

**NEW ILLINOIS**  
**SENATE FINANCE COMMITTEE REPORT**

**October 17, 2022**

- Illinois Tax Profile
- Paul Simon Study
- Pension Debt Based on Wirepoints Analysis
- IPI Reform Plan Impact
- State Credit Ratings

## **ILLINOIS TAX PROFILE**

Review of Illinois tax structure with comparisons to other Midwest states and the largest states (CA, NY, TX & FL). Data Source: TaxFoundation.org

### **Illinois Individual Income Tax Rate: 4.95%**

- 9 States have no income tax: AK, FL, NH, NV, SD, TN, TX, WA & WY
- NH taxes dividends & interest; WA taxes capital gains
- 9 States have a flat tax with an average rate of 4.44%: KY (5.0); MA (5.0); NC (4.99); IL (4.95); UT (4.95); CO (4.55); MI (4.25); IN (3.23); PA (3.07)
- 32 States and DC have graduated income tax rates; CA has the highest rate at 13.3% for income over \$1 million
- Tax rate on \$100,000 taxable income: CA (9.3); IA (8.53); MN (7.85); NY(6.25); MO (5.4); WI (5.3); KY (5.0); MI (4.25); OH (3.688); IN(3.23); FL(0)

### **Sales Tax Average Rate in Illinois: 8.81% (8<sup>th</sup> highest in the country)**

- Other States: CA (8.82); NY (8.52); MO (8.3); TX (8.2); MN (7.49); FL (7.01); IN (7.0); IA (6.94); MI (6.0); KY (6.0); WI (5.43)

### **Property Tax Average Rate: 2.05% (2<sup>nd</sup> highest in the country behind NJ (2.21%))**

- Other States: TX (1.66); WI (1.63); IA (1.50); OH (1.58); NY (1.38); MI (1.38); MN (1.1); FL (.91); IN (.84); KY (.82); CA (.73%)

### **Corporate Tax Rate: 9.5% (5<sup>th</sup> highest behind IA, MN, NJ & PA)**

- Other States: MN (9.8); IA (9.8); CA (8.84); WI (7.9); NY (7.25); MI (6.0); FL(5.5); KY (5.0); IN (4.9); MO (4.0)
- Four states have gross receipts or margin taxes (OH, NV, TX, WA)
- Two states have no business income taxes (SD & WY)

### **Miscellaneous Taxes**

- 2nd highest Gas Tax (59.6 cents per gallon)
- 11<sup>th</sup> highest Cigarette Tax (2.98 cents per pack)

### **State & local tax Burden as a percentage of the state economy**

- Illinois is at 12.9% (7<sup>th</sup> highest behind NY, CA, HI, VT, CT & NJ)
- Large & Midwest States: NY (15.9); CA (13.5); MN (12.1); IA (11.2); WI (10.9); OH (10); KY (9.6); IN (9.3); FL (9.1); MI (8.6); TX (8.6)

### Review of Paul Simon Study (PSS)

The Paul Simon Study was a very flawed, biased and non-transparent study. The New Illinois computations below are straightforward, rational and open to review by anyone. We don't know what counties the PSS included in their "South" region but the attention-getting 2.81 number is way too high. The ratio for the 17 Southernmost Illinois counties is 1.65.

### Revenue and Disbursement Analysis by Region:

#### Ratio is Disbursements (Expenditures) Divided by Revenue

#### Per Paul Simon Study from 2018

<u>Region</u>	<u>#</u>	<u>Ratio</u>
North	18	1.24
Central	50	1.87
Southwest	9	1.42
South	19	2.81
Downstate	96	1.69
Collar	5	.53
Cook	<u>1</u>	.9
	102	

#### Per New Illinois Computation (2020)

<u>Region</u>	<u>#</u>	<u>Ratio</u>
North	18	1.12
Central	48	1.28
Southwest	n/a	
South	30	1.36
Downstate	96	1.25
Collar	5	.6
Cook	<u>1</u>	1.03
	102	
Southernmost	17	1.65

### Pension Debt Analysis for New Illinois

Per Wirepoints: As of October 2022 Illinoisans are on the hook for \$530 billion in retirement debt per Moody's calculations, not the \$303 billion reported by the government; FY 2020 Numbers are in \$billions. The New Illinois portion is an estimate based on the Moody's estimates and may change as we obtain more data.

<u>Funds</u>	<u>Per Govt</u>	<u>Per Moody's</u>	<u>NewIL Portion</u>
<u>State Funds</u>			
Illinois 5 state pension funds	144.2	317.0	235.4
Retiree health insurance	8.7	54.4	40.5
Pension obligation bonds	9.4	9.4	6.6
State subtotal	212.4	380.9	282.9
<u>Chicago</u>			
Four city funds	32.0	59.8	0
Chicago teacher's funds	12.8	30.8	0
Park district fund	.8	1.8	0
Retiree health insurance	4.5	3.1	0
Chicago subtotal	50.2	95.5	0
<u>Cook County</u>			
Cook pension fund	6.7	20.6	0
MWRD fund	1.2	2.2	0
Forest preserve	.1	.4	0
Retiree health ins	1.3	1.1	0
Cook County subtotal	9.3	24.4	0
<u>Suburban and Downstate</u>			
Firefighter fund	5.6	5.6	5.6
Police fund	7.7	7.7	7.7
IMRF	2.9	2.9	2.9
Retiree health ins	15.3	15.3	15.3
Suburban and Downstate	31.6	31.6	31.6
<b>GRAND TOTAL</b>	<b>303.4</b>	<b>532.3</b>	<b>314.4</b>

## **Illinois Policy Institute Reform Proposal:**

### **Illinois Forward: 5 Years to Balanced Budgets with No Tax Hikes (in \$Billions)**

<b><u>Illinois Savings</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2025</u></b>	<b><u>2026</u></b>	<b><u>2027</u></b>
Pension reform	2.40	2.00	1.90	1.50	1.50
School district efficiency	.12	.31	.51	.72	.95
Right-size health insurance	.51	.53	.55	.57	.59
Tier 3 pension reform	.58	.60	.61	.63	.65
<b>Total savings</b>	<b>3.61</b>	<b>3.44</b>	<b>3.58</b>	<b>3.42</b>	<b>3.68</b>

<b><u>New Illinois Savings</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2025</u></b>	<b><u>2026</u></b>	<b><u>2027</u></b>
Pension reform	1.43	1.19	1.13	.89	.89
School district efficiency	.07	.18	.29	.41	.54
Right-size health insurance	.30	.31	.33	.34	.35
Tier 3 pension reform	.34	.35	.36	.37	.38
<b>Total savings</b>	<b>2.14</b>	<b>2.04</b>	<b>2.11</b>	<b>2.02</b>	<b>2.16</b>

**Pension reform:** Let the people vote on fixing the pension clause – amending the pension clause in the constitution. Would allow adjustments to be made going forward to make sure that pensions are sustainable and affordable. It would still treat benefits earned as an inviolable contract.

**School district efficiency:** Reduce the number of school districts. Classrooms First Act introduced by Rep. Rita Mayfield, a Democrat from Waukegan, in 2019. This would reduce administrative spending per pupil to the national average.

**Right-size health insurance:** State workers only pay half of what private sector workers pay as a share of healthcare costs (42% vs 21%).

**Tier 3 pension reform:** Implement hybrid pension plans for new/Tier 3 employees.

## **Credit Ratings for State Bonds**

There are three major credit rating agencies that give ratings for state bonds: Standard & Poors (S&P), Fitch and Moody's. Below is the breakout of the Moody's ratings (Aaa is the highest rating). Note: The ratings for Fitch and S&P are almost the same, except S&P rates New Jersey as bad as Illinois.

Aaa (17 states; including Florida, Indiana and Iowa)  
Aa1 (15 states; including Michigan, Minnesota, Ohio and Wisconsin)  
Aa2 (11 states; including California and New York)  
Aa3 (5 states: Alaska; Connecticut, Kentucky, Louisiana, Pennsylvania)  
A1  
A2 (1 state: New Jersey)  
A3  
Baa1 (1 state: Illinois)  
Baa2  
Baa3