

The state budget in 750 words

By Jim Nowlan

I was challenged the other day when I heard an expert say that no one has—or could—explain the Illinois state budget clearly, even to capable readers of newspaper opinion pages. So here goes my attempt to do so, without your eyes glazing over (well, maybe that is too much to ask):

According to the Illinois Office of the Comptroller, in 2012 Illinois spent \$67.8 billion and took in revenues of \$64.5 billion (maybe that is part of our problem).

The largest sources of revenue were the individual income tax (\$17 billion); the federal government (\$14.6 billion); the sales tax (\$8.9 billion), and income from 1,504 fees such as drivers', hunting and fishing licenses and university tuitions (\$8.1 billion).

Factoid: The average family spends \$500 a year on lottery tickets; the math is easy: \$2 billion in ticket sales divided by 4 million families). Yet gaming revenue to the state of \$2 billion represents only 3 percent of total annual state revenue.

State spending represents more than \$5,000 per person. Health care and social services take the biggest chunk, at \$24.9 billion (37 percent). Education is next at \$15 billion (22 percent).

When I was starting out in government in the 1960s, health care represented much less spending than education. Then in 1965 the federal government enacted Medicaid, along with Medicare, to provide health care for the poor as well as for many middle class in nursing homes.

Two thirds of all nursing home patients in Illinois are supported by Medicaid, a program whose cost is shared about 50-50 by the federal and Illinois governments.

Most state spending is distributed to health care providers like hospitals and doctors, and to schools and local governments; local governments receive a share of income, sales and motor fuel tax revenues.

“General government,” the cost of running state government, costs \$9.6 billion (14 percent). This relatively small slice is where we would expect to find the waste and corruption that everyone hopes can be rooted out to save the state budget.

Quite a bit has already been shaved from this slice of the budget pie. State employee numbers have been cut from 88,000 in 2001 to 64,000 in 2012, a rather dramatic reduction of 27 percent.

In 2011, the state individual income tax was raised from 3 percent to 5 percent and the corporate income tax to 9.5 percent, the latter the 4<sup>th</sup> highest in the nation. The new revenue from these increases represents about \$7.5 billion a year.

Unfortunately, throughout the 2000s, the state was spending and failing to put into the employee pension funds about \$7 billion more than it was generating in revenue each year. Thus the increased tax revenue just covered our earlier annual shortfall.

Illinois has what experts call a “structural deficit” (a good term to throw out at a cocktail party). This simply means that Illinois has historically been spending more each year than it has been taking in.

For example, Medicaid costs increased about 11 percent a year in the 1980-90s and by 7 percent annually in the past decade, a much higher rate than the revenue was growing. In recent

years, pension payments, when the state made them, were also growing much more rapidly than revenue.

The conservative Illinois Policy Institute (IPI) has proposed that the state could save more than a billion dollars a year by putting our 3 million Medicaid enrollees into private insurance plans, rather than have so many enrollees use the expensive hospital emergency rooms.

This is a complicated topic, yet I think the IPI's concept is worth considering.

On Tuesday, the legislature enacted major pension changes, which should reduce state spending on pensions by about \$1.5 billion a year, but not until after union-backed court challenges are resolved.

The 2011 temporary tax rate of 5 percent is scheduled by law to come down to 3.75 percent January 1 2015.

Even if pension changes are upheld, budget experts at the University of Illinois say it will be difficult to craft a budget in the coming two years without the extra tax revenue from the 2011 increases, at least not without cutting education and social services sharply.

So all eyes will be on the candidates for governor and what they would do if elected in November 2014.

There you have my attempt at explaining the budget in 750 words. I do see a few eyes glazed over.