Why a Graduated Rate Income Tax Amendment?
A Breakdown of Illinois' Debt Problem

This article is the second in a series of articles explaining why such a change is needed and to stimulate questions from readers. We encourage you to send your questions to issues@lwvil.org. This information was prepared by the Center for Tax and Budget Accountability for a slide presentation prepared for the League of Women Voters Illinois.

What does Illinois' debt look like for FY 2013 (Budget for July 2102-June 2013)?
Illinois had a projected deficit of over $8 Billion (actual as of Jan. 1, 2013 is $9.7 B). It is broken down as such:

- **Projected revenue**: $33.72 B
- **FY 2013 Hard costs**: $9.32 B (Hard costs include non-discretionary spending such as debt service owned to bond holders and costs that are not subject to the authority of the General Assembly and Governor)
- **Deficit Carry forward from FY 2012:** $9 B (This is the amount of unpaid bills carried into this fiscal year that must be paid)
- **Net FY 3013 General Fund Revenue Available for services:** $15.40 B

Now the bad news: General Fund FY 2013 Appropriations for Services Enacted in the General Fund Budget = $23. 54 B
In other words, to pay for services (almost all of which sustained budget cuts in FY 2013) requires the appropriated $23.54 B. Yet there is only $15.40 B available. With hard costs and unpaid bills from FY 2012 eating up a large portion of revenues, Illinois began FY 2013 with a minimum debt of $8.14 B, or 34.6% of the General Fund Services appropriations. (1)

Why is this shortfall a huge problem?
This is a huge problem because over $9 out of $10 of the General Fund are spent on the core services of:

- Education (Pre-K through Higher Ed): 35% of the G.F. dollars
- Healthcare: 30% of the G.F. dollars
- Human Services: 21% of the G.F. dollars
- Public Safety: 5% of the G. F. dollars

But we're spending more money on these services then we ever have, aren't we?
Excluding Group Health and Pensions and adjusting for inflation and population growth, Illinois is spending 25% LESS on these core services today than in 2000. Illinois has not been spending more this past decade but rather has been cutting spending significantly. (2)

What does *Adjusted for Inflation* mean and why would it be included in the calculation?
Economists define inflation as an increase in the price of a basket of goods and services that is representative of the economy as a whole. By definition some goods and services have to rise in price faster than others, so some prices will have to rise in real terms and others will have to fall in real terms. This is inflation adjustment. When one adds population growth, more people mean more need for services. Service costs tend to rise faster because they are labor-intensive.

It is recommended that its price index be measured according to the Employment Price Index (EPI) rather than the Consumer Price Index (CPI) which measures the cost of goods.

Let's look at education as an example of budget cuts. (3)
PreK-12 education: Illinois FY 2013 Enacted Budget Compared to FY 2000 Enacted Adjusted for Inflation and Population Growth ($ Millions)
FY 2000 $7,464 M
FY 2013 $6,542 M or, $922 M LESS than FY 2000. **This is a change of -12.35%**.

Even more shocking is the decline in funding for Higher Education:
FY 2000 $3,315 M
FY 2013 $$1,980 M or $1,335 M LESS than FY 2000. **This is a change of -40.28%**

Using those same sources cited above and adjusting for inflation and population growth, the other core services have also seen Draconian cuts since FY 2000:
Healthcare (excluding Group Health) - a loss of 23.30% of funding
Human Services (excluding Healthcare) - a loss of 32.98% of funding
Public Safety - a loss of 22.82% of funding

In short, Illinois is unable to provide the core services it is responsible for- not because these services have grown to be too unwieldy and expensive but **because its revenue system has not allowed for adequate revenue growth, allowing for a structural deficit that inhibits Illinois from paying its bills.**

If you are interested in more information or would like to schedule a speaker, please contact issues@lwvil.org and put GRIT Speaker Bureau in the subject line.

The next in this series of articles will address how budget cuts are affecting the core services and the Illinois economy.

(Sources: FY2013 Budget as passed in HR706, SB2348, SB2413, SB2443, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff; Revenue from Amendment No. 1 to HR707 adopted March 1, 2012, and Senate Floor Amendment No. 1 to SR 586 adopted March 7, 2012; and unpaid bills from April 2012 Quarterly Report from the Comptroller.)
(Sources: FY 2013 Budget as passed in HR 706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB 2332, SB2378, SB2409, and June 2012 Communications with Legislative staff; Bureau of Labor Statistics: Employment Cost Index, Department of Commerce and Economic Opportunity.)
(Sources: FY 2013 Budget as passed in HR 706, SB2348, SB2413, SB2443, SB 2454, SB2474, SB 2332, SB2378, SB2409, and June 2012 Communications with Legislative staff.)