

SNG-Bitter medicine for budget-2-19-18

Business group prescribes bitter medicine for state budget

By Jim Nowlan

In its just released report, the Civic Federation of Chicago prescribes bitter medicine as the only way to cure the state's fiscal woes. The remedies offered are probably more than many or most readers can stomach. And please don't shoot this messenger for what follows.

I write this just before Gov. Bruce Rauner is to give his annual budget message. I will wager dollars to dimes he did not echo the Civic Federation.

Founded in 1894, the Civic Federation of Chicago board is a roll call of Chicagoland's leading businessmen and women, not a wild-eyed liberal group.

The group's staff of 12 analysts pore over the budgets of Chicago, Cook County and state governments. Their recommendations are respected but not always adopted. Gluttons for punishment may download the 60-page report by going to the group's website.

First, the Civic Federation lays out a list of atrocious budget realities, a few of which are:

- Even with the recent income tax increase back to 5 percent (actually 4.95), the present year state budget, which began July 1 2017, will end showing revenues about \$1.5-2 billion short of expenditures, on a General Funds budget of about \$36 billion;
- Our state bond rating is the lowest in the nation, one step above junk. One result is that our local governments are paying an estimated \$930 million more in interest on their bonds as an indirect result, the "Illinois Penalty" it is called;

- From 2010 to 2017, the state paid \$1.6 billion in late payment penalties to vendors and health care providers;
- Governors and legislature are required by the constitution to present budgets that balance expenditures with revenues, but they rarely do;
- The backlog of unpaid bills has been reduced to about \$8.7 billion through the sale of \$6 billion in bond revenues, but of course the \$6 billion will have to be paid off down the road;
- There has been no capital plan (largely for highways and mass transit) since 2010, and roads are deteriorating badly.

The Civic Federation concludes that the state budget cannot be stabilized, nor unpaid bills paid off nor a 10 percent “rainy day” fund (cushion for bad times) created with budget cuts alone.

So, to accomplish these objectives, the business group prescribes the following:

- Tax retirement income, which would generate \$2.3 billion a year, an amount growing rapidly. Most states tax all or some retirement income.
- Tax the sales of the same 14 services that are taxed in Wisconsin, to include entertainment, landscaping, repair of personal property, and contracts for the future performance of services.
- Amend the state constitution to provide for a graduated income tax, with the top rate no more than 3 percentage points higher than the lowest rate.
- Amend the state constitution proviso on pensions to “allow reasonable, moderate changes to current employee and retiree benefits.”

I have, however, talked with lawyers who practice before the state Supreme Court. As one says, “There is no chance the present court would allow an amendment to supersede

their unanimous, strongly worded decision, which holds that attempts to erase or change the benefits conferred on current and retired state employees would be an impairment of contract.”

There many other recommendations but the above are the ones that would strike fear and loathing into the hearts of many citizens.

I am confident that, if enacted, the Civic Federation’s proposals would stabilize our appalling fiscal situation in a few years.

But the bitter medicine prescribed won’t be swallowed. The Civic Federation board and staff don’t have to vote on the proposals. Elected officials would have to. Who would you find, for example, to sponsor the bill to tax retirement income?

Instead, I predict Gov. Rauner and House Speaker Michael Madigan will blame one another for our budget woes: Rauner for going three regular legislative sessions without a budget, and Madigan for his role as speaker for more than three decades, during which the budget problems festered.

The result of the squabbling may be yet another unfortunate budget impasse. Whatever happens, I am confident, sadly, we will yet again kick our fiscal problems down a long, winding road.