



**A Critical Analysis  
of  
Education Funding Reform**

By Michael Van Winkle and Greg Blankenship  
introduction by the  
Honorable Peter Roskam.

## Acknowledgements

This report was written by Greg Blankenship and Michael Van Winkle of the Illinois Policy Institute. Significant contributions and reviewing were received from:

Sorin Codreanu, Beacon Hill Institute (Massachusetts)

Chris Atkins, Tax Foundation

Scott LaGanga, Americans for Tax Reform

Paul Prososki, Americans for Tax Reform

The foregoing contributors agree with the philosophy and generally support the policy proposals in this report, but do not necessarily support every specific recommendation.

The Illinois Policy Institute wishes to thank all of those who helped make this report possible.

## About the Institute

The mission of the Illinois Policy Institute is to promote free markets and limited government for a better Illinois. The Illinois Policy Institute is a free market oriented think tank dedicated to state public policy issues in Illinois. The Institute is the only free market think tank located in the State Capital of Springfield.

The Illinois Policy Institute's mission is to preserve and strengthen the societal foundations of the Land of Lincoln. Through the promotion of the benefits of limited government, competitive private enterprise as well as Illinois' critical cultural and political institutions via rigorous inquiry, debate, and writing the Institute strives to unleash the full potential of the citizens of Illinois to lead good and productive lives.

The Institute provides state policymakers, the press, and the general public with real time policy analyses, in-depth original research, and forums for public discussions of contemporary policy dilemmas facing the state government. The Institute does not lobby policymakers, support candidates or parties, nor engage grass roots lobbying. Instead, the Institute works to create a more educated policy environment where the benefits of competitive free enterprise and individual autonomy from a limited, yet strong, state government can be addressed.

Founded in June, 2002, the Illinois Policy Institute is non-profit, non-partisan think tank. The Institute is organized as a tax exempt charitable corporation under 501(c)3 of the Internal Revenue Code engaged in public policy education and research in Illinois. The Institute is an independent think tank that receives no funds from government organizations. Instead, the Institute derives its funding from individuals, charitable foundations, and corporations supportive of the Illinois Policy Institute's mission.

## Foreword

Dear Friends:

Senator Everett Dirksen once said, “A billion here, a billion there, pretty soon it adds up to real money.”

HB 750 and SB 755 are \$5 billion to \$7 billion of real money financed on the backs of families and businesses. In some cases, taxpayers might see their tax rate increase by 67%. This tax hike includes significant increases to business and job creators. HB 750 taxes every day things like dry cleaning, going to the health club, and getting a haircut. It is estimated that this legislation would result in 114,000 jobs being eliminated from the workforce.

In contrast, President Bush cut taxes across the board and as a result our economy is in its 14<sup>th</sup> consecutive quarter of growth. The state’s leadership needs to take its cues from President Bush not Walter Mondale.

The liberal special interest groups claim that this legislation will provide property tax relief. Let’s check the facts! As this report finds, the legislation would provide taxpayers with an abatement not true property tax relief. Property owners will continue to be assessed at their current tax rates and will see a line on their tax bill explaining that the State of Illinois is picking up 20% of the tab. Furthermore, this legislation does nothing to prevent local communities from raising property taxes in the future. I have spoken to countless Illinoisans who do not believe that sending several billion dollars to Springfield will result in one penny of property tax relief.

I believe that government needs to tighten its belt before asking taxpayers to pay more. As Ronald Reagan said, “The problem is not that people are taxed too little, the problem is that government spends too much.”

In the pages that follow, Mike Van Winkle and Greg Blankenship comprehensively examine the economic implications of education funding and its effects education policy. I would like to congratulate the Illinois Policy Institute for taking the time to publicize this important analysis on behalf of the taxpayers of Illinois.

In addition to this report, I also encourage you to visit [www.roskamantitaxteam.com](http://www.roskamantitaxteam.com) where you can learn more about what can be done to fight higher tax increases and improve Illinois education.



Senator Peter Roskam

# A CRITICAL ANALYSIS OF EDUCATION FUNDING REFORM

AN ILLINOIS POLICY INSTITUTE REPORT

JULY 2005

Introduction: What's at Stake? .....	4
Measuring the Impact .....	4
Spending Gaps .....	7
Springfield, Money and Education .....	7
Taxes and the Economy .....	8
Structural Deficits .....	9
Why Property Taxes? .....	11
Increasing Bang for the Taxpayer Buck .....	13
Education Reform... Period .....	14
Notes .....	14
Appendix .....	16

## Introduction: What's at Stake?

Some in this state want to reform the way we fund education. The primary vehicle for this so called reform is a tax swap that trades lower property taxes for higher income taxes. There are currently several bills in Springfield that could accomplish this goal, each differing only in magnitude not in substance.

The most popular version of this tax swap was introduced in 2004 as House Bill 750, a plan to raise taxes on Illinois citizens by as much as \$7.36 billion. Now known as HB 755, the tax swap aims to raise the Personal Income Tax (PIT) rate from 3% to 5%, a 67% percent increase in the amount of dollars that Illinoisans send to Springfield each year. This substantial increase in the Personal Income Tax is justified on the assertion that Illinois is a “low tax state”. The bill would also increase the Corporate Income Tax rate from 4.8% to 8% (effectively a 10.5% rate due to the 2.5% PPRT), which means that Illinois corporations will be paying one of the highest flat rates in the country.

All told, these tax increases will give Springfield between \$5.1 and \$5.8 billion dollars each year in new revenue. A good portion of the new revenue will initially be given back as a property tax rebate equal to about one third of the education portion of your local property tax bill. But the state government will still have more than two and half billion new tax dollars to spend. Though promises have been made that this money will go toward education, such promises have been broken before (e.g. the lottery). Moreover, there are no strings attached to this legislation that requires the new money to be spent in the classroom on teachers and students, rather than on superintendents or unnecessary school construction projects. Finally, as we will see, it is likely that this property tax “relief” will be short-lived.

Despite its recent cache, there is nothing innovative or new about this education tax swap. It is really just a renovation of several ancient myths about taxes and education. On the surface, it aims at remedying inequities in our public education system by trading lower property taxes for a higher state income tax. Underneath, it is a net tax increase that will further centralize and bureaucratize the Illinois education system.

## Measuring the Impact

*[The econometric analysis that follows looks at HB 750 as originally introduced. Though the bill has undergone various permutations since the initial introduction, the overall impact of the bill remains negative. The removal of the sales tax expansion from what is now known as HB 755 has only marginally diminished the negative effects of the tax swap on the Illinois Economy. For a comparison of the original bill and various other versions of the legislation, please reference the Appendix.]*

From the 1930's to the 1970's, economic thought was dominated by the ideas of economist Lord John Maynard Keynes. Keynesian economics held that there were trade offs between economic growth and unemployment – what later became known as the Phillips Curve. It was thought that a temporary increase in government spending could “prime the economic pump” and lift the economy out of a depression or recession. But in the 1970's, when the economy suffered both high inflation and high unemployment, Lord Keynes' model fell apart. However, it still has its champions in government who conveniently adopt the arguments to justify ever more government spending.

Since the 1970's economists have begun to forge a new consensus on the role of taxes and spending in the economy. With the demise of the Philips Curve and Keynesian economics, social scientists have reevaluated much of their thinking on the relationship between government spending and economic growth. A greater understanding of how markets work, the failure of the centralized planning, and econometric tools have all played roles in expanding our knowledge. While a boost in government spending may well offer a short term boost to the economy, it is now clear that in the long run government spending does more to harm than help. In fact, there has been an explosion of research since the 1980's pointing to the direct effects of increased spending on the economy.

Since the 1980's economists have been focusing on the question of what facilitates economic growth. A number of studies – too numerous to go into in this report – have looked at taxes and government spending and found that higher taxes and more government spending correlate strongly with higher unemployment and less economic activity.

In fact, throughout the world, the way to improve economic growth and thus, the lives of citizens and taxpayers, has been through reducing the burden of government. When we compare the United States to the European Union, for instance, we see higher rates of government spending, higher rates of tax revenues and more government debt in the EU than in the US. Meanwhile, according to the Organization of Economic Co-operation and Development (OECD) per capita economic output in the US is more than 40% higher than in Europe.<sup>1</sup>

In the U.S. there is a robust amount of research supporting this negative relationship between higher taxes, growth and employment. A 1997 Federal Reserve Bank of Dallas study noted that “Growth in government stunts general economic growth ... Increases in government spending or taxes lead to persistent decreases in the rate of job growth.”<sup>2</sup> A peer reviewed study examining growth at the state and local level published in “Public Finance Review” found that “[h]igher total government expenditure, no matter how financed, is associated with lower growth rate of real per capita gross state product.”<sup>3</sup> More recently, Dan Mitchell reported in a Heritage Foundation review of “growth literature” that “Regardless of the methodology or model, government spending appears to be associated with weaker economic performance.”

Until the advent of the **Illinois State Tax Analysis Program (Illinois-STAMP)** it was difficult to measure exactly how changes in Illinois’ tax policy affected business, households and state and local governments.

Armed with this formal model of Illinois’ economy, the Illinois Policy Institute has the capability to measure the effects of proposed Illinois tax policy. In 2003, when the Institute first used the STAMP

model to measure the impact of numerous tax and fee hikes on the Illinois economy, it performed well. Reports from the Economic and Fiscal Commission and the Chamber of Commerce confirmed many of the Illinois-STAMP’s predictions.<sup>4</sup>

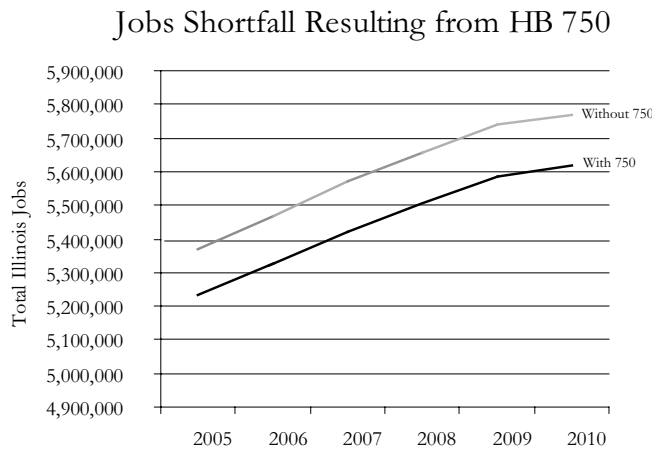
Illinois-STAMP is specifically designed to gauge how tax changes influence economic activity. The model was originally developed in 1994 by the Beacon Hill Institute (BHI) to measure changes in Massachusetts’ tax policy. BHI went on to design models in more than 14 states.

At the core of the model are two assumptions. First, households seek to maximize their utility. That means a household bases how much time is spent for work and leisure on the amount of its after tax earnings. The second assumption is that businesses seek to maximize their profits. Businesses hire labor and invest in capital based on the cost of labor and capital as well as the tax liability that results from each of the their actions.

There are thousands of equations built-in to each sector of the STAMP model. For each change in tax policy, a calculation is made (based upon the original weights and equations) allowing policy makers to study the effects of the change compared to the baseline data.

Since the current tax swap proposals involve various types of taxes, influencing the equations and the overall economy in a different ways, the effects are a bit difficult to single out.

The first, and most obvious, effect of the swap on the Illinois economy is the massive loss of jobs. As Figure 3 shows, in the first year alone the tax increases and the greater reliance on income taxes will eliminate more than 142,000 jobs, 2.61% of the workforce! In subsequent years, as the dynamic effects of the increase begin to take effect, more and more jobs will be lost and the state’s unemployment rate will creep up further. In the out year (2010), the state will be out 151,000.



Source: Illinois Policy Institute - Illinois STAMP

To avoid paying the higher CIT, businesses will adjust many of their behaviors. Some will simply flee the state for better tax climates. Others will produce less and invest more in capital – especially when those investments can be recorded as losses or otherwise hidden – to avoid the punishing CIT. Regrettably, small businesses will not have that flexibility. While wages of those still working will rise (whoever is left will demand higher wages to make up for the loss of income due to higher taxes) per capita disposable income will drop by some \$281 in 2006. Disposable income will drop each successive year thereafter until 2010 when it will begin recovering.

In the state and local revenue arena, we find that the \$7.3 billion that was to be added to state coffers though the tax swap only amounts to \$6.7 billion in 2006. Local coffers, as expected, will lose revenue as the tax purse is shifted to Springfield. It is not until 2008 that HB 750 brings in the \$7.3 billion that its proponents promise. This is largely because of the loss of local economic activity caused by the massive shock of hiking taxes at the state level. Less economic activity means the economy will not generate enough tax revenue. Thus it would seem HB 750's not as quick a fix as proponents would like.

In the area of the population, the higher tax burden and state spending will result in population changes ranging from 111,000 fewer residents in the first year to more than 142,000 in 2010. Most of those leaving the state will be upper and middle class income earners, while lower income earners – seeking the fruits of more generous state spending will see their population grow.

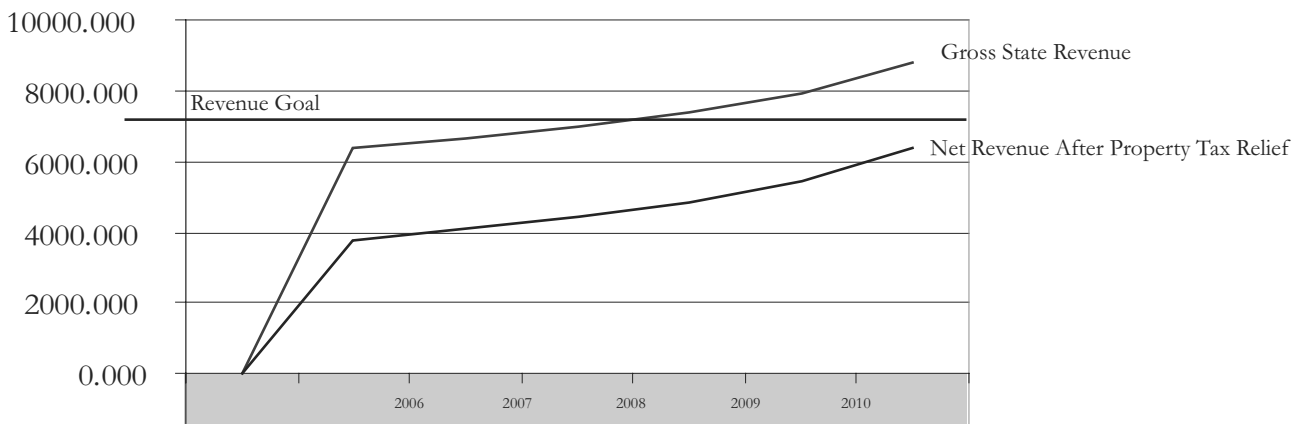
As unemployment rises and more people become eligible for government welfare benefits, pressure will increase on the state's social safety net. Those high earners who do not leave the state will again be under pressure to pay more taxes because of the increased demand for government services.

As expected, when we examine employment by industry, the impact is negative across the board. Very much worth noting, is the tax swap's impact on the Agriculture, fishing and forestry industries. There, employment totals drop in a range from 3 to 8 percentage points. Farming interests in Illinois have long supported property tax – income tax swaps. The state's Farm Bureau, for example, at one point endorsed the idea. Clearly, in light of these results they may wish to reconsider. [See Appendix for Jobs Shortfall Distribution Chart]

Overall, the impact of HB 750 is decidedly dramatic and negative. Illinois-STAMP indicates that the bill would have greater negative impact than the 2000 recession where Illinois led the nation in manufacturing jobs lost.

With all of this said, we would caution that other factors, such as the relative health of the National economy will still have a disproportionate effect on Illinois' economy. The Illinois-STAMP model, for reasons of parsimony, assumes that there are no changes in the overall national and international economy. Continued economic growth in the national economy will mitigate many of the trends caused by the tax increases. However, Illinois will still lag behind the national economy and be less competitive globally

Change in State Tax Revenue as a result of HB 750 (in millions)



Source: Illinois Policy Institute - Illinois-STAMP

because of the amount of resources being shifted from the productive private economy to the relatively unproductive public sector.

## Spending Gaps

A key assumption made by proponents of education funding reform is that the discrepancies in school funding across school districts are a direct cause of the achievement gap.<sup>5</sup> This assumption leads naturally to a subsequent one ... that the achievement gap's solution is using the state apparatus to equalize school funding. Under scrutiny this reasoning fails on both counts. Not only is there no strong correlation between funding equity and successful education, but even if there were, further centralization of education administration would not fix anything.

The argument for funding equity has strong emotional appeal. It begins by pointing out that Illinois per pupil spending ranges from \$4,000 to \$15,000 or that Illinois teacher salaries range from \$24,000 to more than \$83,000. These facts are cited in order to affect a sense of injustice in the target audience. How can we expect a school getting \$4,000 per student to compete with those getting \$15,000?

Of course common sense tells us that this first impression is not necessarily the correct one. After all, the price of real estate differs substantially between Chicago and Carlinville. Why shouldn't we expect the price of education to do likewise? In fact, even the Chicago Tribune highlighted the limited implications of the funding gap by pointing out that at "Summit Hill in Frankfort [the state's lowest spending district] about 80 percent of students pass state tests. In Rondout in Lake Forest [the state's highest spending district] about 85 percent of students pass the tests."<sup>6</sup> Two schools on opposite sides of a spending gap had essentially the same results ... success.

We find more counter-evidence to the spending gap argument when we look at the phenomenon nationally. The District of Columbia's school system is almost always in the top five in terms of per pupil spending (+\$12,000) and conversely on the bottom rung in terms educational performance.<sup>7</sup> Other studies have shown that there is no correlation between per pupil spending and success on the SAT. Illinois' students actually beat the national average despite the alleged school "funding crisis".<sup>8</sup>

A spending gap is more often indicative of large states with diverse economies rather than a regressive education system. It is no more than a statistical artifact. Looking at spending gaps nationally, it is no surprise that the largest funding gaps occur in states with large metropolitan areas. When adjusted for differences in the cost of living, New York has a gap of about \$2,616, Illinois' is \$2,465, and Michigan \$1,085.<sup>9</sup> These states' schools systems tend to be average or slightly above, despite the disparity. Some states, like New Mexico for instance, have virtually no funding gap and yet still struggle to keep up with the rest of the nation's test scores.<sup>10</sup>

All this is not to say that money has nothing to do with achievement. Affluence is still a strong predictor of educational success, but parental involvement is a stronger predictor ... and, not surprisingly, communities with high levels of poverty often have low parental participation. There is no magic bullet to Illinois' education problem, no single cause to explain all failure. The fact of this complexity is itself a key argument for local control of schools.

## Springfield, Money and Education

Still, tax swap proponents assert emphatically that "the only way to ensure all children receive a quality public education is to require the state to shoulder more of the funding burden".<sup>11</sup> Currently only about 32% of Illinois school funds come from state coffers.<sup>12</sup> This puts Illinois at the bottom of national rankings on funding and means that the state is heavily reliant on local property taxes to pay for its schools. Since different municipalities have different property values, school districts tend to have vastly different funding bases. This, at least according to their theory, is a recipe for disaster.

But it is important to note here that while Illinois ranks last in state government contributions to education, it ranks 3<sup>rd</sup> in contributions from local governments which provide 59% of the necessary cash for our schools. This gives us a fuller picture of Illinois' funding situation and clarifies that it's not necessarily the case that Illinois schools are underfunded, it is simply believed by some that the source of that funding is unfair.

There is very little evidence to support proponents’ assertion that centralizing education funding will lead to children getting better educations. Education Funding Reform proponents recommend that the state bear 51% of Illinois’ educational costs, which would best the national average. But there’s no correlation between the national average and actual performance. Virginia’s state government funds only 45.3% (33<sup>rd</sup> in the nation) and yet, still ranks highly in education studies. The Princeton Review’s state educational system rankings put Virginia in the top ten.<sup>13</sup> The National Center for Education Statistics (NCES) proficiency ratings show Virginia above the national average in reading and mathematics.<sup>14</sup> Another, even better example is Massachusetts, which actually ranks higher than Virginia in proficiency scores<sup>15</sup> despite its lower state contribution ... Massachusetts ranks 43<sup>rd</sup> with a state contribution of only 38%!<sup>16</sup>

So, despite appeals to the state to shoulder more of the burden, there is evidence that suggests that the percentage of funding coming from state coffers has no real relationship to educational performance.

This does not come as a surprise to many. The education related unions and their political representatives have thrived for years on the more general claim that there simply isn’t enough money to educate properly, but skeptics have argued all along that the money problem is actually a money myth and the data, as it so often does, bears witness.

Money is the red herring of education politics. By keeping us focused on the revenue side of the balance sheet, we get to avoid the hard questions that come with examining expenditures. Is the teacher/student ratio as important as is claimed? Are school maintenance and property subcontracting regulations diverting vital education dollars into labor union coffers? Is enough of the annual education

appropriation actually making it to the classroom?

Common sense shows us that there are a number of factors that are as important as state spending in determining achievement. Moreover, to the extent that funding is a problem, it is not clear how increasing state control over funding is going to be a real solution. More likely it will simply bring more complicated, more expensive problems—problems out of the public eye.

Too often in public policy debates we’re invited to treat symptoms rather than diseases, most often because we have not taken the time to get to the root of the problem.

## Taxes and the Economy

	State	Combined State and Local Tax Burden	Rank	Adding Federal Taxes	Rank
Maine		13.0%	1	30.8%	6
New York		12.0%	2	32.6%	2
Hawaii		11.5%	3	28.4%	23
Rhode Island		11.4%	4	30.7%	7
Wisconsin		11.4%	5	29.8%	10
Indiana		10.3%	18	28.1%	29
<u>Illinois</u>		<u>9.8%</u>	<u>30</u>	<u>29.2%</u>	<u>16</u>

Source: Tax Foundation

To fix Illinois’ alleged funding problem, tax swap proponents have proposed a few very important changes in the Illinois tax code. First, they propose hiking personal income tax rates from 3% to 5%. They defend this by noting that Illinois

will still have one of the lowest state income taxes in the nation; “Illinois is a low-tax state”... at least that’s the claim.

Thus we have another ancient myth of Illinois politics, the “low-tax state” propagated by politicians and pollinated by unsuspecting journalist, but completely unsupported by fact. Senator Barack Obama himself used the mantra as a downstate stump warmer during his election campaign.<sup>18</sup> This low tax perception is superficially buttressed by data released last year by the Federation of Tax Administrators (FTA) that ranked Illinois 45<sup>th</sup> in state taxes<sup>19</sup>, when the tax burden is measured as a percentage of personal income. Unfortunately, this report offers an incomplete picture of Illinois’ tax regime. However honest the error might be, it is imperative that policymakers and journalist take

into consideration other measures of this state's tax burden before deciding on a policy agenda.

The data released by the FTA is misleading at best. For one, it isn't consistent with other similar studies by different organizations. In 2005 the Tax Foundation ranked Illinois 30<sup>th</sup>, not 45<sup>th</sup>.<sup>20</sup> The reason is that the FTA's data only took into account state taxes. Other taxes like property taxes and sales taxes are considered "local taxes." The higher ranking in the Tax Foundation study accounts for the fact that Illinois ranks 8<sup>th</sup> nationally in per capita property taxes.<sup>21</sup>

Even more troubling is the fact that measuring local tax burdens as a percentage of personal income can itself be problematic because of progressive federal taxation. Estimates tend to be distorted for states with large populations and high wages. Take for instance a traditionally thought of high-tax state like California. Looking at state and local Tax Burden<sup>22</sup> alone California appears middle of the road, ranking 20<sup>th</sup> in the nation. Yet, once federal taxes are accounted for they're the ninth most heavily taxed state out of fifty. Notably their state and local tax burden is only a tenth of a percentage point higher than Illinois.

If we compare Illinois' tax burden to Indiana we find that while Illinois' state and local taxes are lower, its overall tax burden is higher. Using data from the Tax Foundation's 2005 study<sup>23</sup> we find that the Hoosier state's state/local Tax Burden is estimated at 10.3% compared to Illinois' 9.8%. Once we factor in federal income taxes based on progressive tax rates, Illinois' overall Tax Burden jumps to 29.2% while Indiana, whose state/local Tax Burden was somewhat higher than ours, now has a much lower overall Tax Burden with 28.1%.

Illinois' higher wages and salaries are hit harder by the progressive federal income tax. Once we factor in federal income taxes, Illinois' 29.2% is the 16<sup>th</sup> highest Tax Burden in the nation. It doesn't matter to which tax man taxpayers are sending their money. Money paid to federal, state and local governments is still green and it is still going from the productive private sector to the inherently inefficient public sector.

The Tax Foundation, earlier this year, released an article blasting HB 750 and its negative effects on the

Illinois economy. Currently Illinois ranks 23<sup>rd</sup> in their annual Tax Climate Index, which is not all that bad. After HB 750, though, Illinois will rank 38<sup>th</sup> overall. In terms of sales tax we'd be 46<sup>th</sup> in the nation and in terms of corporate taxes we'd rank a pathetic 47<sup>th</sup>.<sup>24</sup>

Another problem with measuring the Tax Burden is that we tend only to look at the direct costs of taxes, i.e. what you hand over to the government every April. What are not regularly measured are transaction costs.

A transaction cost is exactly what it sounds like. It costs time and energy to pay/avoid taxes. Every minute spent doing taxes is a minute not spent being productive, which means money is taken out of the economy. The more complicated the taxes the more money is siphoned out of the economy. Businesses have to deal with this on a very large scale.

Taxes in Illinois may not be what they are in Connecticut and California but in no way is Illinois a "low tax state". Due to our relatively high tax burden and our overly complex tax code, tax increases are not an option for Illinois ... at least as long as it plans to have a competitive economy. Instead, Illinoisan should simplify the current code to make the state a friendlier climate for business. Economic growth and frugality from Springfield are the only long term solutions to our budget woes.

## Structural Deficits

Tax swap proponents are as concerned with increasing government spending as they are with the education of Illinois' children. In just about any article or study proposing higher taxes there will be a mention of Illinois' "structural deficit" which must be closed before the state can truly balance the budget.

Even the governor's budget proposal for 2005 made direct mention of a structural deficit, defining it as a situation in which "certain major expenses grow faster than revenues over time." The Director of the Center for Budget and Tax Accountability, Ralph Martire, has given us an analogy by which to understand this phenomenon. He writes:

....consider a building that has structural problems with its walls and foundation, but nonetheless has to house your entire extended family. For a while, you

may be able to get by with temporarily propping up the walls, or even lightening the load by getting rid of extra furniture or marrying off the odd relative. Sooner or later, you'll either have to spend the money to fix the foundation or let the roof cave in on your head.

Notice in this analogy it's the foundation that's the problem. The question of what kind of structural capacity we can reasonably expect our homes to have is conveniently ignored. What if we cannot afford the mansion that will house our entire extended family? Shouldn't we expect some (perhaps those annoying in-laws) to provide for themselves?

How can a state required to balance its budget each year run any kind of deficit anyway, much less a "structural" one? Well the state has little tricks like using next year's money to pay this year's bills ... essentially moving the deficit. So technically we have no deficit, but neither do we have a budget that pays for itself. The broader answer to how this structural deficit comes to be lies in government spending. A structural deficit is really just terminology used to describe a situation in which our political leadership spends more money than it can bring in via tax and fee revenue. But who controls the spending? Is there really anything structural about the deficit? Isn't it a deficit of choice? To be blunt the "structural deficit" is merely a "problem" dreamed up by political leaders in lieu of reforming the way the state spends taxpayer money.

There is no shortage of examples. According to the Governor, Illinois has more than \$43 billion in unfunded pension liabilities.<sup>29</sup> This makes Illinois 1st in the country in terms of unfunded liabilities. Barring significant reform (which the Governor now says he'll seek), that deficit will continue to rise in 2005-2006. Contrary to the claims of tax swap supporters, the fact that this deficit exists does not necessarily imply a solution. Martire and others would have us believe the real problem is that government revenue is not meeting the minimum requirements to provide necessary services. The "foundation" cannot accommodate a big enough house so, in their view, we must increase its size.

However, one could just as easily demand that we understand the limits of a particular foundation. To continue the analogy, no house can house everybody

... the government cannot be everything to everyone. The unfunded pension liabilities tell us that state government spends too much too inefficiently, not that state government isn't spending enough.

Growth in personal income has fallen over the last three years. In 2003 state revenue income contracted, mirroring a parallel contraction in the personal income of Illinois taxpayers. But despite this contraction state expenditures still grew by 2.5%. In 2004 total state revenue has grown by only 4.2% and yet state spending is expected to grow at 5%. This growth in state spending has come despite Blagojevich's boasting about eliminating 2,300 state jobs.

If we are going to talk about the state's balance sheet we must discuss pensions and the inefficiencies associated with them. And most importantly, we must eventually examine the real elephant in Springfield, Medicaid. Illinois' Medicaid program costs taxpayers \$7 billion per year. Over \$6 billion comes from the state's general fund (nearly a quarter of the overall appropriation). That comes to about \$570 per person or \$2,300 for a family of four. Instances exist where a family can pay more for Medicaid via taxes, than for their own insurance. For example, a state employee supporting a family of four pays about \$2,000 per year for HMO coverage.

Illinois currently has 1.8 million Medicaid enrollees. One in seven Illinoisans are covered by the program. Two out of every three nursing home residents and one out of three children are covered. Elected officials seeking votes continue to expand the program ever further beyond the federal poverty line. For example, an Illinois family of six with an annual income of \$50,000 is Medicaid eligible. Despite our "structural deficit", Medicaid eligibility has been expanded in five of the last seven fiscal years, and this year the Governor vowed to expand the program to 185% above the poverty line.

When looking at any kind of "deficit", one must always remember that there are a few different ways to solve the problem: reduce spending, raise taxes, or adopt policies that spur economic growth. The big government crowd would have us believe that cutting spending is equal to cutting services. This is not always the case. Sometimes it's about making sure services are delivered more efficiently. To return

once again to our architectural analogy, imagine a house in which you were trying to accommodate as many people as absolutely possible. Knocking out a few walls and rearranging some furniture can do wonders for a building's capacity. Ultimately though, if the architect has unreasonable expectations ... like housing an entire state under one roof ... all the taxes in the world won't be enough.

Illinois' economic house is still fragile, but its foundation is strong. Its foundation is the hardworking, industrious residents that continue to shape its future. The instability is a result of an abuse of this foundation by out of touch, incompetent architects.

## Why Property Taxes?

So far we've seen that the relationship between spending gaps and school performance is anything but iron clad. But let us for a moment assume that it is; let us suppose that the secret answer to all our educational problems are bundled neatly in the spending gap. It does not follow automatically that giving Springfield more power to redistribute state funds for education is the solution.

If we buy into the spending gap logic, why should we accept the state's funding just 50% of education ... why not 100%? As long as there is any significant portion of school money coming from local property taxes, there will be inequities. That inequality is then a downward spiral encouraging more and more people to leave low-income areas to escape the horrid schools. But the alternative seems to be allowing Springfield to divvy up all education dollars according to their abstract and questionable formulas. Do we want our teachers beholden to bureaucrats in Springfield rather than parents? One advantage to paying directly to your own district through property taxes is a more direct sense of propriety.

If, hypothetically, spending gaps are the problem (hypothetically) but we don't want to empower bureaucrats any more than we are already ... what

can be done? The one solution that tax swap proponents are keeping off the table is school choice. Choice, through a statewide voucher program or even just statewide open enrollment, would even out inequalities but retain parental power in education decision making. The incentive to leave borderline neighborhoods to escape poor schools will dissipate as schooling will no longer be tied to a specific, state-defined, geographical zone. Rather, money would be tied to performance, which encourages parents to scrutinize and administrations to be as efficient as possible. The fact that this option is kept off the table is itself curious and betrays ulterior motives on the part of education tax swap proponents.

The linchpin of the education tax swap proposals, the only thing keeping them from becoming a colossal tax increases, is property tax relief. Proponents plan to offset the massive tax expansion with a property tax reduction. This tax relief will, according to proponents, ease the burden increases in the Personal Income Tax and Corporate Income Tax.

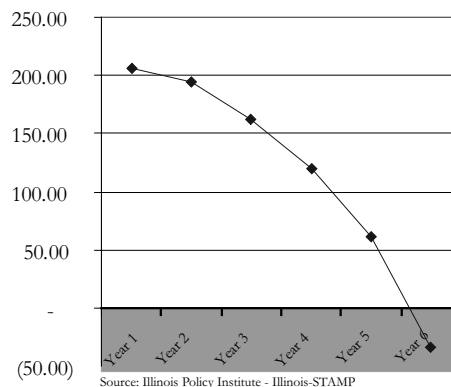
Of course, what tax swap proponents often avoid mentioning is that even after the property tax relief, Illinoisans will still be sending billions more to Springfield. Moreover, despite the illusion of property tax

relief, the current tax swap is anything but. Instead, it is a temporary tax abatement scheme aiming only at helping Springfield swallow more tax dollars.

Most Illinoisan are not aware that this so called property tax relief is being structured as an abatement, which means that property owners will not see an actual reduction in their property taxes. They will continue to be assessed at their current tax rates, but on their bill will be a line explaining that the State of Illinois is picking up 30% of the tab. Proponents tell us that this is to ensure the process is transparent and that residents know who's paying the bill. It's more likely to ensure the process is temporary.

The question we have to ask is how long we expect this contribution from the state to last? Sure ... it might last a year or so ... after all, the tax increases will

Transition Costs of HB750 to Local Governments  
(in millions)



lead to a temporary spike in cash flow. But, without reforms to policies like prevailing wage requirements on school contracts and inefficient Medicaid cost management (Medicaid spending is growing more than twice as fast as other state spending), the new cash will be spent so fast we won't even have time to earn interest on our investment. Once Springfield spends it we will again start hearing about budget woes, "structural deficits," education funding reform ... and so on and so forth.

Another potential problem with this type of tax relief is the expediency with which communities will receive their rebates. If you pay 70% of your taxes and the state is charged with paying the other 30% and the state bureaucracy gets bogged down, it's going to be your local community that suffers. One scenario might be that communities will have to borrow against money owed them by the state to keep the doors open or go back to the taxpayers for another tax increase.

Moreover, our modeling of HB 750 predicts an additional \$200 million or so to be lost by local governments in 2006 alone as result of the overall downturn in economic activity. Only after five years of local shortfalls will the balance begin to be restored. The shortfall is a product of the expanded sales tax base that includes service not taxed before, of higher income and corporate taxes, and even decreased property tax revenue resulting from a possible downturn in home-buying. This additional revenue shortfall almost guarantees that local governments will be back in the referendum business as soon as 2006 trying to make up lost ground. Proponents will argue that this cost to local government is provided for by increased funding to the Local Government Distributive Fund. But unfortunately cash flow problems have in the past substantially delayed these distributions. Moreover it is not clear that the relief will be allocated according to revenue lost rather than some more politically correct distribution.

At a state level the depressed economic activity predicted by Illinois-STAMP will inevitably increase demand for public assistance, whether it be for child care, health care, or job training. The temporary cash flow will be consumed quickly by new government promises to those displaced by the swap.

New Jersey stands as a quintessential example of the illusory nature of property tax relief. In 1976 they instituted a state income tax for the first time. The new income tax was sold to the citizens on the same rationale as Illinois' swap, as property tax relief. New Jersey currently has the highest per capita property tax collection in the nation and its residents still face rebate reductions on a regular basis.<sup>30</sup>

Ironically, property taxes are one of the most hated, but most efficient modes of taxation. We hate them because we sometimes have to pay them in one lump sum and the rates are usually higher than state income taxes. Thus, they can be a bank buster for many hard working people. Yet, for this very reason they are one of the hardest taxes for the government to increase.

Income taxes on the other hand are much more subversive. They are withheld from our paychecks before we see them. In order to facilitate this trick the state has to know everything about our livelihood, which places such an overwhelming and confusing burden on us that we then go out and pay an accountant, a tax filing service, or a software company to do our taxes for us. So in addition to the 3% you give to the state, you most likely give a couple hundred dollars to H&R Block or Turbo Tax. A seminal tax study conducted in the mid 1990's estimated that Americans waste 5.4 billion hours every year on tax compliance.<sup>31</sup> Time is money and that's too much of it spent on doing our taxes.<sup>32</sup>

Another important advantage of relying on property taxes is their relative stability during business cycles. Incomes can spike and dip overnight and the government, when budgeting for a fiscal year, is always in a position of having to estimate the coming year's tax receipts. Often they guess incorrectly, which in turn leads to budgetary deficits. This is exactly what happened to Illinois in the last recession. Property value on the other hand fluctuates much less and can therefore lead to a much more stable budgetary environment for our schools.

While no tax is greeted with a smile, there are better and worse forms of taxation. For all its faults the property tax is a stable and efficient method of taxation that encourages community involvement. The income tax is a hidden tax that creates massive bureaucracy and requires, by definition, a certain amount of government invasion of our privacy.

## Increasing Bang for the Taxpayer Buck

We've spent all this time disabling the arguments for Education Funding Reform, but the fact is that this tax increase was never really about education. It is about new sources of revenue for the state. As was mentioned early, the Illinois state government has one of the smallest "tax bases" in the nation. The majority of government is funded at the local level, whether through property taxes or retail sales taxes. This is a nightmare for bureaucrats and politicians on both sides of the aisle in Springfield. In order to retain their jobs they have to do something (even if nothing needs to be done) but in order to do anything they have to raise taxes.

It is up to the people of Illinois to decide whether they really need more cash, or whether there are reforms that can be instituted to more effectively manage taxpayer dollars. Medicaid is expanding rapidly with no end in sight and its operations are far from efficient. Moreover, the governor's 2006 budget includes new money (\$89 million) for traditional pork havens like the Department of Commerce and Economic Opportunity. Finally, of course there's the pension problem, of which the governor is keenly aware. But lost in all this is the need for reform in the state's education system.

There are several ways to reform our state's education system which do not involve tax increases, but these have been all but ignored by the press and so-called reformers.

For one, 37 states get more for their education dollar than Illinois. In 2002 the National Center for Education Statistics studied education expenditures and determined that Illinois only spends about 59.5 cents of every dollar on expenses related to instruction. This is well behind the national average of 61.5 cents and ever further behind school system that consistently out perform ours like Massachusetts (63.6 cents), Minnesota (63.6 cents) and New York (68.3 cents).

Two pennies off the national average may not seem like much, but we have to multiply that times every dollar spent on every student in Illinois. If Illinois were to match the national average we'd be spending \$391 million more in the classroom than we are

today, which works out to an extra \$188 per student. If we set our sights beyond the national average the rewards become even greater. By increasing our per dollar classroom expenditures to 63.5 cents we can bring about \$780 million new dollars to students and teachers, more than \$375 dollars more per student.

There is a movement growing that takes on this misallocation of state funds head first. **First Class Education** ([www.firstclasseducation.org](http://www.firstclasseducation.org)) began as an attempt to increase the percentage of Arizona education dollars being spent in the classroom by mandating that schools demonstrate that 65% of their operating funds are spent on instruction. The First Class Education plan has since spread to several other states including Michigan and Oklahoma. If Illinois were to take up this challenge it would mean \$437 dollars more per student, nearly a billion more statewide.

Another way to increase efficiency is to allow troubled schools an exemption from prevailing wage requirements. This would allow schools to look for the lowest possible price for support services like maintenance and custodial services. Prevailing wage requirements are set by unions whose only concern is to getting the best deal for workers, even if that means driving up the cost of education. There is a time and place for such requirements, but when schools are having trouble making ends meet we should relax the regulations that make it hard for them to get ahead.

The state could also follow California's lead and consider how pay increase and tenure decisions are made. By instituting some basic form of merit pay, we can guarantee that taxpayer dollars follow success and not failure. California is currently trying to implement merit pay in addition to raising the number of years required for tenure.

Finally, school choice should be considered an option, even if only for struggling school districts at first. School choice ties education dollars to children rather than bureaucrats. Choice would force other reforms to the forefront by providing an incentive for efficiency. Choice movements are sprouting up all over the country since the Supreme Court upheld their constitutionality in 2002. Now Arizona is poised to pass the first ever statewide "universal" voucher. It seems school choice is on its way, regardless of whether

or not Illinoisans are prepared for it. Politicians and education reformers should observe carefully what happens in voucher programs like Arizona, Cleveland, and DC. If the results are tangible and positive, there is no reason we should continue keeping choice off the table in Illinois.

These are just some suggestions of changes that could lead to very real improvements in our education system ... and there are certainly more we could suggest. However, the point is that HB 755 and its counterparts make no changes to the education system. They provide no assurance to the taxpayer that the \$1.6 - \$2 billion more that will be spent on education will have any positive effects. Do the taxpayers get to repeal the tax increases five years out if there's been no improvement in test scores? Hardly!

## Education Reform... Period

Instead of talking about Education Funding Reform we should be discussing Education Reform period. The focus on funding is indicative of a mentality that refuses to examine its own failures and limitations. There are certainly students around the state that suffer from a lack of funding but this is as much a result of poor management of existing funds as it is a lack of new funds.

Were we to enact reforms that made a serious attempt at efficiency in the public education system, only then should we consider funding increases. Until taxpayers and education unions are willing to put education dollars where they belong, in the hands of parents, they will not be spent in the best interest of students.

The current tax swap proposal is an economic and educational disaster. Our public education system, as it currently operates, is an economic and political dinosaur. Crisis is immanent; reform is necessary; and reform is the one thing that swap proponents are not serious about.

## Notes

<sup>1</sup> OECD in Figures, 2004 ed. (Paris: OECD

Publications, 2004, at [www.oecd.org/publications/e-book/0104071E.pdf](http://www.oecd.org/publications/e-book/0104071E.pdf) (Feb., 2005)

<sup>2</sup> Dong Fu, Lori L. Taylor, and Mine K. Yucel, "Fiscal Policy and Growth," Federal Reserve Bank of Dallas Working Paper 301, January, 2003, p. 10

<sup>3</sup> S.M. Miller and F.S. Russek, "Fiscal Structures and Economic Growth at the State and Local Level," Public Finance Review, vol. 25, No. (March, 1997).

<sup>4</sup> See PB: 04 – 01: "State Spending The 800-Pound Gorilla That Lawmakers Can No Longer Ignore," Illinois Policy Ins

<sup>5</sup> The "achievement gap" is short hand for the fact that poor inner city students tend to under perform.

<sup>6</sup> <http://www.chicagotribune.com/news/local/chi-0412200092dec20,1,3333090,print.story?coll=chi-news-hed>

<sup>7</sup> "The Nation's Report Card: Urban Districts Assessments", <http://nces.ed.gov/nationsreportcard/pdf/dst2003/2004458.pdf>

<sup>8</sup> [http://www.collegeboard.com/prod\\_downloads/about/news\\_info/cbjunior/yr2003/IL-03-j.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/cbjunior/yr2003/IL-03-j.pdf)

<sup>9</sup> Dollar amounts adjusted for cost of living. Cary, Kevin. "The Funding Gap 2004", The Education Trust, 2004. <http://www2.edtrust.org/NR/rdonlyres/30B3C1B3-3DA6-4809-AFB9-2DAACF11CF88/0/funding2004.pdf>

<sup>10</sup> <http://nces.ed.gov/nationsreportcard/mathematics/results2003/stateachieve-g4.asp>

<sup>11</sup> <http://www.ctbaonline.org/fundreform.pdf>

<sup>12</sup> "Rankings and Estimates", National Education Association: 2003, p 42. [\[http://www.nea.org/edstats/images/04rankings.pdf\]](http://www.nea.org/edstats/images/04rankings.pdf)

<sup>13</sup> "Testing the Testers", Princeton Review. <http://www.princetonreview.com/footer/testingTesters.asp>

<sup>14</sup> "The Nation's Report Card: National Assessment of Education Progress," National Center for Education Statistics. <http://nces.ed.gov/nationsreportcard/>

<sup>15</sup> Ibid

<sup>16</sup> "Rankings and Estimates", National Education Association: 2003, p 42. [\[http://www.nea.org/edstats/images/04rankings.pdf\]](http://www.nea.org/edstats/images/04rankings.pdf)

<sup>17</sup> “The Nation’s Report Card: National Assessment of Education Progress,” National Center for Education Statistics.

<http://nces.ed.gov/nationsreportcard/>

<sup>18</sup> Jim Muir, “U.S. Senate Candidate Blames Stagnant Job Growth on Bush Administration,” The Southern Illinoian, September 17, 2004. [<http://www.thesouthern.com/rednews/2004/09/18/build/top/TOP003.html>]

<sup>19</sup> [http://taxpolicycenter.org/TaxFacts/TFDB/Content/PDF/state\\_revenue\\_2002.pdf](http://taxpolicycenter.org/TaxFacts/TFDB/Content/PDF/state_revenue_2002.pdf)

<sup>20</sup> “Comparing the 50 States’ Combined State/Local Tax Burdens in 2004,” The Tax Foundation, April 2004. [<http://www.taxfoundation.org/statelocal03.html>]

<sup>21</sup> “Facts on Illinois’ Tax Climate”, The Tax Foundation. [<http://www.taxfoundation.org/illinois/index.html>]

<sup>22</sup> In what follows the use of “tax burden” should be understood in the statistical sense: Taxes measured as a percentage of personal income.

<sup>23</sup> <http://www.taxfoundation.org/statelocal04.html>

<sup>24</sup> <http://www.taxfoundation.org/ff/indexanalysis-IL.html>

<sup>25</sup> Rankings of corporate income taxes can be found at the Brookings Institute’s Tax Policy Center.

<sup>26</sup> <http://www.cato.org/pubs/tbb/tbb-0204.html> and <http://www.freedomandprosperity.org/Articles/wsje10-09-03/wsje10-09-03.shtml>

<sup>27</sup> “Boeing deal no slam dunk in Illinois Legislature”, Stateline.org 2001, <http://www.stateline.org/stateline/?pa=story&sa=showStoryInfo&id=128825>

<sup>28</sup> <http://www.taxfoundation.org/ff/indexanalysis-IL.html>

<sup>29</sup> <http://www.ioc.state.il.us/FiscalFocus/current/article.cfm?ID=139>

<sup>30</sup> <http://www.taxfoundation.org/newjersey/>

<sup>31</sup> <http://www.fee.org/vnews.php?nid=2872>

<sup>32</sup> Not surprisingly income taxes are also more influential on human behavior. The amount of time we spend avoiding higher tax brackets by investing, giving, and restructuring is likely to parallel the amount of time we spend preparing them.

## Appendix

**Tax Swap Comparisons - Results in 2006**

<b>Plan</b>	<b>Jobs</b>	<b>Disposable Income</b>	<b>Cost to Local Government</b>
HB 750 (as originally introduced)	-142,609	-1.55%	\$118 Million*
Winkel	-129,822	-1.30%	\$120 Million*
Sales Tax Expansion Only	-27,016	-0.55%	\$92 Million

\*non-property tax revenue only

# Appendix

## HB 755 and Illinois' Economy

Results of the simulation	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed
<b>Private Employment</b>										
Number of private jobs	5,468,567	5,354,248	5,569,211	5,450,493	5,654,993	5,531,819	5,738,273	5,609,986	5,768,929	5,634,986
<b>Change in private employment</b>	-	-114,319	-	-118,718	-	-123,174	-	-128,286	-	-133,943
% change in employment relative to baseline	-	-2.09%	-	-2.13%	-	-2.18%	-	-2.24%	-	-2.32%
<b>Government Employment</b>										
Number of government jobs	922,674	898,268	933,539	909,291	941,478	917,466	948,584	924,761	945,893	922,482
<b>Change in government employment</b>	-	-24,406	-	-24,248	-	-24,012	-	-23,824	-	-23,411
% change in employment relative to baseline	-	-2.65%	-	-2.60%	-	-2.55%	-	-2.51%	-	-2.47%
<b>Gross wage rates</b>										
Baseline wage rate, \$/person/yr, nominal \$	42,456	43,262	43,502	44,348	44,648	45,542	45,904	46,857	48,489	49,533
<b>Change in wage rate, nominal \$</b>	-	806	-	846	-	895	-	953	-	1,044
% change in wage rate relative to baseline	-	1.90%	-	1.95%	-	2.00%	-	2.08%	-	2.15%
<b>Investment</b>										
Baseline investment, \$m, nominal \$	103,334.6	106,175.1	112,198.1	115,250.9	121,906.1	125,192.9	132,549.4	136,092.0	144,182.5	147,895.4
<b>Change in nominal investment (\$m)</b>	-	2,841	-	3,053	-	3,287	-	3,543	-	3,713
% change in investment relative to baseline	-	2.75%	-	2.72%	-	2.70%	-	2.67%	-	2.58%
<b>State Personal Income, nominal</b>										
SPI (\$bn)	576.170	577.582	612.002	613.612	649.320	651.179	689.108	691.260	706.544	708.739
Change in nominal SPI (\$bn)	-	1	-	2	-	2	-	2	-	2
% change in nominal SPI	-	0.25%	-	0.26%	-	0.29%	-	0.31%	-	0.31%
<b>Disposable Income, real</b>										
DI (\$bn)	512.447	507.512	541.880	536.475	572.113	566.236	603.937	597.556	602.013	595.264
Change in real DI (\$bn)	-	(5)	-	(5)	-	(6)	-	(6)	-	(7)
% change in real DI	-	-0.96%	-	-1.00%	-	-1.03%	-	-1.06%	-	-1.12%
<b>Disposable Income per capita, real</b>										
DI/capita (\$)	39,252	39,150	41,116	41,003	43,001	42,881	44,968	44,843	44,434	44,302
Change in real DI/capita (\$)	-	-102	-	-113	-	-120	-	-125	-	-132
% change in real DI/capita	-	-0.261%	-	-0.274%	-	-0.280%	-	-0.277%	-	-0.296%

Appendix

**SB 1484 and Illinois' Economy**

Results of the simulation	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed
	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs
<b>Private Employment</b>										
Number of private jobs	5,468,567	5,338,745	5,569,211	5,433,973	5,654,993	5,514,268	5,738,273	5,591,283	5,768,929	5,614,701
<b>Change in private employment</b>	-	<b>-129,822</b>	-	<b>-135,238</b>	-	<b>-140,725</b>	-	<b>-146,990</b>	-	<b>-154,227</b>
% change in employment relative to baseline	-	-2.37%	-	-2.43%	-	-2.49%	-	-2.56%	-	-2.67%
<b>Government Employment</b>										
Number of government jobs	922,674	897,962	933,539	909,102	941,478	917,399	948,584	924,803	945,893	922,456
<b>Change in government employment</b>	-	<b>-24,712</b>	-	<b>-24,437</b>	-	<b>-24,079</b>	-	<b>-23,782</b>	-	<b>-23,436</b>
% change in employment relative to baseline	-	-2.68%	-	-2.62%	-	-2.56%	-	-2.51%	-	-2.48%
<b>Gross wage rates</b>										
Baseline wage rate, \$/person/yr, nominal \$	42,456	43,219	43,502	44,286	44,648	45,459	45,904	46,752	48,489	49,398
<b>Change in wage rate, nominal \$</b>	-	<b>763</b>	-	<b>783</b>	-	<b>811</b>	-	<b>848</b>	-	<b>909</b>
% change in wage rate relative to baseline	-	1.80%	-	1.80%	-	1.82%	-	1.85%	-	1.87%
<b>Investment</b>										
Baseline investment, \$m, nominal \$	103,334.6	103,296.3	112,198.1	112,093.5	121,906.1	121,729.1	132,549.4	132,290.0	144,182.5	143,766.0
<b>Change in nominal investment (\$m)</b>	-	<b>(38)</b>	-	<b>(105)</b>	-	<b>(177)</b>	-	<b>(259)</b>	-	<b>(417)</b>
% change in investment relative to baseline	-	-0.04%	-	-0.09%	-	-0.15%	-	-0.20%	-	-0.29%
<b>State Personal Income, nominal</b>										
SPI (\$bn)	576.170	575.417	612.002	611.004	649.320	648.084	689.108	687.620	706.544	704.552
<b>Change in nominal SPI (\$bn)</b>	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(2)</b>
% change in nominal SPI	-	-0.13%	-	-0.16%	-	-0.19%	-	-0.22%	-	-0.28%
<b>Disposable Income, real</b>										
DI (\$bn)	512.447	505.776	541.880	534.349	572.113	563.701	603.937	594.579	602.013	591.920
<b>Change in real DI (\$bn)</b>	-	<b>(7)</b>	-	<b>(8)</b>	-	<b>(8)</b>	-	<b>(9)</b>	-	<b>(10)</b>
% change in real DI	-	-1.30%	-	-1.39%	-	-1.47%	-	-1.55%	-	-1.68%
<b>Disposable Income per capita, real</b>										
DI/capita (\$)	39,252	39,055	41,116	40,885	43,001	42,740	44,968	44,678	44,434	44,119
<b>Change in real DI/capita (\$)</b>	-	<b>-198</b>	-	<b>-231</b>	-	<b>-261</b>	-	<b>-290</b>	-	<b>-315</b>
% change in real DI/capita	-	-0.504%	-	-0.561%	-	-0.608%	-	-0.644%	-	-0.708%

# HB 750 and Illinois' Economy

Results of the simulation	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed
	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs
<b>Private Employment</b>										
Number of private jobs	5,468,567	5,325,958	5,569,211	5,422,706	5,654,993	5,505,375	5,738,273	5,586,343	5,768,929	5,617,925
<b>Change in private employment</b>	-	<b>-142,609</b>	-	<b>-146,505</b>	-	<b>-149,618</b>	-	<b>-151,930</b>	-	<b>-151,003</b>
% change in employment relative to baseline	-	-2.61%	-	-2.63%	-	-2.65%	-	-2.65%	-	-2.62%
<b>Government Employment</b>										
Number of government jobs	922,674	909,724	933,539	915,222	941,478	915,259	948,584	909,491	945,893	883,299
<b>Change in government employment</b>	-	<b>-12,950</b>	-	<b>-18,317</b>	-	<b>-26,218</b>	-	<b>-39,093</b>	-	<b>-62,593</b>
% change in employment relative to baseline	-	-1.40%	-	-1.96%	-	-2.78%	-	-4.12%	-	-6.62%
<b>Gross wage rates</b>										
Baseline wage rate, \$/person/yr, nominal \$	42,456	43,247	43,502	44,375	44,648	45,651	45,904	47,132	48,489	50,222
<b>Change in wage rate, nominal \$</b>	-	<b>791</b>	-	<b>873</b>	-	<b>1,004</b>	-	<b>1,229</b>	-	<b>1,733</b>
% change in wage rate relative to baseline	-	1.86%	-	2.01%	-	2.25%	-	2.68%	-	3.57%
<b>Investment</b>										
Baseline investment, \$m, nominal \$	103,334.6	105,925.8	112,198.1	116,260.0	121,906.1	128,335.0	132,549.4	143,146.5	144,182.5	162,965.4
<b>Change in nominal investment (\$m)</b>	-	<b>2,591</b>	-	<b>4,062</b>	-	<b>6,429</b>	-	<b>10,597</b>	-	<b>18,783</b>
% change in investment relative to baseline	-	2.51%	-	3.62%	-	5.27%	-	7.99%	-	13.03%
<b>State Personal Income, nominal</b>										
SPI (\$bn)	576.170	577.056	612.002	613.733	649.320	652.646	689.108	695.574	706.544	719.569
Change in nominal SPI (\$bn)	-	<b>1</b>	-	<b>2</b>	-	<b>3</b>	-	<b>6</b>	-	<b>13</b>
% change in nominal SPI	-	0.15%	-	0.28%	-	0.51%	-	0.94%	-	1.84%
<b>Disposable Income, real</b>										
DI (\$bn)	512.447	504.516	541.880	533.663	572.113	563.994	603.937	596.683	602.013	597.639
Change in real DI (\$bn)	-	<b>(8)</b>	-	<b>(8)</b>	-	<b>(8)</b>	-	<b>(7)</b>	-	<b>(4)</b>
% change in real DI	-	-1.55%	-	-1.52%	-	-1.42%	-	-1.20%	-	-0.73%
<b>Disposable Income per capita, real</b>										
DI/capita (\$)	39,252	38,972	41,116	40,849	43,001	42,783	44,968	44,863	44,434	44,569
Change in real DI/capita (\$)	-	<b>-281</b>	-	<b>-266</b>	-	<b>-218</b>	-	<b>-105</b>	-	<b>135</b>
% change in real DI/capita	-	-0.716%	-	-0.648%	-	-0.508%	-	-0.235%	-	0.305%

Appendix

Service Tax and Illinois' Economy

Results of the simulation	FY 2006		FY 2007		FY 2008		FY 2009		FY 2009	
	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed	Estimated	Proposed
	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs	jobs
<b>Private Employment</b>										
Number of private jobs	5,468,567	5,441,551	5,569,211	5,540,687	5,654,993	5,624,956	5,738,273	5,706,631	5,768,929	5,734,303
<b>Change in private employment</b>	-	<b>-27,016</b>	-	<b>-28,524</b>	-	<b>-30,037</b>	-	<b>-31,642</b>	-	<b>-34,626</b>
% change in employment relative to baseline	-	-0.49%	-	-0.51%	-	-0.53%	-	-0.55%	-	-0.60%
<b>Government Employment</b>										
Number of government jobs	922,674	932,397	933,539	943,649	941,478	951,950	948,584	959,410	945,893	956,588
<b>Change in government employment</b>	-	<b>9,724</b>	-	<b>10,110</b>	-	<b>10,473</b>	-	<b>10,825</b>	-	<b>10,696</b>
% change in employment relative to baseline	-	1.05%	-	1.08%	-	1.11%	-	1.14%	-	1.13%
<b>Gross wage rates</b>										
Baseline wage rate, \$/person/yr, nominal \$	42,456	42,433	43,502	43,478	44,648	44,622	45,904	45,877	48,489	48,465
<b>Change in wage rate, nominal \$</b>	-	<b>-23</b>	-	<b>-24</b>	-	<b>-26</b>	-	<b>-27</b>	-	<b>-24</b>
% change in wage rate relative to baseline	-	-0.05%	-	-0.06%	-	-0.06%	-	-0.06%	-	-0.05%
<b>Investment</b>										
Baseline investment, \$m, nominal \$	103,334.6	103,107.2	112,198.1	111,940.1	121,906.1	121,613.2	132,549.4	132,216.6	144,182.5	143,774.5
<b>Change in nominal investment (\$m)</b>	-	<b>(227)</b>	-	<b>(258)</b>	-	<b>(293)</b>	-	<b>(333)</b>	-	<b>(408)</b>
% change in investment relative to baseline	-	-0.22%	-	-0.23%	-	-0.24%	-	-0.25%	-	-0.28%
<b>State Personal Income, nominal</b>										
SPI (\$bn)	576.170	575.551	612.002	611.294	649.320	648.513	689.108	688.186	706.544	705.351
Change in nominal SPI (\$bn)	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(1)</b>	-	<b>(1)</b>
% change in nominal SPI	-	-0.11%	-	-0.12%	-	-0.12%	-	-0.13%	-	-0.17%
<b>Disposable Income, real</b>										
DI (\$bn)	512.447	509.614	541.880	538.755	572.113	568.673	603.937	600.153	602.013	597.616
Change in real DI (\$bn)	-	<b>(3)</b>	-	<b>(3)</b>	-	<b>(3)</b>	-	<b>(4)</b>	-	<b>(4)</b>
% change in real DI	-	-0.55%	-	-0.58%	-	-0.60%	-	-0.63%	-	-0.73%
<b>Disposable Income per capita, real</b>										
DI/capita (\$)	39,252	39,089	41,116	40,938	43,001	42,808	44,968	44,758	44,434	44,193
Change in real DI/capita (\$)	-	<b>-163</b>	-	<b>-178</b>	-	<b>-194</b>	-	<b>-210</b>	-	<b>-241</b>
% change in real DI/capita	-	-0.416%	-	-0.433%	-	-0.450%	-	-0.467%	-	-0.543%

## Appendix

Job shortfalls resulting from HB 750 (By Industry)	Jobs lost in 2006	Pct. Of 2005
Agriculture forestry and fishing	-2,727	-3.35%
Mining	-284	-2.03%
Construction	-9,204	-2.73%
Food & tobacco products	-1,860	-2.52%
Textiles and apparel	-470	-3.23%
Building materials	-1,278	-2.73%
Paper and publishing	-2,617	-2.44%
Chemicals petroleum rubber plastics	-2,763	-2.70%
Electronic and electronic equipment	472	0.40%
Motor vehicles and other transportation vehicles	-341	-0.70%
Primary and fabricated metal	-2,957	-2.44%
Industrial machinery and equipment	-1,315	-0.92%
Business machinery and instruments	-748	-2.76%
Other manufacturing(includes metals machinery and other)	-543	-2.76%
Transportation	-6,235	-2.62%
Communications	-1,649	-2.89%
Electricity gas sanitary	-768	-3.06%
Wholesale trade	-4,814	-1.44%
Retail trade	-28,571	-4.15%
Banking	-5,627	-2.84%
Insurance	-3,488	-2.85%
Real estate	-2,697	-3.05%
Personal and repair services	-9,061	-3.79%
Business services	-24,440	-2.34%
Hotels amusements motion pictures	-7,587	-3.52%
Health services	-12,280	-2.30%
Eating drinking miscellaneous services	-8,756	-2.03%

Job shortfalls resulting from HB 755 (By Industry)	Jobs lost in 2006	Pct. Of 2005
Agriculture forestry and fishing	-2,646	-3.25%
Mining	-291	-2.08%
Construction	-8,020	-2.38%
Food & tobacco products	-1,741	-2.36%
Textiles and apparel	-425	-2.92%
Building materials	-1,224	-2.62%
Paper and publishing	-2,555	-2.39%
Chemicals petroleum rubber plastics	-2,688	-2.62%
Electronic and electronic equipment	575	0.49%
Motor vehicles and other transportation vehicles	-376	-0.77%
Primary and fabricated metal	-2,923	-2.42%
Industrial machinery and equipment	-1,313	-0.92%
Business machinery and instruments	-736	-2.71%
Other manufacturing(includes metals machinery and other)	-511	-2.60%
Transportation	-5,963	-2.50%
Communications	-1,528	-2.68%
Electricity gas sanitary	-763	-3.04%
Wholesale trade	-4,371	-1.31%
Retail trade	-13,764	-2.00%
Banking	-5,489	-2.77%
Insurance	-3,312	-2.71%
Real estate	-2,441	-2.76%
Personal and repair services	-6,593	-2.76%
Business services	-22,981	-2.20%
Hotels amusements motion pictures	-4,539	-2.11%
Health services	-10,226	-1.91%
Eating drinking miscellaneous services	-7,475	-1.73%

ILLINOIS POLICY INSTITUTE

718 South Seventh Street  
Suite 305  
Springfield, Illinois 62703  
Phone: 217.544.4759  
[www.illinoispolicyinstitute.org](http://www.illinoispolicyinstitute.org)  
© Copyright 2004