

## Rauner's budget dilemma

By Jim Nowlan

In less than three months, Gov.-elect Bruce Rauner has to present a budget that is balanced—and do so with \$4 billion less available revenue than is in the present \$35 billion general funds budget, because of the automatic January 1 rollback of much of the 2011 income tax increases.

It will be a difficult task. Indeed, I think it will be nigh impossible. I wish it were otherwise, as a lower tax burden would make our state more competitive.

Some background: State government has already been trimming operating expenses. For example, state government employment fell from 87,000 in 2002 to about 64,000 this past year, more than a quarter of the workforce.

According to the Civic Federation of Chicago, major Illinois people services agencies all had significantly less money in 2015 than in 2011: human services, down 5 percent; education, 12 percent; higher education, 7 percent, and children's services, 7 percent.

The major culprits of increased spending are Medicaid, the federal-state program of health care for low-income persons, pensions, and employee healthcare.

Nobody has figured out how to tame the Medicaid beast, which now costs Illinois more than \$20 billion a year, about half of which is state money, the other half from the federal government.

While other major agencies were being cut between 2011 and 2015, Medicaid spending was up 22 percent.

Pension costs increased from about \$2 billion a year in the 2000s to \$7 billion this year. The increases were to begin fulfilling a plan to make the five pensions systems eventually solvent for the long-term. The higher costs will persist for decades.

Where to cut? Pensions? The Illinois Supreme Court has signaled that it will probably not allow a modest reduction in payments enacted by the legislature in 2013.

Rauner could propose to put new employees on 401-k plans instead of defined benefit pensions, but that won't have any impact on pension costs for years.

Indeed, state pension costs may have to go up in Rauner's first budget to offset the fact the systems have lowered their forecasts for investment income.

Medicaid? The state can continue its program of scrubbing the rolls of people who are no longer eligible for Medicaid because of now having higher incomes or because they live out of state and were free-loading.

But offsetting this is an increase in the number of persons who have previously been eligible for Medicaid and were spurred to sign up by the publicity surrounding Obamacare.

Medicaid services could be cut somewhat, as Illinois provides more services than required by the federal government. Yet Rauner has said he wants to be compassionate, and he faces a veto-proof Democratic legislature that would oppose him on further cuts in services.

Cut out "waste and corruption"? Only 14 percent of the total state budget goes for "general government," which pays for operating the day-to-day services of our government and which budgeteers would scour for waste, much of which has already been cut.

What I am saying is it will be tough to cut the budget big-time. Instead, Rauner's budget people will instead be fending off increases in Medicaid and pensions and efforts to replenish funding for agencies such as education.

Rauner has said that he might support taxing sales on services, as Iowa does.

Illinois has a narrow tax base. That is, the rates are high but the yield is low. Over the years, we have taken groceries and retirement income out of the tax base. There are also scores of exemptions from the sales tax.

If we put all the exemptions and credits back in the tax base and taxed a wide array of services, the state could generate almost \$12 billion more in revenue and thus reduce the individual income tax from 5 percent to 2 percent.

But such actions would run afoul of Nowlan's Iron Law of Politics, to wit: you cannot take back something once it has been given. For example, who in the legislature would you get to sponsor a bill to tax retirement income, even though it was taxed originally?

Rauner will have to get the state to think long term. Our fiscal problems have been percolating for decades. They won't be solved in a year or two.

I recommend the incoming governor establish a high-powered task force to take the budget apart, piece by piece. The task force would report back that the budget situation is even worse than suspected, which it is.

The task force could then recommend a 10-year plan to set things straight. Even then, it won't be easy.