



CENTER FOR TAX AND BUDGET ACCOUNTABILITY
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The FY2013 Illinois General Fund Budget and the Long-Term Causes of the Unfunded Pension Liability

For:
Wednesday, February 27, 2013
IASA Leadership Week
President Abraham Lincoln Hotel and Conference Center
701 E. Adams Street, Springfield

Presented by
Ralph Martire, Executive Director




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BUDGETING FOR RESULTS?

FY2013 ENACTED GENERAL FUND APPROPRIATIONS (\$ MILLIONS)

Category	Appropriation Amount
(i) Total General Fund Appropriations for Capped Items	\$34,309
(ii) Total Hard Costs	\$9,320
Debt Service (Pension & Capital Bonds)	\$2,168
Other Statutory Transfers Out (including \$151 million for FY 2013 Medicaid bill repayment)	\$2,052
Pension Contributions	\$5,099
(iii) Payment of Bills	\$900
Medicaid	\$300
Backlog of Other Unpaid Bills from 2012	\$300
(iv) General Fund Services Approps Gross	\$24,189
Pre K-12	\$6,542
Higher Education	\$1,980
Medicaid (FY2013 Services)	\$6,639
Human Services	\$5,086
Public Safety	\$1,606
Group Health Insurance	\$1,171
Other	\$1,165
(v) Unspent Appropriations	\$650
(vi) Net General Fund Service Approps for FY2013	\$23,539

Sources: HR706, SB2348, SB2413, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative Staff



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Note that the FY2013 Enacted Budget will spend \$786 million less on services than what the Governor proposed in April.

DO MORE WITH LESS??

FY2013 ENACTED GENERAL FUND APPROPRIATIONS COMPARED TO FY2012 FINAL – NOMINAL DOLLARS (\$ MILLIONS)

Category	FY2012 Final — After Vetoes and Supplementals	FY2013 Enacted	\$ Diff	% Change
PreK-12 Education	\$6,751	\$6,542	(\$210)	-3.12%
Higher Education	\$2,092	\$1,980	(\$113)	-5.38%
Medicaid	\$6,639	\$6,639	\$0	0.00%
Group Health	\$1,436	\$1,171	(\$265)	-18.43%
Human Services	\$5,286	\$5,086	(\$200)	-3.79%
Public Safety	\$1,715	\$1,606	(\$109)	-6.36%
General Services	\$1,242	\$1,165	(\$77)	-6.20%
Total Net Public Services	\$24,359	\$23,539	(\$822)	-3.37%


Sources: HR706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff. Categories follow House Committee jurisdictions as noted in text.



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DRILL DOWN ON SPENDING

BY MAJOR CATEGORY:



HUMAN SERVICES

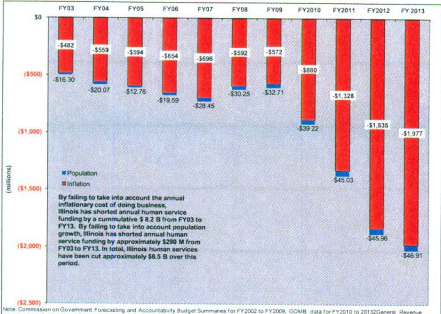
HEALTHCARE

EDUCATION

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FISCALLY/MORALLY BANKRUPT

CUMULATIVE IMPACT OF CUTS IN ILLINOIS HUMAN SERVICE SPENDING SINCE FY2002 ADJUSTED FOR INFLATION AND POPULATION GROWTH (\$ MILLIONS)



By failing to take into account the annual inflationary cost of doing business, Illinois has eroded annual human services funding by a cumulative \$3.2 B from FY03 to FY13. By failing to take into account population growth, Illinois has shorted annual human services funding by approximately \$28.9 B from FY02 to FY13. In total, Illinois human services have been cut approximately \$8.8 B over this period.

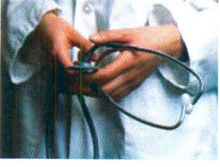
Source: Committee on Governmental Accounting and Accountability Budget Summaries for FY2003 to FY2009, OMB data for FY2010 to 2013; General Revenue Data and Budget Outlook for Illinois: Fiscal Year 2013, Actual. Based on June 2012 communications with Illinois' Department of Human Services, and Human Services FY 2013. Actual. Based on June 2012 communications with Census and Bureau Department of Commerce and Economic Opportunity. Population growth estimates from Census and Bureau Department of Commerce and Economic Opportunity.

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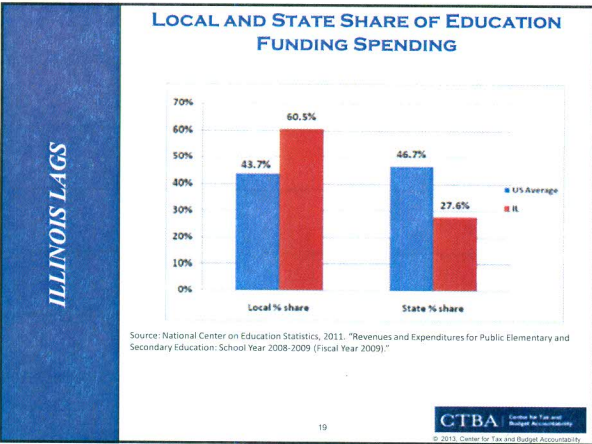
EMPLOYER-PROVIDED BENEFITS

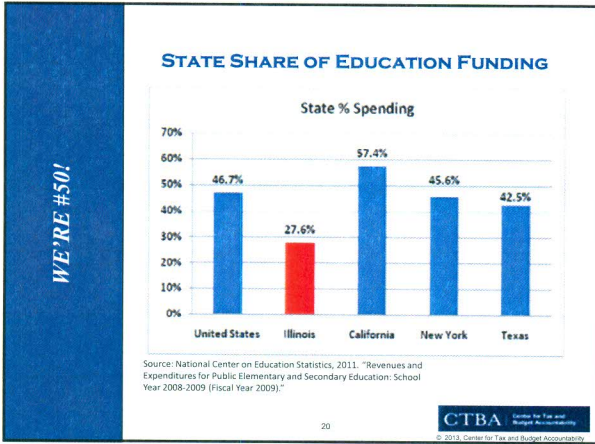
AS FOR CUTTING HEALTHCARE, WELL.....

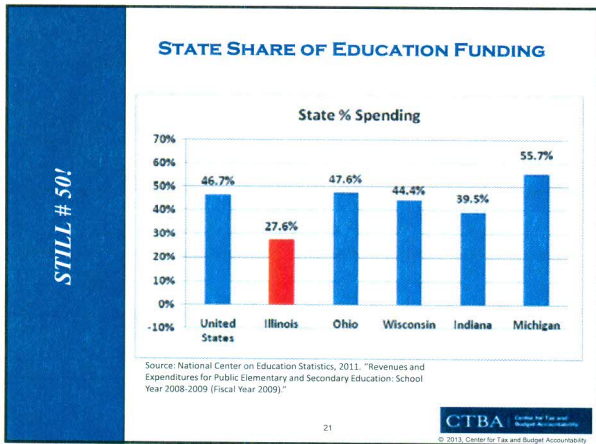
- EMPLOYER-PROVIDED HEALTH INSURANCE BENEFITS HAVE BEEN STEADILY DECLINING IN ILLINOIS SINCE 1980.
- BY 2008, OVER 43% OF THE WORKFORCE DIDN'T HAVE EMPLOYER-PROVIDED INSURANCE.
- HISPANICS ESPECIALLY HARD HIT—OVER 57% DO NOT HAVE EMPLOYER-PROVIDED INSURANCE.
- BY 2010, 32% OF THE ILLINOIS POPULATION IS EITHER ON MEDICAID OR UNINSURED.



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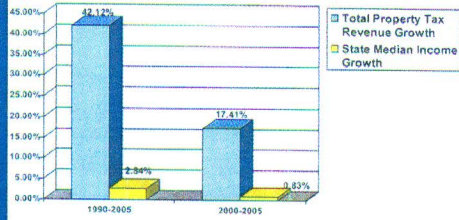






THE BURDEN IS TOUGH

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



All data on file. Adjusted to 2005.
Source: Data from Department of Commerce
Property Tax Data, Department of Revenue

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REALLY?????

► **YES: ILLINOIS RANKS 50TH OUT OF 50 STATES IN PORTION OF EDUCATION FUNDING COVERED BY THE STATE**

BUT EDUCATION NOW MATTERS MORE THAN EVER TO ECONOMIC PROSPERITY:

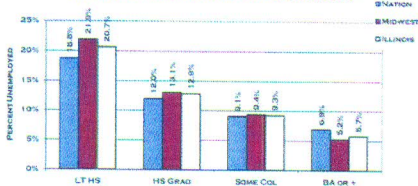


► **GENERALLY: UNEMPLOYMENT RATES ARE HIGHEST FOR THOSE WITH THE LEAST EDUCATION.**

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UNEMPLOYMENT HIGHEST AMONG LEAST EDUCATED, 2010



SOURCE: EPI ANALYSIS OF CPS DATA

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WAGE DIFFERENCES

WAGES FOR MINORITIES LAG WHITES

REAL WAGES FOR WHITES INCREASED MODESTLY BETWEEN 1980 AND 2010, BUT :

- THE WHITE-HISPANIC WAGE GAP IS LARGER IN AMOUNT, BUT INCREASED BY A SMALLER PERCENTAGE, GROWING FROM \$4.01 IN 1980 TO \$5.86 IN 2010, AN INCREASE OF **46%** OVER 1980
- REAL WAGES FOR AFRICAN-AMERICANS DECLINED. THE HOURLY WAGE GAP BETWEEN WHITES AND AFRICAN-AMERICANS GREW FROM \$1.60 IN 1980 TO \$3.08 IN 2010, AN INCREASE OF **92.3%** OVER 1980

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ILLINOIS HAS A DEFICIT BECAUSE OF:

PRIMARY CAUSAL FACTORS

- **FLAWED TAX POLICY**
- **IRRESPONSIBLE FISCAL PRACTICES**
- **NOT OVERSPENDING NOR THE "GREAT RECESSION" OF 2008-2009**

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ELEMENTS OF A SOUND AND FAIR FISCAL SYSTEM

CAPITALIST TAX POLICY SHOULD BE:

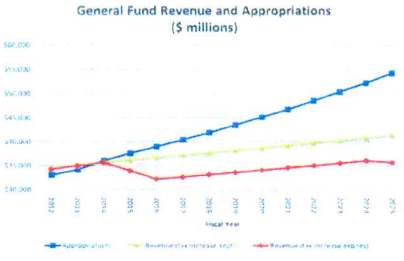
FAIR	➔	PROGRESSIVE
RESPONSIVE	➔	TO MODERN ECONOMY
STABLE	➔	DURING POOR ECONOMIES
EFFICIENT	➔	DOESN'T DISTORT PRIVATE MARKETS

ILLINOIS IS 0 FOR 4

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THE REAL PROBLEM

WHICH CREATES A STRUCTURAL DEFICIT



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HAVING & EATING THE CAKE

WHICH LED TO THE IRRESPONSIBLE FISCAL PRACTICE OF:

- **BORROWING AGAINST THE PENSIONS TO SUBSIDIZE COST OF DELIVERING SERVICES**
- **BY 1994 THE UNFUNDED LIABILITY WAS \$17 BILLION**
- **THIS WAS ALMOST DOUBLE THE \$8.7 BILLION UNFUNDED LIABILITY JUST FIVE YEARS EARLIER IN 1989**

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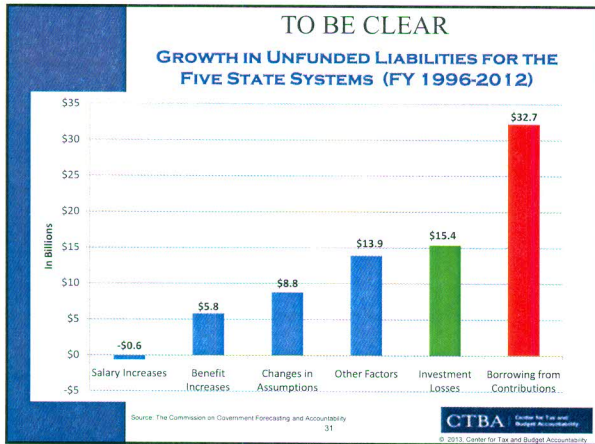
BECAUSE IN THE LONG-TERM WE ALL DIE

WHICH LED TO:

P.A. 88-0393: the "Pension Ramp"

- **WHICH CREATED A NEW, UNAFFORDABLE, UNATTAINABLE STRUCTURE FOR REPAYING THE PENSION DEBT**
- AND
- **INTENTIONALLY GREW THE UNFUNDED LIABILITY TO OVER \$45 BILLION BY 2008 – WHEN THE MARKETS CRASHED**
 - **CREATING THE \$95 BILLION HOLE TODAY – JUST 40% FUNDED**

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ILLINOIS REALLY HAS A DEBT PROBLEM, NOT A PENSION BENEFIT PROBLEM

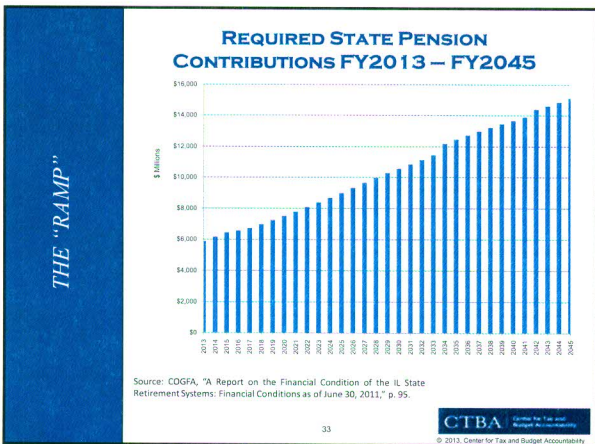
DEBT IS THE DRIVER

- THE FIVE RETIREMENT SYSTEMS' UNFUNDED LIABILITIES OF \$95 BILLION WAS PRIMARILY CAUSED BY BORROWING—NOT ANYTHING INVOLVING BENEFITS OR COST
 - THE NORMAL COST IS ACTUALLY DECREASING YEAR-TO-YEAR

	FY2012	FY2013
TOTAL	\$4.01 B	\$5.099 B
NORMAL COST	\$1.60 B	\$1.500 B
DEBT SERVICE	\$2.41 B	\$3.599 B

- THE PENSIONS WOULD BE ALMOST 90% FUNDED TODAY IF THE ONLY PROBLEMS WERE INHERENT TO THE PENSION SYSTEM ITSELF

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THEN THE QUESTION IS

WHY DID THEY FOCUS ON –

MAJOR PENSION REFORM PROPOSALS

- CURRENT EMPLOYEES AND RETIREES CHOOSE BETWEEN:
 - OPTION 1
 - KEEP CURRENT 3%, COMPOUNDED COST-OF-LIVING ADJUSTMENT (COLA)
 - LOSE ACCESS TO RETIREE HEALTH CARE PROGRAMS MANAGED BY CENTRAL MANAGEMENT SERVICES (CMS)
 - CURRENT EMPLOYEES' FUTURE SALARY INCREASES CANNOT BE USED FOR CALCULATION OF FINAL PENSION BENEFIT
 - OPTION 2
 - ACCEPT A REDUCED COLA; LESSER OF 1/2 CPI-U OR 3%
 - KEEP ACCESS TO CMS MANAGED PROGRAMS
 - CURRENT EMPLOYEES' FUTURE SALARY INCREASES CAN BE USED FOR CALCULATION OF FINAL PENSION BENEFIT
- PART OF THE COST OF CURRENT EMPLOYEES' BENEFIT ACCRUALS SHIFTED TO SCHOOL DISTRICTS, UNIVERSITIES, AND COLLEGES.

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CONSTITUTIONAL?
OFF POINT!

COLA CHOICE AND COST SHIFT IMPACT ON STATE'S PENSION CONTRIBUTIONS

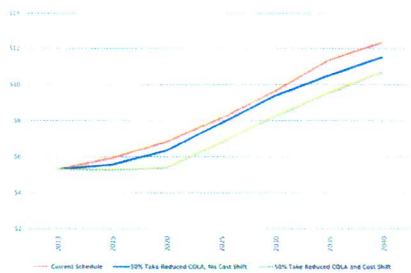
	AGGREGATE GENERAL FUND CONTRIBUTION (FY2013-FY2045)	TOTAL SAVINGS	% DECLINE IN AGGREGATE GENERAL FUND CONTRIBUTION
CURRENT SCHEDULE	\$309.90 BILLION	N/A	N/A
50% TAKE REDUCED COLA, No COST SHIFT	\$243.37 BILLION	\$66.53 BILLION	24.47%
50% TAKE REDUCED COLA AND COST SHIFT	\$227.11 BILLION	\$82.79 BILLION	26.72%

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COLA CHOICE AND COST SHIFT IMPACT ON STATE'S PENSION CONTRIBUTIONS



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AND IT WON'T HURT THE
ECONOMY AT ALL

FROM 2000 - 2010

• 9 STATES WITH HIGHEST GRADUATED
INCOME TAX RATE STRUCTURES HAD:

- BETTER GROWTH IN STATE GDP PER CAPITA
- BETTER CHANGE IN MEDIAN WAGE
- IDENTICAL UNEMPLOYMENT RATE

THAN THE 9 STATES WITH NO INCOME TAX

SOURCE: INSTITUTE ON TAX AND ECONOMIC POLICY

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FURTHER INFORMATION

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