

SNG-exploring budget crisis roots-2-29-16

Exploring roots of Illinois budget crisis

By Jim Nowlan

Illinois residents are paying significantly more in taxes and getting less in spending for public schools and state colleges than four decades ago.

How does that compute?

The answer is that health care costs for the low income (and state workers), pension appropriations and debt service have skyrocketed since 1978, squeezing other government programs.

From the pie charts here, readers can see that the slices of the budget spending from all funds for Medicaid and pensions have expanded while those for education and state colleges have shrunk dramatically. Ouch.

We must appreciate that the budget pie for 2014 is actually larger than the one for 1978 because of population growth (13 percent in the period covered) and increased tax burden. In 1978 the individual income tax rate was 3 percent, whereas from 2011-2014 the rate was 5 percent.

I also thought real, inflation-adjusted per capita personal income would have grown somewhat during the period as well, but no.

According to the handy-dandy inflation calculator Google found for me, 2014 per capita income in Illinois of \$29,666 would have been worth less (\$8,170) than the actual per capita income in 1978 of \$9,202. (This may help us understand the Trump and Sanders phenomena.)

When 1978 state spending for public schools is adjusted for population growth and inflation, school spending in that year would have represented about \$10.3 billion versus the \$8.84 billion the state spent in 2014.

For higher education, spending would have been \$3.6 billion versus the \$2.21 billion we spent on public colleges in 2014.

Conversely, spending for Medicaid would have been \$6.86 billion in 1978 versus \$17 billion in 2014, and pensions from \$1 billion in 1978 to \$8.1 billion in 2014.

Almost one-quarter of Illinois residents are enrolled in Medicaid, just above the national average; a bit more than half the costs in Illinois are borne by the federal government. Maybe surprising, Illinois spends significantly less per Medicaid enrollee annually (\$4,722 in 2012) than the nation as a whole (\$5,527).

Well, what to do?

GOP Gov. Rauner and Democratic state Senate president John Cullerton are supposedly close to agreement on changes in pensions that would make modest savings in costs going forward. Conservative groups like the Illinois Policy Institute would put all future workers in 401-K plans, where state contributions could be controlled.

These changes would not, however, affect the big unfunded pension liabilities that weigh us down for the coming years like an anvil on our back.

As for Medicaid, no one I know has a magic bullet. I think hospitals and doctors are, today, rather fat and sassy, like our colleges and universities were in the 1950-60s. But I don't expect any big reductions in costs in the near future.

The respected, business-oriented Civic Federation of Chicago follows government budgeting closely. The group recently released a major analysis that concluded if the state is to

get onto sound fiscal footing we will have to raise the income tax back to 5 percent and also begin to tax retirement income and broaden the sales tax.

Interesting the note, a year ago the Civic Federation recommended raising the income tax back to 4.25 percent, but now the group reports that in the past year things have gotten worse, so a bigger tax increase needed.

Whether the Civic Federation is right, something has to be done, and soon.