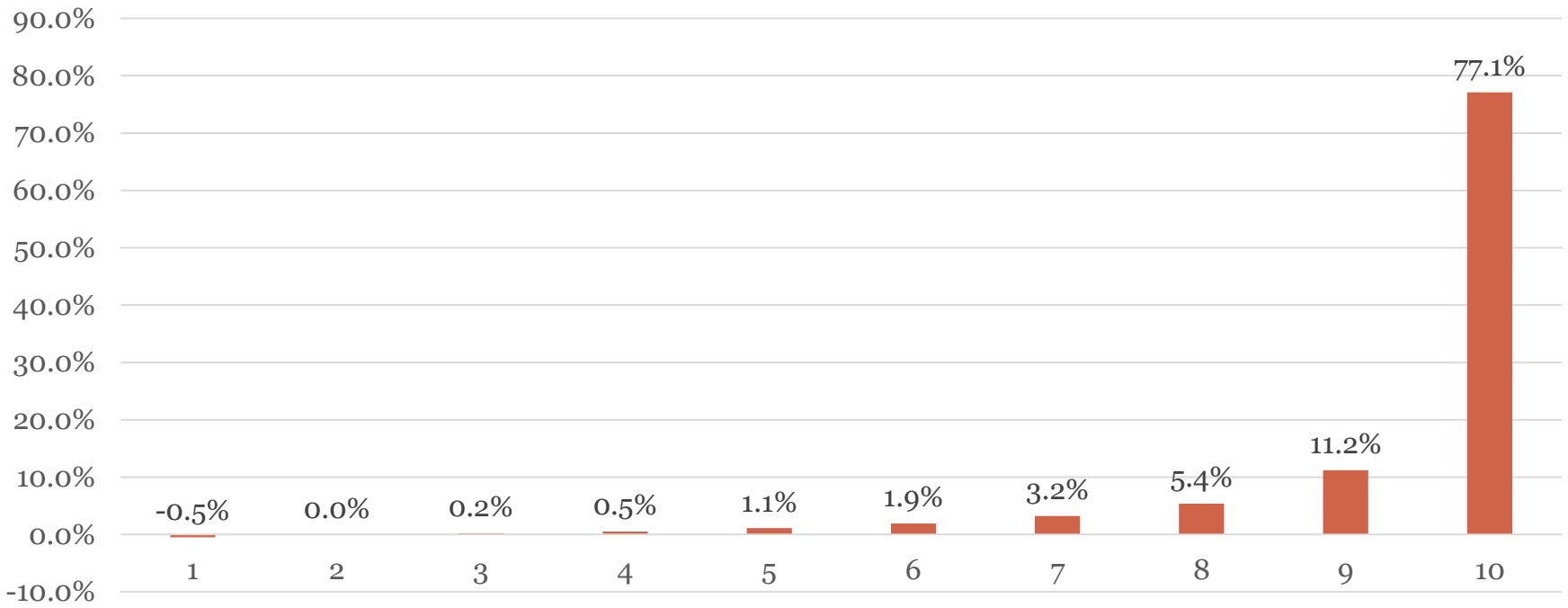
The long-term trends in income distribution in America demonstrate growing disparity.

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/ .

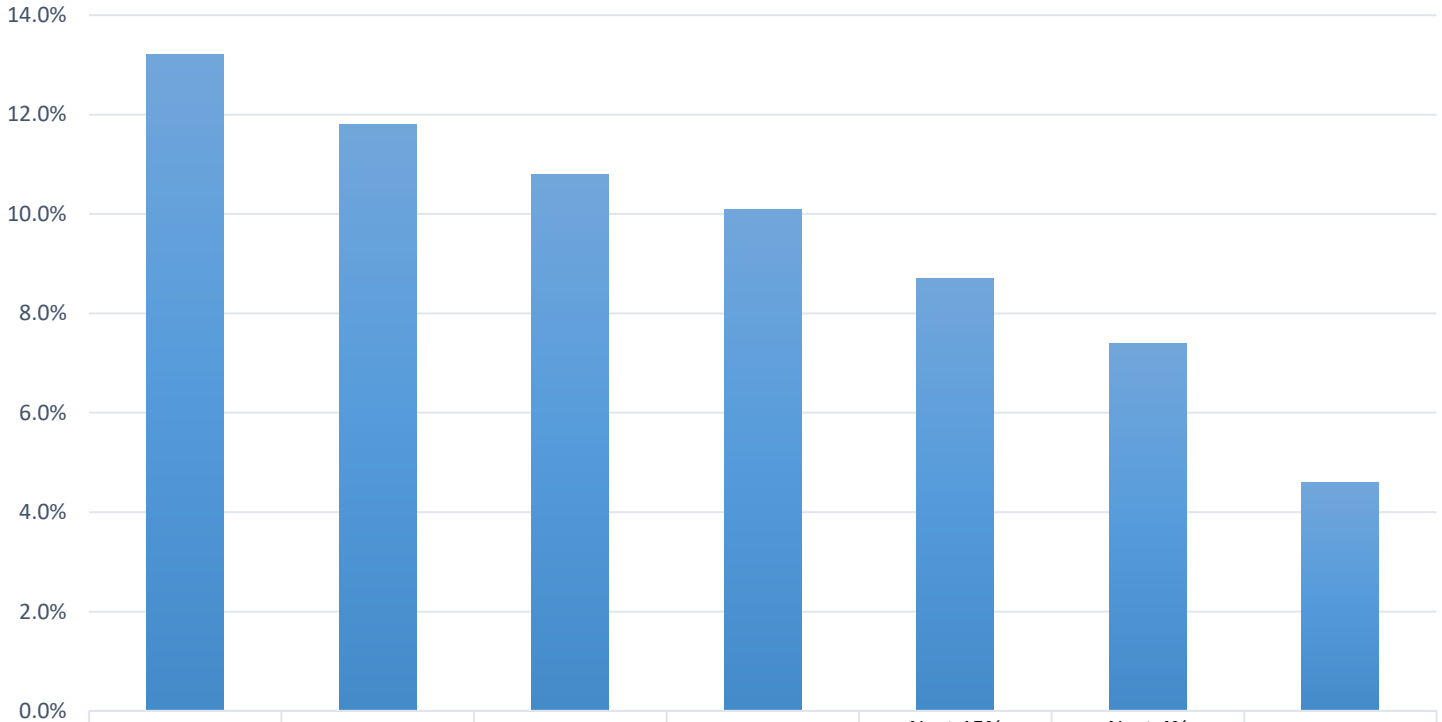
National Wealth Held by Income Decile



Source: Survey of Consumer Finances

Illinois Fails the Tax Fairness Test

Illinois State and Local Taxes Paid as a Share of Family Income for Non-Elderly Taxpayers Total Tax Burden as a Percentage of Income



	Lowest 20% (Less than $19,000)	Second 20% ($19,000-$38,000)	Middle 20% ($38,000-$61,000)	Fourth 20% ($61,000-$99,000)	Next 15% ($99,000-$202,000)	Next 4% ($202,000-$498,000)	Top 1% ($498,000+)
Percentage of Income	13.2%	11.8%	10.8%	10.1%	8.7%	7.4%	4.6%

BUT: Aren't High Taxes Hurting Illinois? No: Illinois is Low Tax Overall

- Illinois' total state *AND* local tax burden, as a percentage of personal income ranked in the bottom 10 of all states, for most of this period.

- Illinois consistently had the second lowest tax burden in the Midwest to Missouri.*

*Data from Federation of Tax Administrators

Illinois is Low Tax Overall

Total State and Local Tax Burden
as a Percentage of Income in 2010

Midwest States	%	National Rank
Iowa	17.0%	10th
Michigan	16.9%	12th
Wisconsin	16.6%	16th
Indiana	16.6%	17th
Ohio	16.1%	26th
Illinois	**14.2%**	**42nd**
Missouri	13.5%	47th

Source: Federation of Tax Administrators. Includes all state and local taxes and fees.

Estimated Total State and Local Tax Burden as a Percentage of Income in 2018, with SB9 Tax Increase

Midwest States	%	National Rank
Iowa	17.1%	12th
Ohio	15.4%	20th
Michigan	15.3%	21st
Wisconsin	15.1%	26th
Illinois	**15.1%**	**27th**
Indiana	14.9%	30th
Missouri	13.3%	42nd

Staying around 27th after SB9

Source: Federation of Tax Administrators. Includes all state and local taxes and fees.

BUT WAIT…..

WON'T TAX INCREASES KILL THE ECONOMY?

&

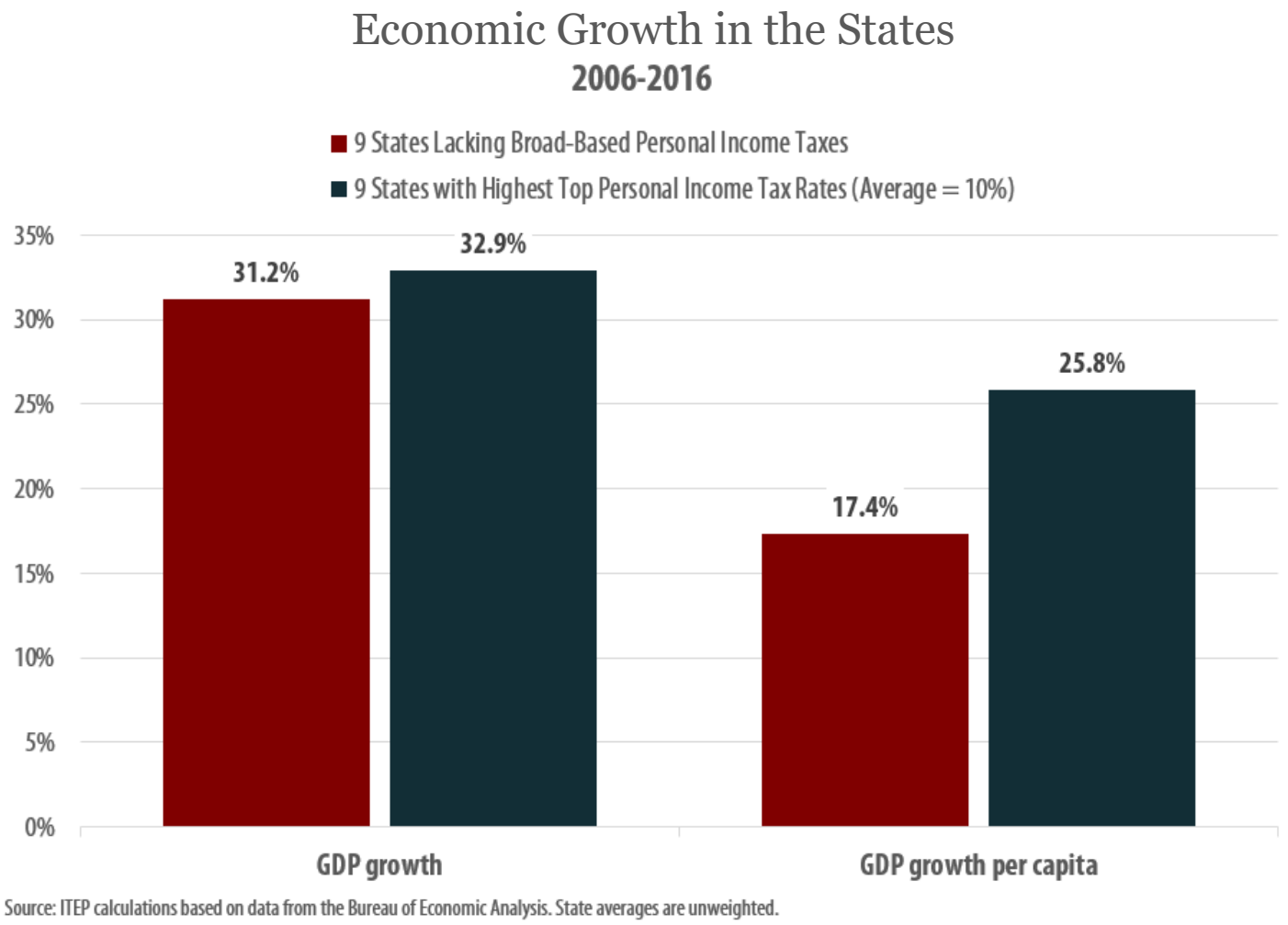
TAX CUTS STIMULATE IT?

NOPE: Two Approaches to Tax Policy…

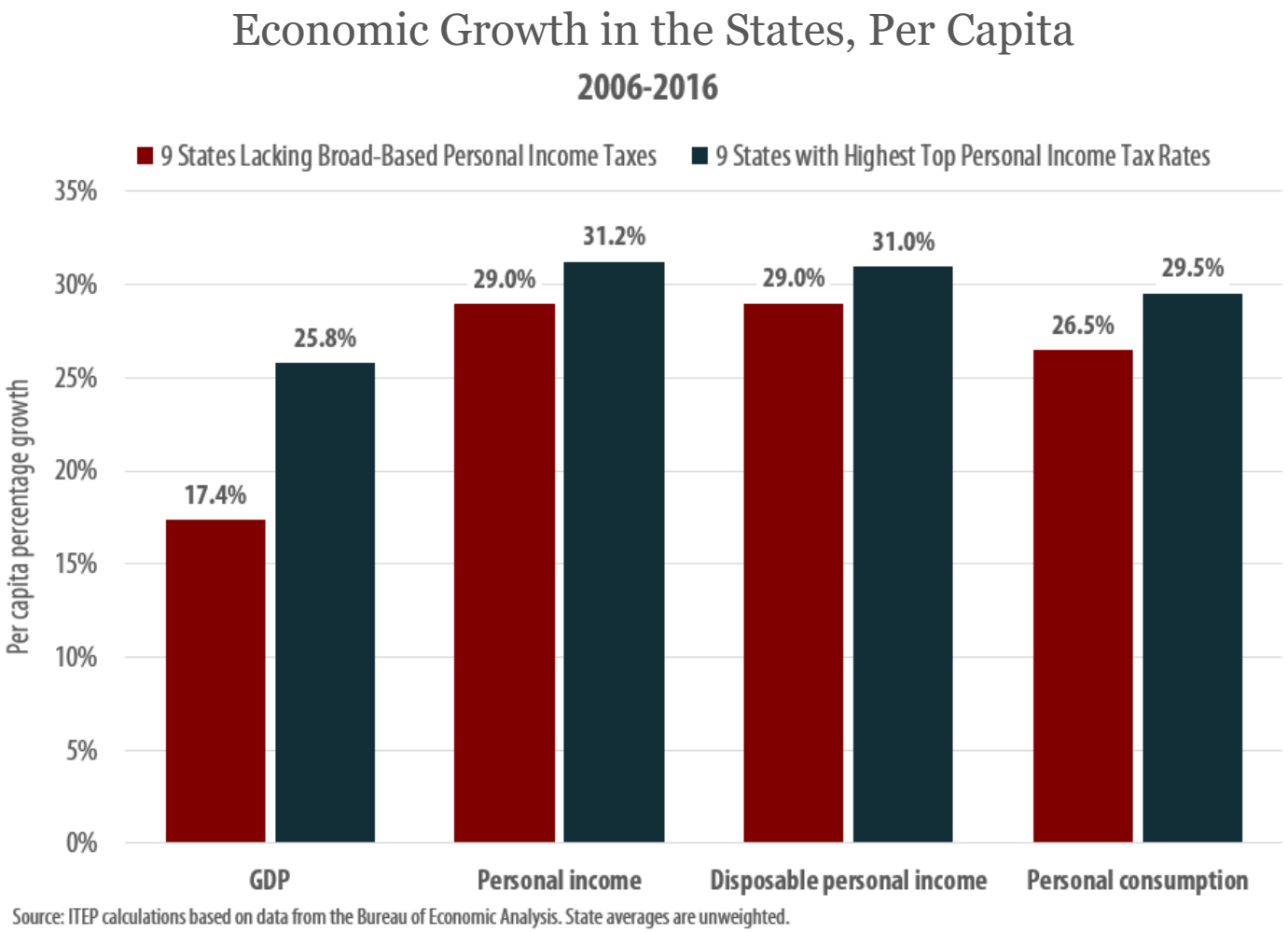
- Kansas
  - Cut top personal income tax rate from 6% to 4.5% in 2012
  - Projected to reduce revenue by $920 million in FY2017
  - Income tax as share of state revenue fell from 50% to 40%

- 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



Taxing the Right Way Doesn't Hurt the Economy



The Bottom Line

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.

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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