

Fiscal Follies

Why Illinois's budget is broken and what to do about it

Illinois's budget is broken—that's a fact accepted by almost all Prairie State policy analysts. The state has more than \$6 billion in accumulated operating debt, to say nothing of the \$83 billion in unfunded public employee pension liabilities.

How did Illinois get into this mess—and more importantly, how do we get out of it?

Until recently, the narrative in Springfield has been "Illinois state government isn't spending enough; families and businesses should swallow a tax hike to make more funds available for government."

This perspective is reflective of the same backward thinking that put Illinois in a fiscal pickle in the first place. If we could truly tax, spend, and borrow our way into prosperity, Illinois would be a job creation powerhouse. Hundreds of thousands of Americans would be pouring into our borders instead of heading to low-tax, high-growth states like Texas, Arizona, and Florida. Distressingly, Illinois had a net out migration of 637,979 people from 1999-2008, putting us at 48th in the nation for attracting newcomers to call our state home.¹

It's time to take a clear-eyed look at the myths that have propelled Illinois down a path of economic decline. Illinois can once again stand as an economic powerhouse and a beacon of prosperity, provided it sheds the misguided policy prescriptions of the past.

Fact: Illinois state government has spent more in real terms over time.

Overall state spending in Illinois has gone up significantly over the past decade, increasing 39 percent after inflation from 1998 to 2008.² In 1998, state spending per resident was \$3,500 (inflation adjusted), while ten years later state spending per resident was \$4,600.

Within the general funds, spending on major programs is up. For example, government health care—namely Medicaid—is one of the big drivers of Illinois's budget growth. From 1993 to 1999, Illinois's Medicaid liabilities grew at a rate of 1.4 percent; over the last 10 years, state Medicaid liabilities grew at a rate of 6.9 percent a year.³

Education spending has also been on an upward trend. During the 2008-09 school year, real inflation-adjusted per pupil spending in Illinois schools was at an all-time high. According to the State Board of Education, combined spending in Illinois public schools totaled \$12,363 per pupil.⁴

State government debt and tough economic conditions now make high levels of spending unsustainable. Instead of spending more for the sake of spending more, Illinois state government should be pursuing innovative ways to achieve more efficiency in service delivery.

Fact: Illinois has a spending problem.

The fundamental problem in Illinois state government is a lack of spending discipline. For years the taxpayers provided Illinois government with record revenues. In 2008, state government received a record amount of revenues—\$29.7 billion⁵—from the tax-paying families and businesses of Illinois. State leaders spent every dime and borrowed billions more.

Illinois's total debt per capita has risen from \$676 in 2001 to \$1,682 in 2010.⁶ Total general obligation and capital debt grew from \$8.4 billion in fiscal year 2001 to fiscal year \$25.4 billion in 2011.⁷ Illinois now ranks 37th in debt service as a share of revenue; only 13 states have worse burdens than Illinois.⁸

At its core, Illinois has an overspending problem, not a revenue problem. Future reforms must focus on the spending side of the state's ledger.

Fact: State spending goes far beyond covering the essentials.

“Needs” are unlimited, while resources are not. Budgeting is always a balancing act of priorities, but unfortunately Illinois has too often allocated resources toward non-core spending and above-market public employee compensation rates.

The Illinois Policy Institute's *2010 Piglet Book* identified hundreds of thousands of dollars in questionable state government spending.⁹ Via our transparency website at IllinoisOpenGov.org, we've discovered even more examples of non-essential spending by the State of Illinois, including:

- Department of Commerce: \$2,520 on “promotional” hot sauce;
- Statewide: \$574,759 on registration fees and other conference expenses;
- Department of Commerce: \$10,000 on “Dark Knight” Batman movie gala; and
- Department of Transportation: \$5,398 on XM Satellite Radio.¹⁰

High labor costs detract from the amount of resources available for grant and program spending. According to the Bureau of Labor Statistics, private-sector workers in Illinois earned an average annual wage of \$48,981 in 2008. Illinois state workers earned an average wage of \$56,682—15.7% more.¹¹ Comparing 2008 Illinois state government payroll data with statewide Bureau of Labor Statistics income numbers, state government cooks earned an average of \$42,348 while the income of all Illinois “cooks, institution and cafeteria” averaged just \$23,480. State government auto mechanics earned an average of \$55,555; auto mechanics statewide only \$40,600. State government non-supervisory janitors earned an average of \$41,965; the statewide average is only \$25,510.¹²

The problem isn't just above-market wages. Generous pensions and benefits also add up. In 2009, 536 Illinois public employee retirees earned a pension of more than \$100,000.¹³ State retirees with 20 or more years of service pay no health insurance premiums.

State government needs to prioritize spending on core needs over discretionary “wants.” Further, the General Assembly must implement salaries, benefits and pensions that do not create inequity between those who pay for these benefits and those who receive them.

Fact: Illinois cannot continue on a path of spending more than it collects.

Leaders of the General Assembly and successive governors have demonstrated year after year that they lack the discipline to set priorities and rein in spending. Each year they have expanded government obligations to unsustainable levels. These expansions of state government obligations create structural overspending, in turn leading to so-called structural deficits.

Certainly, the state's accumulated budget deficit is not the product of one year's overspending. It is the result of many years of spending beyond our means. The state ended 2009 with a deficit of \$4.3 billion, and it's slated to close 2010 with an unpaid bill backlog of \$6 billion.¹⁴

Fact: Illinois cannot continue on a path of spending more than it collects.

Looking ahead, Governor Quinn's budget proposal for Fiscal Year 2011 results in a deficit of \$4.7 billion.

It is the rapid, excessive growth in spending during the good times that builds in spending levels that become unsustainable when the inevitable economic slowdowns occur. The state needs structural reforms, together with targeted spending reforms, to move out of today's fiscal morass.

Fact: Illinois already takes a lot in taxes from families and businesses.

Illinoisans spend on average 101 days—January 1 through April 11—working to pay their combined tax burden, making Illinois the 14th highest in number of days spent working each year to pay federal, state, and local government taxes.¹⁵ Illinois is also 14th highest in state and local tax burden on a per-capita basis, at \$4,346.¹⁶

Illinois has high sales taxes. Illinois has the 6th-highest combined state and average local sales tax rate at 8.4 percent (as of September 29, 2009).¹⁷ Even with a rate reduction to “just” 9.75 percent, Chicago is still known as a sales tax sinkhole.

Illinois has high property taxes. Illinois ranked 7th highest in median real estate taxes paid in 2008, at \$3,384. Illinois has the 6th-highest property taxes as a percentage of median home value. Illinois has the 5th-highest property taxes as a percentage of homeowner income. Seventeen out of the top 100 counties on a national list of property taxes paid on owner-occupied housing (as a percentage of home value) are in Illinois.¹⁸

Illinois has high excise taxes. Illinois has the 5th-highest state gas tax at 39 cents per gallon.¹⁹ Illinois has high taxes on beer, wine, and spirits compared to nearby states.²⁰ With a \$1-per-pack tobacco tax increase, we'd have a higher rate than four of our neighboring states.

Fact: A massive income tax increase is economically harmful to Illinois's families and businesses.

Illinois's moderate income tax rate is the best competitive advantage in our state's tax code. We should not forfeit one of the best incentives for people to live and work in Illinois by increasing the state's income tax rate.

An income tax hike would hit family budgets hard. According to Bureau of Labor Statistics data, the average Midwestern household is made up of 2.4 persons and has a before-tax income of \$61,063.²¹ A family with taxable income of \$50,000 would pay an additional \$500 in taxes under Governor Quinn's 2010 tax hike plan, on top of the \$1,500 they're already paying in state income taxes, for a total state income tax bill of \$2,000. What should families cut from their household budgets to make room for higher tax bills?

Income tax increases will also hurt job creation in Illinois. Scott Moody, a tax-policy economist, calculated that Governor Quinn's 2009 proposal to hike income taxes by 50 percent would cost the Illinois economy \$8.6 billion in lost economic output. According to Moody, “this is equivalent to taking the state's 2008 revenue from its sales, cigarette, liquor, inheritance, corporate franchise, and insurance taxes and dumping that money into Lake Michigan.”²²

Hiking taxes will kill jobs—something that Illinois can ill afford to do right now with an unemployment rate above 11 percent.

State leaders need to have the courage to level with voters about the need for government spending reform before asking taxpayers to bail out state government with another tax hike.

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Endnotes

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