

IPA-fiscal chaos looms-9-6-19

Illinois' looming fiscal chaos

By Jim Nowlan

The only way for Illinois to avoid a fiscal apocalypse is to create a powerful, independent board that would administer bitter budget medicine. Lawmakers would be required to take a single, up-or-down, no amendments vote on the prescriptions. Why so draconian, Nowlan?

First, the legislature has never once in the past 20 years adopted an honest balanced budget. Obviously, the legislature lacks the will to solve our problem. The result is the equivalent of \$60,000 of debt and unfunded future obligations for each household in Illinois (at three people per), according to Truth in Accounting, a CPA-led research group.

Second, if the 2020 election vote on Gov. Pritzker's proposed new tax on high-income earners fails, fiscal chaos is likely to follow. Unpaid bills would balloon beyond the present \$7 billion. Bond houses would declare our debt junk. Business would shun the state because of uncertainty as to their future taxes.

Third, even if the Pritzker plan passes, it won't be enough, amazing as that might sound. His tax is projected to bring in an additional \$3.4 billion a year. But the Center for Tax and Budget Accountability, a respected research group, predicts that just two years from now, assuming no new programs, the state will face a \$5 billion budget hole. So, fiscal disaster might be delayed but not averted.

What to do? There are tough, unpopular measures out there that would solve our budget problems, without increasing tax rates, including Pritzker's.

Sure, we should reduce waste and corruption, and Illinois already has done some of that, but such is penny ante stuff compared with the elephants in the room. My research shows that state spending on pensions has increased seven-fold since 1978 and that for Medicaid almost four-fold—adjusted for inflation! If we can't control these huge items in the budget, we can't control the budget.

Pensions. Illinois is trying to accomplish two things at once: pay pension benefits and also build a nest egg from which, theoretically, the state would be able by 2045 to pay most state pension obligations. Illinois simply cannot afford to do both.

I propose Illinois go to a hybrid pay-as-you-go system, like Social Security. The state would continue to pay benefits, of course, and also build the nest egg, but more slowly. I think we could save about \$2 billion a year in annual outlays.

We also need to cut the rate of growth of pension benefits, by eliminating the 3 percent minimum increase in state retiree pension benefits, and also cap or limit six-figure pension benefits. These changes could save billions over the years.

The state high court has said we can't take these actions. But, faced with legislative action to do so, and fiscal chaos, the court could conceivably change its perspective. After all, remember, "The switch in time that saved nine." (Go to American history, court packing scheme, 1937.)

Medicaid. This problem requires federal action. In Sen. Dick Durbin and Rep. Cheri Bustos, Illinois has two powerful federal lawmakers. They must step up. Why and how?

The feds reimburse Illinois about 50 percent for our health care expenditures for three million low-income and nursing home patients; the feds reimburse our neighbor states at 60-68 percent.

Further, under Obamacare, states that increased Medicaid enrollment are to be reimbursed at 90 percent forever for, in some states, hundreds of thousands of new enrollees. Unfortunately, you might say, Illinois had previously, pre-Obamacare, enrolled most of those persons. So, we are reimbursed at the regular 50 percent for them. I project that Illinois could save \$2 billion or more a year in state expenditures if the federal reimbursement formula were revised, as it should be.

Illinois could also increase revenues and savings as well, without raising rates. Most states with income levies tax retirement, but not Illinois. Doing so would be worth \$2+ billion in revenue. Most states have broader sales taxes than does Illinois. If a number of services were taxed, another couple of billion.

And there are places we can save big money and put it to better use. If, for example, we shuttered our hundreds of tiny school districts, we could shift hundreds of millions from admin to the classrooms.

Alas, as you are probably recognizing, the above are politically too hot for elected officials to handle. Yet, we need to save ourselves from ourselves.

The solution: Create a detached, independent budget board, a la New York City in 1975, when it was bankrupt. The board saved NYC, with bitter medicine.

Lawmakers know actions such as outlined here are needed, but are incapable of acting on them.

So, require them to take an “up or down” vote on a complete package, without amendment. With

fiscal chaos threatening, lawmakers might just screw up the courage to do what is absolutely imperative.