

# Budget Solutions 2018

## Saving Illinois: Balancing the state budget without tax hikes

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# Balancing the budget without tax hikes

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If there's one message many Illinois politicians and civic groups want taxpayers to hear this budget season, it's that there's no fixing Illinois' fiscal and economic mess without a multibillion-dollar tax hike.

Tax-hike proponents also want residents to believe the Illinois General Assembly has already passed all the structural reforms it can, and the only thing left to do now is to hike taxes by \$7 billion to \$9 billion – and that will fix everything.

But that narrative is false. The General Assembly has done nothing to stop Illinois' downward spiral.

The Illinois Policy Institute's 2018 Budget Solutions offers a plan that reverses the state's failed course. The plan fills Illinois' \$7.1 billion budget hole, balances the state budget without tax hikes, provides tax relief to struggling homeowners through a comprehensive property tax reform package, and implements pension reforms that comply with the Illinois Constitution and will begin to end the pension crisis.

It also implements many of the spending and economic reforms Illinoisans instinctively know are needed to create more jobs, generate higher pay and provide a better living environment, including right-sizing state worker benefits, implementing savings for Medicaid and making higher education more affordable for students by reducing administrative costs.

The Institute's plan is as follows:

## A. Enact comprehensive property tax reform – \$3.4 billion in savings

Illinoisans are forced to pay the nation's highest property taxes to prop up Illinois' 7,000 units of local government – the most in the nation – and the bureaucracies that run them.

In some Illinois communities, residents pay 5 percent or more of the value of their home to property taxes. For many, that's more than they pay toward their mortgage each year. In those places – such as in Chicago's Southland area – homeowners will pay twice for their homes over a 20-year period: once to purchase their home and a second time in the equivalent amount of property taxes.

But property taxes aren't the only thing fueling excessive local government spending. Billions more in state subsidies help drive local spending on employee perks and other expenses such as the seventh-highest workers' compensation costs in the nation. Many of these costs result from state mandates that only increase costs for taxpayers.

Illinois taxpayers deserve relief. That's why Illinois needs comprehensive property tax reform that includes not just a five-year property tax freeze, but reforms to the state subsidies and mandates that increase local costs.

### Step 1: 5-year property tax freeze

- » Freeze the property tax levy of every local government in Illinois for five years, including home rule and non-home rule local governments.
- » Base the annual increase in local government levies not on inflation, but on Illinoisans' ability to pay higher taxes. After the five-year freeze, property tax levies will

grow based on the annual change in Illinois' statewide median household income, with a maximum of 2 percent and a minimum of zero.

- » Require a referendum when governments wish to raise other local taxes or fees. To pass, the referendum must be approved by two-thirds of local voters.

### Step 2: Curb wasteful spending habits by eliminating local government subsidies

Billions in state subsidies allow local officials to funnel money where it's most politically expedient – all without having to answer to local taxpayers. Those billions prop up unnecessary perks and expenses including salary spikes, pension sweeteners and workers' compensation costs that would otherwise be unaffordable. Subsidies ripe for elimination include:

- » Revenue-sharing agreements that fuel excessive local spending, such as the Local Government Distributive Fund – for counties and cities with populations above 5,000 – and the Downstate Transit Fund. (Savings: \$1.75 billion)
- » State pension subsidies that allow districts and universities to dole out higher pay, end-of-career salary hikes and pensionable perks. Going forward, local school districts and universities should be responsible for paying the annual (normal) cost of pensions. (Savings: higher education: \$450 million; K-12: \$970 million)
- » Special carve-outs in the state's education funding formula that grant subsidies to a select few school districts affected by local property tax caps and special economic zones. (Savings: \$250 million)

### Step 3: Eliminate costly state mandates and give back spending control to local governments

Freezing property taxes and ending state subsidies won't be enough to fix Illinoisans' tax burdens. Local officials must be given greater control over their own budgets so they can reduce the burden on local taxpayers and reform how local government is delivered.

- » Reform costly state mandates imposed on local governments such as prevailing wage requirements and collective bargaining rules. Ease the process for government consolidation and other cost-saving measures. (Local government savings: \$2 billion-\$3 billion)

### B. End Illinois' pension crisis through self-managed plans – 2018 pension contribution \$1.65 billion less than baseline

Illinois' pension math simply doesn't work. It doesn't work for pensioners, who are worried about their collapsing retirement security. It doesn't work for younger government workers, who are forced to pay into a pension system that may never pay them benefits. It doesn't work for taxpayers, who pay more and more each year toward increasingly insolvent pension funds. And it doesn't work for Illinois' most vulnerable, who have seen vital services cut to make room for growing pension costs.

The status quo cannot continue. Illinois must follow the lead of the private sector and over a dozen other states, such as Michigan and Oklahoma, and move away from its broken defined-benefit pension system.

State worker retirements can be put on a path to financial security by passing a holistic retirement reform plan that complies with the Illinois Constitution and creates a new self-managed plan for state workers.

The Institute's comprehensive retirement reform plan:

- » Respects the decisions of the Illinois Supreme Court by making changes that do not diminish or impair pension benefits.
- » Enrolls all new workers in a new hybrid self-managed retirement plan, or SMP, based on the State Universities Retirement System's own SMP. The hybrid plan contains two key elements: an SMP and an optional Social Security-like benefit.
- » Gives all current workers the option to enroll in the SMP. Retirees, and current workers who do not opt in, will be unaffected by the plan.

The plan will result in a number of valuable benefits for state workers, retirees and taxpayers, including:

- » Providing increasingly stable and predictable costs for the state budget going forward.
- » Significantly reducing the growth in accrued liabilities.
- » Ending Illinois' reliance on its broken pension system by moving virtually every active worker into an SMP by 2047.
- » Eliminating the unfair Tier 2 benefit plan for new workers and allowing existing Tier 2 members to opt in to the new SMP.
- » Sending a strong message to investor and credit agency groups that Illinois is finally tackling its pension crisis.

» Phases in the costs of any pension funds' actuarial changes over a five-year period. This will reduce the required \$800 million increase in state contributions by nearly \$650 million in 2018.

» Creates a new contribution schedule with a 2018 payment that is \$1 billion less than baseline contributions. That will protect overburdened Illinoisans from tax hikes and allow the state to prioritize funding for social services.

To achieve the above benefits – including ending unfair Tier 2 pensions – the state must invest the equivalent of \$7 billion to \$18 billion in today's dollars over the next 30 years.

This is the only pension plan that protects worker benefits under the Illinois Constitution, protects funding for social services, avoids harming Illinoisans with another tax hike, shifts normal costs to local governments to discourage benefit spiking, begins an end to the broken pension system, eliminates the unfair Tier 2 benefit structure, and provides real retirement security to state workers.

### C. Align AFSCME costs with what taxpayers can afford – \$1.1 billion in savings

Illinois' middle class and blue-collar workers are struggling amid one of the worst economic recoveries in the nation.

That pain will only get worse if the costs of state government continue to increase. Illinois taxpayers already have to pay for state workers' generous benefits, including the highest salaries in the nation, heavily subsidized health care, free retiree health care for most workers and overly generous pension benefits.

If the state is able to implement its last, best contract offer to the American Federation of State, County and Municipal Employees, which represents 35,000 state workers, it will save taxpayers hundreds of millions in government overtime and health care costs, among other expenses.

In addition, the state can further reform the costs of employee compensation by reducing state payroll by \$500 million, or a little more than 10 percent, in 2018.

» Implement the state's contract offer which, among other savings, reins in state workers' excessive overtime benefits and enacts reasonable health care reform that still provides affordable, flexible and fair health care options for state workers. (Savings: \$600 million)

» Reduce 2018 state payroll by \$500 million. (State savings: \$500 million)

## D. Streamline Medicaid spending – \$415 million in savings

For many Illinoisans, Medicaid means poor access to health care. Much of that failure can be blamed on a Medicaid enrollment that has ballooned to 3.2 million Illinoisans, crowding out resources for the very people Medicaid was intended to protect. That's a sorry outcome for a state that spends 25 percent of its general fund budget on health care, largely on Medicaid. The state can pursue improvements that will lower the burden that Medicaid imposes on Illinoisans. Those reforms include:

» Applying more frequent eligibility checks to ensure resources are spent only on those eligible for services. (State savings: \$135 million)

» Lowering drug costs so more Medicaid patients can get the medicine they need. (State savings: \$70 million)

» Leveraging volume purchases and competitive bidding to lower medical equipment costs. (State savings: \$55 million)

» Repealing ObamaCare's Medicaid expansion to ensure patients who need the most help have quicker access to doctors. (State savings: \$125 million)

» Utilizing ambulatory surgical centers that specialize in outpatient procedures to reduce costs and shorten patient wait times. (State savings: \$30 million)

## E. Higher education: Prioritize students over administrators – \$500 million in savings

Illinois' college and university officials blame the state's budget crisis for the mess in higher education.

But budget gridlock isn't why Illinois' higher education system is facing financial troubles. Instead, it's the growing number of administrators and their ballooning costs that make college unaffordable for too many of Illinois' students, especially those with limited means. Illinois spends more money on administrative and retirement costs than on university operations. In fact, more than 50 percent of Illinois' \$4.1 billion budget for state universities is spent on retirement costs.

Colleges and universities must enact reforms to operational spending, reduce the cost of salaries, and eliminate administrative bloat. If they don't, the destructive cycle of hiking tuition while relying increasingly on state subsidies will continue, making higher education less and less affordable for Illinois' students.

In the meantime, the state cannot continue to subsidize Illinois universities' bloated administrations and benefits. The Institute's plan would lower state appropriations to

colleges and universities by the equivalent of a little more than 10 percent of projected payroll costs in 2018.

» Reduce state appropriations to higher education by \$500 million in 2018. (State savings: \$500 million)



# BUDGET SOLUTIONS – BY THE NUMBERS

1 REVENUES AND EXPENSES (in millions of \$)	ACTUALS		2017	2018	
	2015	2016	Estimate based on GOMB	Estimate based on GOMB	Illinois Policy Institute Budget Solutions
TOTAL REVENUES	36,342	30,373	33,713	33,461	33,461
TOTAL EXPENDITURES	35,358	36,082	39,013	40,555	33,461
<b>ANNUAL BUDGET DEFICIT</b>	<b>\$984</b>	<b>(\$5,709)</b>	<b>(\$5,300)</b>	<b>(\$7,094)</b>	<b>\$0</b>

2 BUDGET REFORMS	\$ value of reforms (in millions of \$)
Eliminate special carve-outs for select school districts	\$250
Eliminate administrative bloat in higher education	\$500
Ensure Medicaid spending goes to those who truly need it	\$415
End Illinois' pension crisis through self-managed plans	\$1,650
Require school districts to pay for their employee pension costs	\$970
Require universities to pay for their employee pension costs	\$450
Realign state worker compensation costs with what taxpayers can afford	\$1,111
End state subsidies that fuel overspending at the local level	\$1,748
subtotal	<b>\$7,094</b>

The plan closes the \$7.1 billion budget gap

Comprehensive property tax reform must give local officials the ability to lower significant spending drivers and make the cost of government affordable to taxpayers.

3 LOCAL GOVERNMENT OFFSETS	(in millions of \$)
Give local governments the ability to set their own collective bargaining rules	\$1,000 - \$2,000
Enact changes to workers' compensation laws to reduce local governments' costs	\$200
Reform unfunded state mandates that burden local governments unnecessarily	\$200
Require teachers to pay their legally required contributions toward their pensions	\$375
Reform prevailing wage requirements	\$280
Consolidate local government bureaucracies and authorize municipal bankruptcies	--



# Introduction

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Billions in tax hikes on struggling Illinoisans and businesses is not the solution to the state's budget crisis.

The real solution is transforming how Illinois government operates and how it spends taxpayer dollars. Illinoisans know that because they experience the broken nature of Illinois government every day.

Seniors who want to stay in their homes after retirement are still being pushed out by the nation's highest property taxes, in large part because they are forced to pay for too many units of local government and the bloated bureaucracies that run them.

Middle-class and blue-collar workers continue to see their manufacturing jobs disappear, a result of the state's job-killing economic policies.

Social service providers, from those who help the developmentally disabled to those who treat drug addiction, are seeing their funding dry up as out-of-control pension costs swallow a quarter of the state budget.

Young teachers are being forced to pay into an insolvent state-run pension plan and given no other options to save for their retirements.

Because doctors know the state is a bad partner, many practices do not treat Medicaid patients, and Medicaid recipients still often rely on emergency rooms to access care despite the billions spent on Medicaid.

And for too long, Illinois' college administrators have put themselves before students.

Tax hikes won't solve any of those problems. In fact, they would only perpetuate these crises.

The Illinois Policy Institute's 2018 Budget Solutions offers a plan that reverses the state's failed course. The plan balances the state budget without tax hikes and implements many of the spending and economic reforms Illinoisans instinctively know are needed to create more jobs, generate higher pay, and provide a better living environment, but that are perpetually avoided by state politicians.

Without those reforms, Illinoisans will continue to protect themselves and their futures in the only way they can – by leaving.

Illinois experienced record out-migration in 2015, netting a loss of 105,000 residents. That's the equivalent of losing almost the entire population of Springfield in just one year.<sup>1</sup>

And an October 2016 poll by the Paul Simon Public Policy Institute warns the exodus will only increase. Forty-seven percent of Illinoisans polled said they want to leave the state. Their number one reason? Taxes.<sup>2</sup>

Illinoisans can't afford another tax hike. And Illinois can't afford to further destroy its tax base.

Instead, politicians must enact the major spending reforms Illinois needs before they even utter the words "tax increase." The good news is a full implementation of the Institute's plan means there wouldn't be a need for tax hikes.

The status quo is robbing Illinois of its future. Years of higher taxes, misplaced priorities and fake reforms have only served to drive people away.

Illinois has the people, the assets, the infrastructure and the location to once again be a beacon of prosperity in the Midwest.

The Illinois Policy Institute's Budget Solutions 2018 sets Illinois back on that path.



# A. Enact comprehensive property tax reform

2018 state savings:  
\$3.4 billion

## A three-step plan for comprehensive property tax reform

In Illinois, there is no tax that burdens residents more than property taxes. Illinoisans now pay the highest property taxes in the nation, and that burden is pushing many families out of their homes. Seniors can't keep their homes in retirement, and middle-class families are being forced to find opportunities in nearby states.<sup>1</sup>

Yet high property taxes are only the symptom of larger problems: Illinois' duplicative and overlapping local government units, costly local bureaucracies, state subsidies that prop up excessive spending by local governments, and state mandates such as prevailing wage requirements and collective bargaining rules, which drive up the cost of government operations.<sup>2</sup>

Thus, Illinoisans need comprehensive property tax reform that includes a property tax freeze, as well as reforms to shrink the number, size and cost of local governments and to eliminate the state mandates that increase costs for localities.

Only such comprehensive property tax reform will help avoid an income tax hike. Reforms outlined in the Illinois Policy Institute plan would save the state \$3.4 billion, which would make up for almost half the state's \$7 billion deficit.

Illinois should undertake a three-part process to rein in property taxes and the cost drivers that keep them high:

### Step No. 1: Freeze property taxes

Freezing local property taxes is the key to reducing government's burden on Illinois residents.

### Step No. 2: End the state subsidy shell games

Illinois' tangled web of local government is funded not only by steep local property taxes, but also by state subsidies that funnel billions of dollars to local governments every year.

State officials like to dole out these subsidies because it grants them greater control over local governments. Local leaders like state subsidies because those funds allow them to spend money without having to bear the political cost of raising taxes locally. That means officials can funnel money where it's most politically expedient without having to answer to local taxpayers.

Ending state subsidies will save state taxpayers billions and force local officials to curb their excessive spending practices.

### Step No. 3: Eliminate state mandates on local governments

Ending state subsidies and freezing property taxes will have an immediate impact on local communities' budgets. To enable local governments to operate with reduced revenues, the state must reform many of the mandates – from prevailing wage requirements to collective bargaining rules – that drive up the cost of local government.

## Step 1 of comprehensive property tax reform: Freeze property taxes

### The problem: Property taxes fuel too many local governments

The high property taxes Illinoisans pay every year help fuel Illinois' excessive number of local governments, expensive bureaucrats and school district administrations.

As local costs have grown, so have property taxes. Since 1990 alone, tax bills have grown three times faster than household incomes.<sup>3</sup>

As a result, property taxes are taking more money than ever out of residents' wallets, consuming 6.4 percent of Illinoisans' median household incomes in 2013. That's nearly double the 3.6 percent property taxes consumed in 1990. [\[GRAPHIC 1\]](#)

According to the nonpartisan Tax Foundation, Illinoisans pay the highest taxes in the nation when compared to the value of their homes. The average Illinoisan pays 2 percent of the value of his or her home in property taxes every year – double what homeowners in Missouri pay and 2.5 times what residents in Indiana and Kentucky pay.<sup>4</sup>

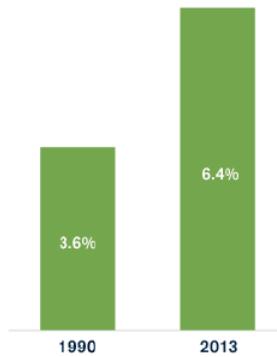
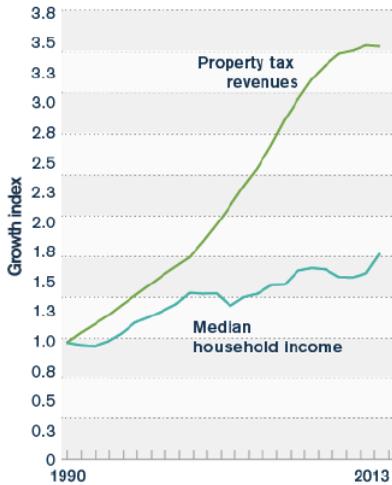
In some Illinois communities, residents pay 5 percent or more of the value of their homes in property taxes. For many, that's more than they pay toward their mortgages each year. In those places – such as in Chicago's Southland area – a homeowner will pay twice for his or her home over a 20-year period – once to purchase the home and a second time in the equivalent amount of property taxes.

**GRAPHIC 1**

**Illinoisans' property tax bills have grown 3 times faster than household incomes**

Since 1990, residential property taxes in Illinois have grown 3.3 times faster than the median household income.

This has caused the residential property tax burden on Illinoisans to rise 76 percent to 6.4 percent of household income.



Sources: Illinois Department of Revenue, U.S. Bureau of Labor Statistics, U.S. Census Bureau, Tax Foundation @illinoispolicy

**GRAPHIC 2**

**Illinois has more units of local government than any other state in the nation**

Top 5 states in the nation

State	Local governments
<b>Illinois</b>	<b>6,963</b>
Texas	5,147
Pennsylvania	4,897
California	4,425
Kansas	3,826

Illinois compared with its neighbors

State	Local governments
<b>Illinois</b>	<b>6,963</b>
Missouri	3,768
Wisconsin	3,128
Michigan	2,875
Indiana	2,709
Iowa	1,947
Kentucky	1,338

Source: Illinois State Board of Education, "Administrator and Teacher Salary and Benefits" database

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**The local government costs that property taxes fuel**

**Too many local governments**

Illinoisans pay the highest property taxes in the U.S. to fund nearly 7,000 units of local government – the most in the nation and more than the local governments in Indiana, Kentucky and Iowa combined.<sup>5</sup> [GRAPHIC 2]

Those taxes, and billions more in state subsidies to local governments, fuel wasteful spending, overly generous pension benefits and salaries for too many administrators, as well as unaffordable collective bargaining, prevailing wage and workers' compensation costs of these thousands of local governments.

Those inefficiencies are revealed when the number of people Illinois local governments serve is compared with other large states. On a per capita basis, the average local government in Illinois serves just 1,800 people.<sup>6</sup>

Local governments in other heavily populated states serve far more residents. For example, the average local government in California serves more than 8,000 people, or 4.5 times the number of people as Illinois, while Florida's local governments serve on average nearly six times as many people as Illinois' governments do. [GRAPHIC 3]

**Too many layers**

Illinois' record number of local governments is a problem due to the inefficiencies they create and the administrative costs they generate. In many communities, multiple government bureaucracies perform functions and deliver services that could be consolidated under a single entity.

**GRAPHIC 3**

**Illinois' local governments are the most inefficient among states with large populations**

People served per unit of local government among states with populations above 10M

State	People served per unit of local government
Illinois	1,843
Pennsylvania	2,594
Ohio	3,003
Texas	4,885
New York	5,612
California	8,419
Florida	11,395

Source: U.S. Census of Local Governments, 2013

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Illinois has more layers of municipal government than any other state in the country. Over 60 percent of Illinoisans live under three layers of general-purpose local government (municipal, township and county governments). In 40 other states, residents only have to deal with, at most, two layers of municipal government.<sup>7</sup>

Illinois' 1,431 townships are a particularly inefficient form of local government. They often provide services such as property assessment and road maintenance that county or city governments could easily perform.<sup>8</sup>

Beyond municipalities, Illinoisans pay property taxes for thousands of additional special districts such as schools, libraries, parks, forest preserves, fire protection, sanitation, transportation and even mosquito abatement districts. These special districts are often unnecessary or redundant, performing functions and providing services that could be consolidated or absorbed by other units of government.

Taken together, Illinois' nearly 7,000 local governments form a vast, complicated web of taxing bodies. Many Illinoisans live under a dozen local governments or more, which makes it difficult for homeowners to hold those governments accountable for the

disposition of the property taxes they collect, and the increases in the property taxes they impose.

For example, some residents in Elgin live under a total of 13 taxing governments and their related pension funds, including: Kane County, Kane County Forest Preserve, Plato

Township, Plato Township Road District, Plato Cemetery District, Elgin city, Central School District 301, Elgin College 509, Ella Johnson Library, Fox River Water Reclamation District, Northwest Kane Airport Authority, Plato Solid Waste Disposal District and Elgin Special Service Area 81.<sup>9</sup> [GRAPHIC 4]

**Too many expensive bureaucrats**

Having thousands of local governments means having to pay for the bureaucrats those governments employ. Many localities in Illinois provide high salaries and multimillion-dollar pensions to a significant number of administrators. In most cases, the half-dozen or more local governments in a community will employ a set of administrators – e.g., office managers, human resource directors, computer technicians, etc. – that could each be merged if those local governments consolidated.

**GRAPHIC 4**

**Elgin residents burdened by 13 taxing governments**



Source: Illinois Department of Revenue

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**Top local government workers earn 6-figure salaries and retire with pensions worth millions**

Salaries/wages and estimated total pension payouts for select local government workers in Illinois, 2015

Member name	Employer name	Total member salaries/wages 2015	Estimated pension payout*
<b>Municipal employees</b>			
Hileman, Lawrence T.	Village of Glenview	\$303,077	\$5 million-\$6 million
Nahrstadt, Richard A.	Village of Northbrook	\$263,393	\$5 million-\$6 million
Ellis, Michael J.	Village of Grayslake	\$263,269	\$5 million-\$6 million
Ottesen, Reid T.	Village of Palatine	\$260,297	\$5 million-\$6 million
Kiely, Robert R.	City of Lake Forest	\$256,197	\$5 million-\$6 million
<b>Community college presidents</b>			
Chapman, Dale T.	Lewis & Clark Community College	\$279,661	\$1 million-\$2 million
Breuder, Robert	College of DuPage	\$292,739	\$1 million-\$2 million
Erwin, John S.	Illinois Central College	\$241,143	\$5 million-\$6 million
Ender, Kenneth	Harper College	\$260,969	\$1 million-\$2 million
Sam, David	Elgin Community College	\$260,000	\$1 million-\$2 million
<b>Other local government workers</b>			
Murphy, Peter M.	Illinois Association of Park Districts	\$352,383	\$4 million-\$5 million
Davis, Brett M.	Park District Risk Management Agency	\$309,791	\$5 million-\$6 million
Cole, Brad	Illinois Municipal League	\$229,131	\$3 million-\$4 million
Egizio, Dominic P.	Joliet Park District	\$279,714	\$5 million-\$6 million
Nelson, Jeffrey A.	Rock Island County Metropolitan Mass Transit	\$226,076	\$4 million-\$5 million
<b>School district superintendents</b>			
Paraday, Troy	Calumet City SD 155	\$400,449	\$8 million-\$9 million
Carmine, Joyce	Park Forest SD 163	\$397,233	\$6 million-\$7 million
Yonke, Linda	New Trier Township HSD 203	\$372,187	\$8 million-\$9 million
Tivador, Edward	Northbrook/Glenview SD 30	\$370,041	\$8 million-\$9 million
Dosier, Jeffrey	Hoover-Schrum Memorial SD 157	\$368,939	\$8 million-\$9 million

\*Estimated pension payout is based on approximate life expectancies from Social Security's available actuarial life tables. Members are assumed to retire at age 61 or next year if older than 61.

Source: 2015 active member data from: Illinois Municipal Retirement Fund, Teachers' Retirement System, Illinois State Board of Education, State Universities Retirement System

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Top local administrators are particularly costly. Such government employees often receive six-figure salaries and millions of dollars in pension benefits over the course of their retirements. For example, Troy Paraday, the superintendent of Calumet City School District 155, earns approximately \$400,000 a year and will receive almost \$9 million in pension benefits over the course of his retirement.<sup>10</sup>

Another administrator, Dale Chapman – the head of Lewis and Clark Community College – makes almost \$280,000 in base pay even as Illinois colleges and universities continue to hike tuition rates for students. (Chapman earned nearly \$540,000 in total compensation in 2014 when bonuses and other compensation are included.)<sup>11</sup>

And Peter Murphy, who runs the Illinois Association of Park Districts, earns \$350,000 in wages and can expect more than \$4 million in pension benefits over his retirement.<sup>12</sup>

[GRAPHIC 5]

**Too many school district administrations**

Some of the most inefficient and overlapping bureaucracies can be found among Illinois' 859 school districts, the fifth-most in the nation.<sup>13</sup>

Nearly 25 percent of Illinois school districts serve just one school, and over one-third of all school districts have fewer than 600 students. An additional layer of district administrators on top of school administrators in these small districts is wasteful and unnecessary.<sup>14</sup>

The number of school district administrators in Illinois has grown far faster than the number of students and parents they are employed to serve. Between 1992 and 2009, the number of district administrators grew by 36 percent in Illinois, 2.5 times as fast as the 14 percent growth in students. If the number of administrators had simply grown at the same rate as the state's student populations, Illinois would have nearly 19,000 fewer

administrators and would be spending \$750 million less in compensation costs annually.<sup>15</sup> In all, there are over 9,000 school administrators – from principals to superintendents – who make six-figure salaries and who will each receive \$3 million or more in pension benefits over the course of retirement.<sup>16</sup>

The cost of local bureaucracies is especially stark in some of the state's property-poor

areas – where property values are relatively low. For example, in the Homewood-Flossmoor area just south of Chicago, residents face declining home values, homes “under water” with respect to their mortgages, foreclosures and effective property tax rates of nearly 5 percent.<sup>17</sup>

A large portion of Homewood-Flossmoor residents' property taxes is dedicated to the area's three school districts – a high school

and two nearly coterminous elementary districts. Those districts could be consolidated into one unit district to save on administrative costs.

Until that happens, the residents of Homewood-Flossmoor will continue to pay for three school districts, including a total of 68 district-office employees who collectively cost residents \$5 million a year for salaries alone.<sup>18</sup> [GRAPHIC 6]

That includes the cost of three separate superintendents who each receive compensation of over \$225,000 a year and can expect to receive anywhere from \$3 million-\$8 million in pension benefits over the course of their retirements.<sup>19</sup> [GRAPHIC 7]

Consolidation of small districts (not of schools themselves) and of districts coterminous with each other could save taxpayers hundreds of millions a year in administrative costs, and billions more in pension costs. Yet Illinoisans across the state continue to pay property taxes to fund district bureaucrats' generous salaries, benefits and pensions.

In sum, the nation's highest property taxes fund the nation's highest number of local governments and their costly bureaucracies.

## GRAPHIC 6

### School district staff cost Homewood-Flossmoor residents \$5M annually for salaries alone

District-office administrator and support-staff salary and other data for Homewood-Flossmoor-area school districts

School district	Number of households	Number of schools	Average daily attendance	Number of district-office administrators and support staff	Total cost of district employee salaries	Average district-office employee salary	Number of students per district-office employee	District-office salary cost per student	District-office salary cost per household
Homewood-Flossmoor CHS District 233	14,010	1	2,548	21	\$1,877,221	\$89,391	121	\$737	\$134
Flossmoor School District 161	7,725	5	2,210	27	\$1,808,754	\$66,991	82	\$819	\$234
Homewood School District 153	5,988	4	1,762	20	\$1,252,025	\$62,601	88	\$711	\$209
<b>Combined</b>	<b>NA</b>	<b>10</b>	<b>6,519</b>	<b>68</b>	<b>\$4,937,999</b>	<b>\$72,618</b>	<b>96</b>	<b>\$757</b>	<b>NA</b>

Source: Data on district employees and salaries obtained from 2015 FOIA requests to each school district; Illinois State Board of Education, 2014 – 2015; U.S. Census Bureau, 2014 \*School districts were asked to return a list of full- and part-time district administrators and support staff that included only those workers employed by the district office, not by individual schools within the district.

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## GRAPHIC 7

### Homewood-Flossmoor superintendents receive six-figure salaries, can expect \$3M-8M in lifetime pension benefits

Total compensation and approximate total pension payout of district superintendents, 2015

District name	Superintendent	Total annual compensation, 2015	Approximate total pension payout*
Homewood-Flossmoor Community HS District 233	Mansfield, Edward	\$344,961	\$6 million-\$8 million
Flossmoor School District 161	Doster, Craig	\$242,672	\$4 million-\$6 million
Homewood School District 153	Mitchell, Dale	\$226,821	\$3 million-\$5 million

Source: Illinois State Board of Education, data obtained from Teachers' Retirement System pursuant to a 2015 FOIA request, Social Security Administration actuarial data \*"Approximate total pension payout" is based on approximate Social Security life expectancies. Assumed retirement age is 61 unless older. Total payout is a conservative estimate, as starting pension is based on current total annual compensation.

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## The solution: Freeze and cap property taxes

Meaningful and lasting tax relief will only come through reforms that reduce the number of Illinois' nearly 7,000 units of local government, reform government worker salaries and benefits, and lower the costs of local government operations through changes in workers' compensation, unfunded mandates, collective bargaining and prevailing wages.

In the meantime, however, lawmakers can freeze local government tax levies on property (i.e., the total amount of property tax revenues a local government collects annually).

## 1. Freeze property taxes

The Institute's tax plan freezes the property tax levy of every local government in Illinois for five years (including home rule and non-home rule local governments). Absent the passage of a local referendum to raise property taxes or the construction of new property, the amount each local government collects in property taxes would be frozen at its current amount.

That means the \$28 million in property taxes the city of Springfield currently collects on properties, for example, will stay at \$28 million for the next five years. And the \$1.3 million in property taxes the Oak Forest Park District collects on current properties today will stay at \$1.3 million for the next five years.<sup>20</sup>

The freeze will help Illinoisans' incomes catch up with their tax bills and allow more homeowners to stay in their homes.

## 2. Cap the growth in property taxes at Illinoisans' ability to pay

Under current law, growth in property taxes is tied to inflation for a vast majority of local governments in Illinois. Those governments are subject to the Property Tax Extension Limitation Law, or PTELL, which limits the annual growth of governments' property tax levies (i.e., the total amount of property tax revenues a local government demands annually) to 5 percent or the rate of inflation, whichever is less.<sup>21</sup>

Even with those limits on local government revenue growth, Illinois' existing property tax cap laws haven't reduced the tax burden on individual taxpayers. Homeowners across Illinois have seen their property tax bills grow far faster than their incomes.

Illinoisans' future tax bills shouldn't grow automatically based on inflation. Instead, any growth in future tax bills should be based on

### GRAPHIC 8

#### Property taxes would grow along with Illinoisans' incomes, with a maximum growth of 2% annually

Proposed cap on property tax growth

Percent change in median household income	Percent change in property tax levies
4%	2%
3%	2%
2%	2%
1%	1%
0%	0%

Source: Illinois Policy Institute plan

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Illinoisans' ability to pay.

After the plan's initial five-year tax bill freeze, the annual growth in local government levies will be based on the annual growth in Illinois' statewide median household income – with a maximum annual growth of 2 percent and a minimum of zero.<sup>22</sup> [GRAPHIC 8]

More closely connecting governments' property tax growth to homeowners' ability to pay will mean Illinoisans can better manage their tax bills from year to year.

## 3. Allow tax increases only through referendum

Freezing property taxes will tempt local officials to raise other local taxes and fees instead of enacting reforms.

To further protect taxpayers and encourage real reforms, any local governments' attempts to raise additional revenue through any form of tax or fee should be subject to voter approval.

Under the Institute's plan, any local government that seeks additional revenues must submit its request to taxpayers through a special referendum. To pass, two-thirds of the voters must approve the referendum.

## Step 2 of comprehensive property tax reform: End the state subsidy shell games

### The problem: State subsidies fuel local excesses

Illinoisans pay the nation's highest property taxes to support one of the most expensive webs of local government bureaucracies in the country.

But even those taxes aren't enough to fully fund Illinois' many local bureaucracies. Billions more in state taxpayer dollars – over and above the \$27 billion in property taxes local taxpayers already pay – are funneled to local governments in the form of state subsidies.<sup>23</sup>

From state income tax subsidies to the payment of local pension costs, state funding helps prop up perks and expenses that would otherwise be unaffordable for local governments.

State officials like to dole out these subsidies because that grants them greater control over local governments. Local leaders like

the subsidies because the funds allow them to spend money without having to bear the political cost of raising taxes locally. That means officials can funnel money where it's most politically expedient without having to answer to local taxpayers.

The state subsidies that fuel these costs include:

- » \$1.3 billion of state income tax collections paid out to cities and counties not based on need, but on their share of state population, and hundreds of millions more in other state subsidies.<sup>24</sup>
- » \$970 million to cover the yearly pension costs of teachers (another \$450 million in state subsidies also goes to community colleges and universities to cover the yearly pension costs of their employees).<sup>25</sup>
- » \$250 million in subsidies to school districts to circumvent local property tax caps.<sup>26</sup>

That's why the local bureaucratic tangle burdening taxpayers across the state will only end when its funding sources – property taxes and state subsidies – are reformed.

## The local excesses state subsidies fuel

The state subsidies provided to local governments fuel excess spending on everything from workers' compensation to prevailing wages.

Local officials are able to spend recklessly because they know state subsidies will prop up their bad habits. The following are just a few examples of excessive local government benefits and expenses.

## Excessive benefits: From pension spiking to sick leave accumulation

Local governments use state dollars to provide overgenerous salaries and benefits to avoid conflict with their local government-worker unions – all without having to answer to local taxpayers for the resulting additional costs.

All local governments in Illinois are stuck with a wide variety of employee compensation costs, but Illinois' 859 school districts illustrate particularly well how state subsidies increase employee compensation.

School districts consume nearly two-thirds of property tax revenues and more than half of the subsidies provided to local governments in Illinois, so the agreements districts reach on employee compensation and benefits have a massive effect on Illinoisans' tax bills.<sup>27</sup>

A prime example of how state subsidies affect compensation can be found in the impact of the state paying the cost of teachers' pensions.

Currently, the state – and therefore taxpayers across Illinois – pays the employer contribution of teachers' pensions on behalf of school districts outside of Chicago. In doing so, the state is essentially paying for districts' spending decisions on salaries and pension-boosting perks over which it has no control.

Because they don't bear the cost of pensions, school districts have an incentive to offer pension-boosting benefits to teachers and other district workers, which increases pension costs for all taxpayers in the long run.

## Pension spiking

The state's subsidies of teacher pension costs allow districts to practice pension spiking – end-of-career salary hikes designed to boost future pensions – which increase compensation costs for both state and local taxpayers.

Pension spiking by districts continues despite a 2005 law that requires local districts (taxpayers) to reimburse the state for the pension costs of spikes greater than 6 percent a year. Those 6-percent-plus salary increases cost local taxpayers more than \$38 million over the past decade in payments to the Teachers' Retirement System alone.<sup>28</sup>

However, the four-year, 6 percent increases school districts automatically give teachers when they commit to retiring are primarily driving the spiking costs. That policy, which boosts a teacher's salary by almost 25 percent, means a career worker with an average salary of \$73,000 will earn approximately \$250,000 more during the course of her retirement when compared with 2 percent annual raises.<sup>29</sup>

## Sick leave

Another benefit local school districts grant is the ability of teachers to use unused sick days to boost their pensions. Illinois teachers can accumulate and apply up to two years of unpaid sick leave to their years of service credit, which in turn boosts their starting pension benefit.<sup>30</sup>

As of 2015, over 73,000 retired teachers in Illinois had unpaid sick leave applied to their pension benefits.<sup>31</sup>

Two years of additional service credit can significantly boost a teacher's total pension benefit. A career teacher who has accumulated two full years of sick leave will on average receive more than \$165,000 in additional pension benefits over the course of her retirement.

In total, the unpaid sick leave perk costs Illinoisans approximately \$100 million a year in additional pension costs – which will amount to nearly \$3.4 billion over the next three decades. [GRAPHIC 9]

**GRAPHIC 9**

**Illinois' sick-leave pension perk for teachers costs taxpayers \$3.4B**

Breakdown of Teachers' Retirement System, or TRS, retirees who benefit from sick-leave pension perk

Years of sick leave accumulated	Number of TRS sick-leave beneficiaries	30-year cost of additional benefits due to sick leave*
2-year maximum	7,883	\$800 million
1 to 1.99 years	36,004	\$1.98 billion
0 to 1 year	29,606	\$610 million
<b>Total</b>	<b>73,493</b>	<b>\$3.39 billion</b>

\*Some members with sick leave will not receive additional pension benefits because they've already maxed out TRS's pension formula. Illinois Policy Institute's calculation of sick-leave costs takes those members into account.

Source: Pensioner data obtained from TRS pursuant to a 2015 FOIA request

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**GRAPHIC 10**

**Nearly two-thirds of all school districts pick up some or all of their teachers' required pension contribution**

Level of teacher pension contribution	Number of districts	Percentage of districts
Teachers pay their full share	288	36.6%
Teachers pay a portion of their share	92	11.7%
Teachers don't pay their share at all	406	51.7%
	<b>786</b>	<b>100%</b>

Source: Illinois State Board of Education, 2015 salary report\*  
 \*ISBE's report had data on 786 of Illinois' 859 school districts

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**Pension pickups**

State subsidies to school districts also encourage the practice of teacher pension pickups.

Teachers are obligated by law to pay 9.4 percent of their salary into the state retirement system. But over the last few decades, school districts began paying, as a benefit, the teacher's required contribution. This practice is called a "pickup."

Today, nearly two-thirds of all school districts pick up some or all of their teachers' required pension contribution. In total, teacher pension

pickups cost local taxpayers approximately \$380 million annually.<sup>32</sup> [GRAPHIC 10]

**Salaries**

The billions of dollars the state of Illinois provides to school districts every year also allows school districts to use outdated pay schemes that cost local taxpayers hundreds of millions of dollars annually in unnecessary compensation.<sup>33</sup>

A vast majority of teacher pay isn't based on merit in Illinois. Instead, it's based on collectively bargained steps and lanes, a convoluted system that pays all teachers with

the same years of work (steps) and education level (lanes) the same salaries, regardless of individual teachers' skills, effectiveness or achieved outcomes for students.

Numerous studies have demonstrated that boosting teacher pay based on a teacher's education is inefficient and does nothing to enhance student achievement.<sup>34</sup> Yet school districts across Illinois spend more than \$900 million a year giving raises to teachers who earn their master's degrees.<sup>35</sup>

The steps and lanes system can also deceive local taxpayers into thinking their teachers are getting smaller raises than they actually are. Typically, teachers unions and the media report automatic "across the board" annual raises (usually ranging from 2-3 percent) only when a new teachers contract is agreed upon. However, the salary increases individual teachers receive annually are generally much higher than that due to steps and lanes.

For example, a newly hired Chicago Public Schools, or CPS, teacher with a bachelor's degree in 2013 received an annual salary of \$49,660 under the rules of the CPS salary schedule.<sup>36</sup>

In 2014, that teacher received a 2 percent automatic annual raise – the raise unions and the media generally referred to. However, the teacher's total raise was higher than that due to the nature of steps and lanes. By working an extra year, the teacher moved up a "step" and received a total raise of 4 percent – double what was generally reported.

And if the teacher earned a master's degree in 2013, she would also be entitled to move up a "lane" in 2014 as well. In total, she would receive a raise of 11 percent, five times greater than the raise generally reported. [GRAPHIC 11]

Without billions in state aid and the state's pickup of downstate teacher pension costs, providing such benefits to teachers, from sick leave to step and lane salary increases, would not be affordable for most school districts.

**GRAPHIC 11**

**Steps and lanes can boost teachers' raises far above what is generally reported**

Salary increase scenarios for a newly hired Chicago teacher in 2013 - 2014

	Salary	Percent increase
<b>Teacher's original salary</b>	<b>\$49,660</b>	
Salary with automatic annual raise	\$50,653	2%
+ step increase	\$51,588	4%
+ step and lane increase	\$55,096	11%

Source: Salary schedule of the 2012-2015 Chicago Teachers Contract

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according to a 2016 biennial study by the state of Oregon.<sup>37</sup> [GRAPHIC 12]

The same heavy costs imposed on private-sector employers are also imposed on taxpayers who cover the workers' compensation costs for local government payrolls, and Illinois' expensive workers' compensation system adds billions to the labor costs for public construction projects.

Illinois employers – including local governments – often pay as much as three times more in workers' compensation costs than comparable businesses in Indiana.<sup>38</sup> The city of Chicago, for example, spends over \$100 million a year on workers' compensation expenses.<sup>39</sup> The city of Waukegan spends at least \$3 million annually.<sup>40</sup>

In total, Illinois' municipal and county governments – and therefore local taxpayers – pay \$270 million a year for workers' compensation costs. School districts and other local governments cost local taxpayers an estimated \$500 million in workers' compensation expenses annually.<sup>41</sup>

**Six-figure prevailing wage costs**

A combination of state-imposed prevailing wage rules and state subsidies also drive local governments' spending higher, especially on local construction and maintenance projects.

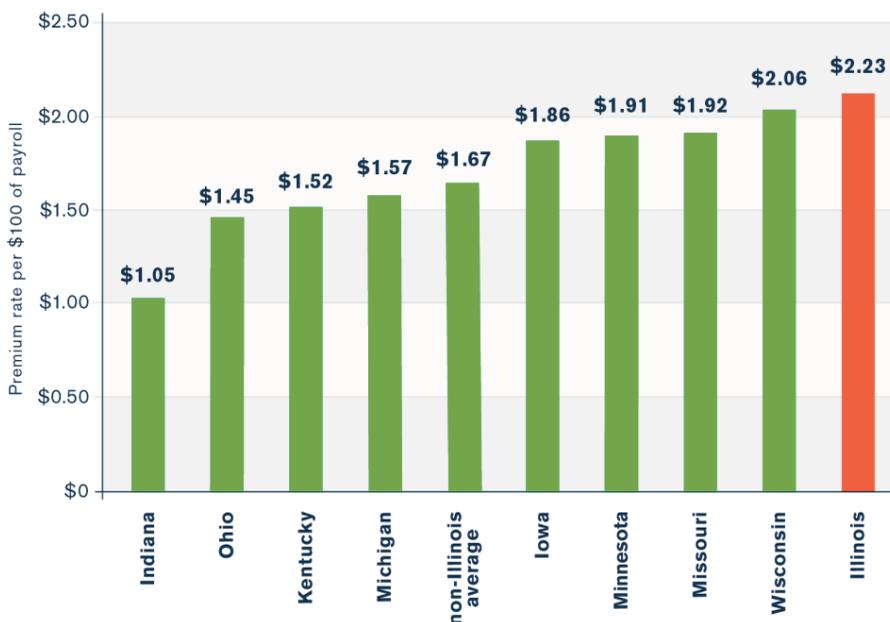
Prevailing wages are hourly minimum wages placed on government contracts for public work. This means if the government funds any part of a project like repairing roads or fixing water pipes, contractors are required to pay the (most often union-level) wages the Illinois Department of Labor sets.<sup>42</sup>

Under current law, counties have the power to research their own prevailing wage and reconcile it with the (often higher) Department of Labor's determined wage, but most don't. Most local governments would rather pay the

**GRAPHIC 12**

**Illinois' workers' compensation system is the most costly in the region and the 7th-costliest nationwide**

Workers' compensation premium index rate by state, 2016



Source: State of Oregon 2016 Workers' Compensation Premium Rate Ranking study

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**The nation's 7th-highest workers' compensation costs**

The state's billions in subsidies also fuel additional spending by local governments. Without the billions in extra dollars the state provides to them, local governments could not

afford – and therefore would not undertake – the projects that result in these additional expenses.

Illinois' compensation system for workers injured on the job is the most costly in the region and the seventh-costliest nationwide,

higher prevailing wages (often with state-provided subsidies) than spend time and resources on determining their own prevailing wage.

This ends up hitting many local governments with millions of dollars in additional costs annually.<sup>43</sup>

High prevailing wages and additional benefits often result in six-figure compensation packages for laborers who work on public projects in counties across Illinois. For example, the average compensation package for workers who receive prevailing wages in Cook and Sangamon counties is over \$110,000.<sup>44</sup>

Private-sector taxpayers in those counties earn far less – the median earnings for workers are \$34,990 in Cook County and \$34,521 in Sangamon County.<sup>45</sup>

And prevailing-wage workers in DuPage County on average receive even higher compensation when their benefits are included. For example, a fence erector working for the county can expect to receive over \$150,000 in annual compensation. [GRAPHIC 13]

**GRAPHIC 13**

**Prevailing wage means six-figure incomes for work on public projects**

Annualized salary and benefits for prevailing-wage contracts by occupation type, DuPage County

Occupation	Annual salary	+ Benefits
Iron worker	\$93,725	\$160,368
Fence erector	\$93,725	\$154,731
Plumber	\$97,032	\$148,283
Sprinkler fitter	\$102,336	\$146,848
Carpenter	\$90,168	\$146,411
Electrician	\$79,373	\$137,280
Laborer	\$79,040	\$128,752
Painter	\$86,798	\$125,278
Roofer	\$83,408	\$122,554
Truck driver	\$68,848	\$91,416

Source: Illinois Department of Labor

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The above are only a few examples of the cost of prevailing wages. Many other counties pay excessive prevailing wages they could not afford without the millions they receive in subsidies from the state.

**The solution: Stop state subsidies that fuel local excesses**

Too many state subsidies provide local politicians with the luxury to fund unnecessary local perks and pay for avoidable expenses without having to raise the taxes to pay for them. That means officials can funnel money where it's most politically expedient without having to answer to local taxpayers.

Those resulting higher expenses that burden state and local taxpayers will only end when state subsidies are eliminated and local officials are forced to reform how their governments operate.

**Eliminate funds like the Local Government Distributive Fund (State savings: \$1.75 billion)**

One of the state's subsidies to local governments is the \$1.3 billion Local Government Distributive Fund, or LGDF. The LGDF distributes a portion of state-collected income taxes to local governments each year, not based on need or any particular purpose, but simply on each government's share of statewide population.

The LGDF typically provides cities and counties with 3 to 6 percent of their total revenues.<sup>46</sup> [GRAPHIC 14]

Local officials will claim LGDF funds local services and keeps local taxes low. But the facts – the nation's highest property taxes and the billions spent on perks and duplicative bureaucracies – show the opposite.

The state should end the state-local funding shell game that occurs through the LGDF. All LGDF distributions to counties and municipalities with populations above 5,000 should be ended.<sup>47</sup>

In addition, the Downstate Transit Fund, which uses state-collected sales taxes to support public transportation in rural areas, and all other state subsidies should be eliminated as well.

Taxpayers deserve to stop paying for the excessive local perks and expenses that the LGDF and other funds help pay for.

**Stop subsidizing local pensions (State savings, higher education: \$450 million, K-12: \$970 million)**

Currently, the state pays the employer contribution of teachers' and university and college workers' pensions on behalf of school districts outside of Chicago and universities. In doing so, the state is essentially paying for spending decisions on salaries and pension-

**Local Government Distributive Fund represents just 3-6% of the total revenues of Illinois' largest cities**

Total revenues and Local Government Distributive Fund, or LGDF, funds of Illinois' 10 largest cities, 2014

City	LGDF funding received	Total revenues	LGDF as percent of revenues
Chicago	\$273,232,630	\$10,162,330,000	2.7%
Aurora	\$20,059,543	\$324,534,046	6.2%
Rockford	\$15,495,392	\$350,197,455	4.4%
Joliet	\$14,944,181	\$267,356,108	5.6%
Naperville	\$14,378,579	\$410,397,000	3.5%
Springfield	\$11,783,394	\$503,277,701	2.3%
Peoria	\$11,657,400	\$232,172,770	5.0%
Elgin	\$10,966,209	\$210,700,952	5.2%
Waukegan	\$9,029,171	\$142,607,743	6.3%
Cicero	\$8,503,405	\$164,918,326	5.2%

Source: Illinois Comptroller, Illinois Department of Revenue

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must eliminate the PTELL adjustment and TIF subsidy to end school districts' ability to circumvent property tax caps.

**Step 3 of comprehensive property tax reform: Eliminate state mandates on local governments**

Enacting a property tax freeze and ending the state subsidy shell games are essential steps of comprehensive property tax reform in Illinois.

But those reforms alone won't be enough to fix the state. Local officials must have greater control over their own budgets so they can lower significant cost drivers and reform how local government is delivered.

Unfortunately, the deck has always been stacked against local officials who wish to enact reforms. Many of the laws Springfield lawmakers impose – from collective bargaining rules to prevailing wage requirements and other unfunded mandates – control local governments' budgets.

That has to change if Illinois is to fix the financial problems afflicting local government. In exchange for freezing local governments' property taxes and eliminating state subsidies, the state should enact the following comprehensive reforms:

**Collective bargaining reform (Local savings: \$1 billion-\$2 billion)**

The collective bargaining rules the state imposes on local governments have a drastic effect on government spending for employee compensation. In 2014 alone, collective bargaining rules inflated state and local government spending by \$4 billion to \$9 billion.<sup>51</sup>

boosting perks over which it has no control.<sup>48</sup>

School districts and state universities should be held accountable and responsible for the total cost of compensation for their employees.

The responsibility for paying the employer's pension contribution for teachers and university employees should be shifted back where it belongs – to local school districts and universities.

Shifting the cost of pensions will save the state \$1.5 billion in annual pension (normal) costs.<sup>49</sup> While the state will continue to pay off the teachers' and state universities' billions in unfunded pension debt, local school districts and universities would pay for the annual pension costs – the pension benefits their workers accrue for working one additional year – moving forward.

The shift will encourage greater fiscal responsibility at the district and university levels. School districts and universities will moderate their employees' salary and benefits

when they have to bear the resulting pension costs.

**Eliminate special carve-outs for select school districts (State savings: \$250 million)**

Every year, hundreds of millions in state education funds are carved out for a few school districts whose revenues are affected by local property tax caps and special economic zones.

The money those select few districts receive – with the majority going to CPS and Cook County districts – is nothing more than multimillion-dollar subsidies to relatively property-wealthy districts. These subsidies, resulting from the PTELL and Tax Increment Financing, or TIF, districts, defeat the whole purpose of the state providing needs-based education funds to districts across the state.<sup>50</sup> The state cannot afford to give away subsidies to a select few districts when massive budget deficits and pension payments are cutting into funding for classrooms. Illinois lawmakers

The problem is the rules of collective bargaining are state-imposed, offering no flexibility to Illinois' local governments, which are all different sizes, serve different populations, and are operating in different economic climates.

The state's one-size-fits-all rules should not hamstring local governments. Instead, individual local governments should have the right to reform their collective bargaining processes to match their unique economic and budgetary situations.

The state must pass collective bargaining reform that empowers local communities to negotiate more affordable contracts. Removing some of the more stringent rules of the collective bargaining process, such as strike protection and forced arbitration, but still requiring compulsory bargaining, would save local governments \$1 billion to \$2 billion dollars annually.

### **Prevailing wage reform (Local savings: \$280 million)**

Illinois' Prevailing Wage Act mandates high wages for construction workers on capital projects that receive public funding. This results in needlessly higher construction costs for local governments as those wages stifle competition and discourage contractors from competitively bidding on projects.<sup>52</sup>

And as with collective bargaining rules, current prevailing wage laws offer little flexibility for local governments. Wages, determined by the Illinois Department of Labor, are set countywide and are usually based on union workers' compensation. Under current law, counties have the power to research their own prevailing wage and reconcile it with the (often higher) Department of Labor's determined wage, but most don't. The difficulty and inconvenience of determining their own prevailing wage causes most

counties to simply agree to the often higher prevailing wages the state determines.

As a result, local governments that exist in the same county but have vastly different economic and budgetary situations are forced to pay the same amount for construction work.

The state should pass prevailing wage reform that allows local governments to determine their own adequate rates of compensation for construction and other contract work. Such reforms could save local governments \$280 million annually.

### **Reform unfunded state mandates (Local savings: \$200 million)**

Besides the more prominent mandates imposed on local governments – collective bargaining, pension rules, prevailing wage requirements – hundreds of other rules exist that impose significant financial burdens on the local governments that are subject to them.

The state's Local Government Consolidation and Unfunded Mandates Task Force recently reported that there are over 250 unfunded state mandates on the books today, with an average of eight new unfunded mandates added per year.<sup>53</sup>

State mandates often force local governments to provide services or fulfill reporting requirements many localities feel are unnecessary and sometimes even counterproductive. They restrict local governments' ability to adjust to changing budgetary realities.

And, as with prevailing wage and collective bargaining requirements, one-size-fits-all state mandates deny vastly different local governments the flexibility they need to manage their budgets.

For example, school districts across Illinois are

burdened with a physical education mandate. The state requires all students to take a physical education class instead of additional math, reading or other academic class. Just by allowing K-12 students to opt out of gym class if they play a sport or partake in some other organized physical activity outside of school could collectively save districts hundreds of thousands of dollars every year.<sup>54</sup>

Reforming the hundreds of unfunded mandates the state imposes on local governments will allow local governments to structure themselves in a way that best meets the needs of their budgets, taxpayers and public employees.

Illinois school districts alone would save \$200 million annually if the state's unfunded mandates were reformed.<sup>55</sup>

### **Workers' compensation reform (Local savings: \$200 million)**

Illinois' workers' compensation system is the most costly in the region and the seventh-costliest nationwide. Illinois employers – including local governments – often pay as much as three times more in workers' compensation costs than comparable businesses in Indiana. In total, Illinois' local governments pay at least \$700 million a year in workers' compensation costs.<sup>56</sup>

Illinois lawmakers could help reduce costs for local governments by passing a reform law that adopts the federal definition of catastrophic injuries for the Public Safety Employee Benefits Act and eliminates the effective bump in take-home pay given to some injured government workers under the Public Employee Disability Act.<sup>57</sup>

In addition, state lawmakers should make several changes to the state's Workers' Compensation Act, including putting Illinois' wage-replacement rates in line with those in surrounding states, eliminating the increase in

take-home pay for some injured workers, tying medical reimbursement rates to Medicare or group health rates and eliminating the financial incentives for doctors to overprescribe opioids and other dangerous drugs.

Depending on the changes implemented, workers' compensation reform could provide Illinois local governments with savings of \$200 million per year in payroll costs alone.

## Local government consolidation

Illinois' 7,000 units of local government – the most in the nation – are extremely expensive for taxpayers due to the inefficiencies they create and the administrative costs they generate. In many communities, multiple government bureaucracies perform functions and deliver services that could be consolidated under a single entity.

Unfortunately, Illinois' law makes it difficult to successfully pursue consolidation efforts. In many cases, it's more difficult to consolidate local governments than it is to amend the Illinois Constitution.<sup>58</sup>

The state should simplify the process to consolidate or eliminate local governments so it is no harder than the process to amend the Illinois Constitution via referendum.

Consolidating local governments will save Illinoisans millions of dollars annually. Recent consolidation efforts in DuPage County will save taxpayers there almost \$150 million due to new shared services and employee compensation reforms.<sup>59</sup>

Consolidating school districts comes with unique challenges – it is the one type of local government residents are generally unwilling to change. Serious consolidation of the state's 859 school districts will only happen when the state partners with local districts to provide a cooperative solution.

To that end, the Illinois General Assembly should authorize the creation of an official District Consolidation Commission, which would function in a manner similar to the federal government's Defense Base Closure and Realignment Commission. The commission's consolidation recommendations would be approved by an up or down vote in the General Assembly, meaning no amendments would be permitted.<sup>60</sup>

By cutting the state's school districts in half, local taxpayers could experience operating savings of nearly \$130 million to \$170 million annually and could conservatively save the state \$3 billion to \$4 billion in pension costs over the next 30 years.

## End pension pickups (Local savings: \$375 million)

In Illinois, most public school teachers don't pay their required 9.4 percent employee contributions toward their pensions. Instead, many school districts pick up, as a benefit, some or all of the teachers' required payments.

Today, nearly two-thirds of all school districts pick up some or all of each teacher's required contribution.<sup>61</sup>

This means local taxpayers are not only footing the bill for the massive shortfall in the teachers' pension plan, but also for the individual employee contributions each teacher is supposed to make.

Illinois lawmakers should outlaw the practice of pension pickups. Teachers should pay their share of the costs associated with their own retirement benefits. That's a simple standard across most industries, public and private. Outlawing teacher pension "pickups" would save Illinois school districts about \$375 million annually.

## Municipal bankruptcy

Due to the state's numerous mandates, local governments in Illinois often don't have the power to make the necessary major reforms to keep costs under control. Yet, even in the most extreme cases of fiscal instability, bankruptcy is not an option.<sup>62</sup>

This leaves officials with fewer options as they balance their budgets and often leaves taxpayers stuck paying higher taxes and fees.

This is especially true for local governments struggling with pension debt. Local governments have their hands tied when it comes to pension reform. The Illinois state legislature sets municipal pension laws – retirement ages, cost-of-living adjustments and benefit formulas – with no regard to whether local budgets or taxpayers can afford them.

That means local governments can't reform the largest cost driver in their budgets. And when pensions push local budgets to the brink of collapse, local officials aren't able to file for bankruptcy to help reorganize debts and relieve stress on both taxpayers and budgets.

Local governments should have more control over how they operate. Illinois state lawmakers should pass a law to allow Illinois municipalities the option to file for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code as an option of last resort.



# B. End Illinois' pension crisis through self-managed plans

## Change in 2018 pension costs: \$1.65 billion

### The problem: Illinois' pension system fails both state workers and taxpayers

Illinois' pension math simply doesn't work.

It doesn't work for pensioners, who are worried about their collapsing retirement security. It doesn't work for younger government workers, who are forced to pay into a pension system that may never pay them benefits. It doesn't work for taxpayers, who pay more and more each year toward increasingly insolvent pension funds. And it doesn't work for Illinois' most vulnerable, who have seen vital services cut to make room for growing pension costs.

This crisis is the result of skyrocketing benefits, not underfunding. For thirty years, Illinois politicians changed rules and gave away perks that supercharged promised pension benefits. Today, pension benefits are too unrealistic for state workers to count on and too rich for taxpayers to pay for.

Benefits have grown so much that politicians dramatically reduced them in 2010. New workers are now stuck in a substandard, unfair Tier 2 system and are forced to subsidize the benefits of older workers.<sup>1</sup>

In fiscal year 2017, taxpayers will pay nearly \$8 billion for pension contributions alone. In fiscal year 2018, that payment is projected to be nearly \$9 billion. These payments do nothing to stem the growing tide of Illinois' \$130 billion in pension debt, which comes out to \$27,000 per household.<sup>2</sup>

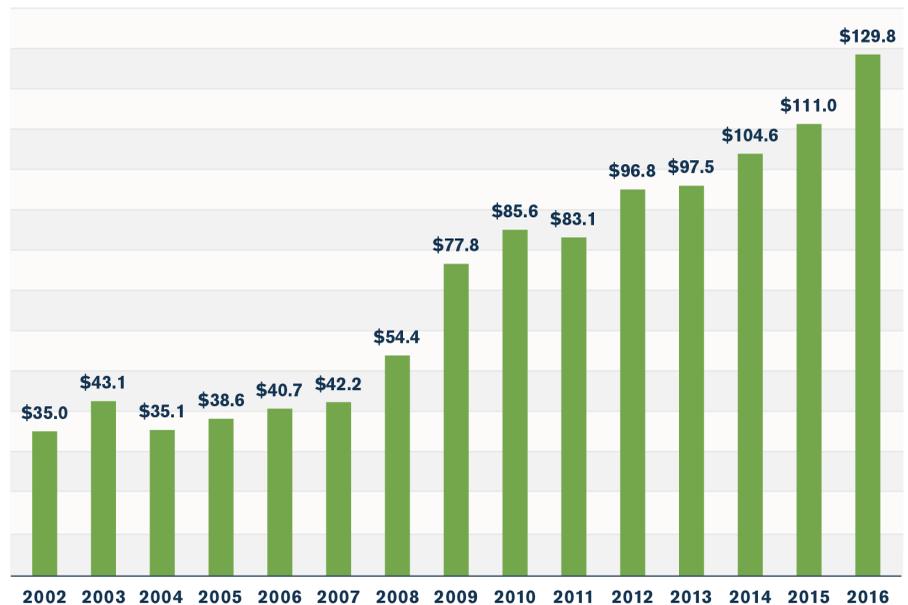
It's no wonder many retirees fear they might lose their pensions. The funds have only 38 cents on hand today for every dollar needed to pay out future benefits – a level that would put private pensions in bankruptcy many times over. [GRAPHIC 1]

Younger workers have even more cause for worry – they may never see a pension. The situation is even worse for those in stuck in Tier 2, the substandard tier of pensions created in 2010. Not only may they never see a pension, but the benefits they've been promised will actually be less than what they're forced to contribute. They effectively subsidize the benefits of older workers.

The pension crisis also threatens to punish taxpayers with massive, ever-escalating taxes to bail out an unsustainable system.

GRAPHIC 1

**Illinois state pension debt jumps to \$130B, pensions now just 38% funded**  
Unfunded liabilities (in billions) and funded ratios of the 5 state pension systems



System	Funded Ratio
TRS	38.1%
SERS	33%
SURS	41.5%
JRS	33%
GARS	13.5%
<b>Total</b>	<b>37.6%</b>

Source: Commission on Government Forecasting and Accountability

Twenty years ago pension costs consumed just 3 percent of the budget. Today, one-fourth of the state's general budget goes to pay for pension costs each year. [GRAPHIC 2]

Government-worker pensions now consume more than \$8 billion in tax dollars annually, siphoning huge amounts of money away from social services for the developmentally disabled, grants for low-income college students and aid to home health care workers.<sup>3</sup>

Major credit rating agencies, such as Moody's Investors Service and Fitch Ratings, have taken note of the crowding out. They've assigned Illinois the lowest credit rating in the nation – just two notches above junk status.<sup>4</sup>

And the crowding out will only get worse as pension costs continue to grow.

The status quo cannot continue. Illinois must move away from its broken pension system and toward self-managed retirement plans

that the private sector and many states have already embraced.

## Skyrocketing benefits have driven pension growth

Critics constantly blame underfunding as the cause of Illinois' pension crisis. But it's not.

The real pension problem has been the dramatic growth in benefits granted to government workers over the past three decades.

Benefit costs have risen so drastically that no amount of taxpayer dollars could have kept up with them.

The total benefits owed to workers and retirees (accrued liabilities) have grown nearly 1,000 percent, or nearly 11-fold since 1987.

Then, total benefits owed were just \$18 billion. Today, that number totals \$191 billion.<sup>5</sup>

In contrast, the economy has only grown 227 percent; inflation, just 109 percent; and the actual number of participants in the pension systems has grown only 56 percent. The state's population has increased just 13 percent over that period.<sup>6</sup> Pension benefits have grown far faster than any of those factors. [GRAPHIC 3]

To understand how massive that growth in benefits is, consider that the median Illinois household income in 1987 was \$27,000.<sup>7</sup>

If household incomes had grown at the same rate as accrued pension benefits – 9 percent each year – households today would be making nearly \$290,000 a year instead of the \$60,400 they take in now.

Another way to look at pension benefit growth is to compare it with what the state takes in every year. Accrued pension benefits have grown far faster than state revenues over the past 30 years. In 1987, accrued benefits were just 160 percent of general fund revenues. Now they equal over 500 percent of the state's general revenue.<sup>8</sup> [GRAPHIC 4]

Many critics tend to blame underfunding as the cause of the current crisis, but pension assets – the funding source needed to pay out future obligations – have also grown dramatically over the past 30 years. It's just that they haven't managed to keep up with skyrocketing benefits.

Pension assets grew 627 percent from 1987 to 2015. That's more than 7 percent per year and also faster than virtually every other metric, with the exception of pension benefits.<sup>9</sup>

Taxpayers fueled the growth in assets. They contributed nearly \$60 billion toward pensions over the last 20 years, \$16 billion more than the original 1996 pension reform law called for. [GRAPHIC 5]

### GRAPHIC 2

#### Pension costs consume a quarter of Illinois' budget

Pensions as a share of Illinois' general revenue fund budget



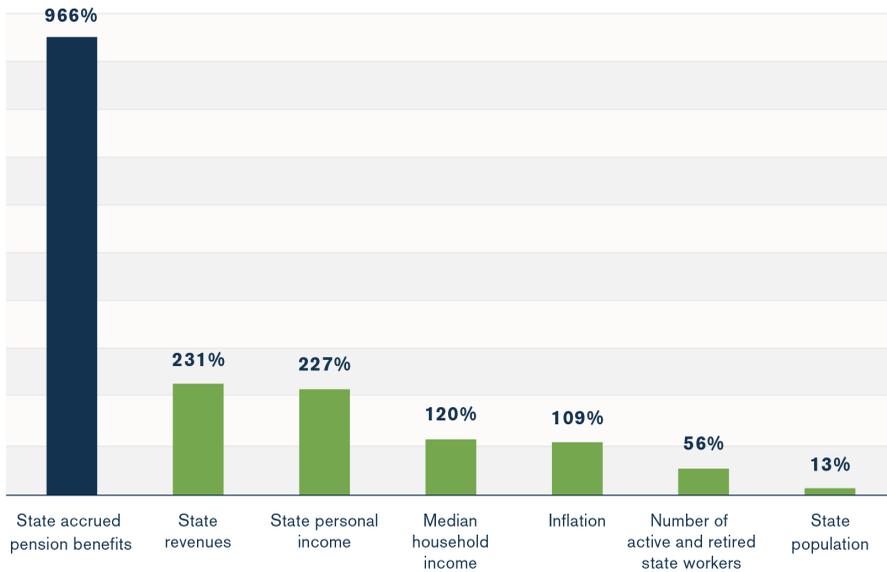
Source: Commission on Government Forecasting and Accountability

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**GRAPHIC 3**

**State of Illinois' accrued pension benefits grow far faster than revenues, inflation, income, population**

Total growth in accrued state pension liabilities vs. other indicators, 1987 vs. 2015



Source: Illinois Department of Insurance, Illinois Comptroller, U.S. Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve Bank of St. Louis, Commission on Government Forecasting and Accountability

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In fact, taxpayers have contributed so much to the system that Illinois would be more than 100 percent funded if accrued pension liabilities had grown at more reasonable rates.

For example, if pension benefits had grown at the more recent pace of those in Indiana and Wisconsin, 5 percent and 3 percent, respectively, Illinois pensions today would be more than fully funded.<sup>10</sup> At a 5 percent growth rate, Illinois pensions would be 115 percent funded. With 3 percent growth, they would be funded nearly two times over.

[GRAPHIC 6]

**How pension benefits were supercharged**

Promised pension benefits haven't grown at an average rate of 9 percent a year on their own. They've skyrocketed because lawmakers and employers have enhanced pension rules and created additional perks for state workers over the past 30 years.

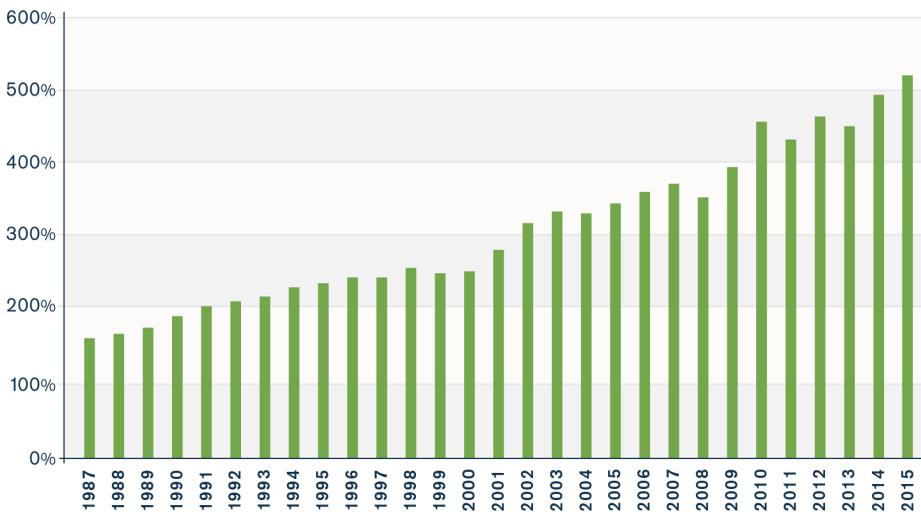
Since 1987, politicians have grown pension obligations through perks<sup>11</sup> that:

- » Added compounding to a retiree's 3 percent cost-of-living adjustment
- » Increased significantly the pension benefit formulas for the Teachers' Retirement System, or TRS, and the State Employees' Retirement System, or SERS
- » Provided lucrative early retirement options
- » Allowed workers to boost their service credit by up to two years using accumulated unpaid sick leave
- » Granted bigger salary bumps to workers who earn master's and other graduate degrees

**GRAPHIC 4**

**Accrued pension benefits grow to more than 500% of annual state revenue**

Accrued state pension liabilities as a percentage of Illinois' general fund revenues



Source: Illinois Department of Insurance, Illinois Comptroller

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**GRAPHIC 5**

**Illinois taxpayers have contributed \$60B toward pensions since 1996, \$16B more than required by Edgar reform plan**

Appropriations schedule under 1994 Edgar ramp vs. actual appropriations (in billions)



Source: Commission on Government Forecasting and Accountability

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» Allow spiking of end-of-career salaries

Today, workers' pension benefits are driven by several major factors: the ability of state workers to retire with full benefits while still in their 50s; automatic 3 percent cost-of-living adjustments that double annual pension benefits after 25 years; and a formula that requires state workers to put in little compared with what they receive in benefits.

Those factors have resulted in the following:<sup>12</sup>

- » 60 percent of current state pensioners retired and began drawing pensions in their 50s, many with full benefits.
- » The average pensioner who worked 30 years or more receives \$66,800 in annual pension benefits and will collect over \$2 million in total benefits over the course of his or her retirement (30 percent of recent retirees are career workers).

» The average career pensioner will see his or her pension payments double to more than \$130,000 in retirement.

» Career pensioners will get back their employee contributions after just two years in retirement. In all, pensioners' direct employee contributions will only equal 6 percent of what they will receive in benefits. [GRAPHICS 7 AND 8]

The bottom line is this: Pension benefits are too unrealistic for state workers to count on and too rich for taxpayers to pay for.

Pension benefit promises are bankrupting the very pensions retirees count on for their retirement security. And they are unfairly harming the retirements of younger workers.

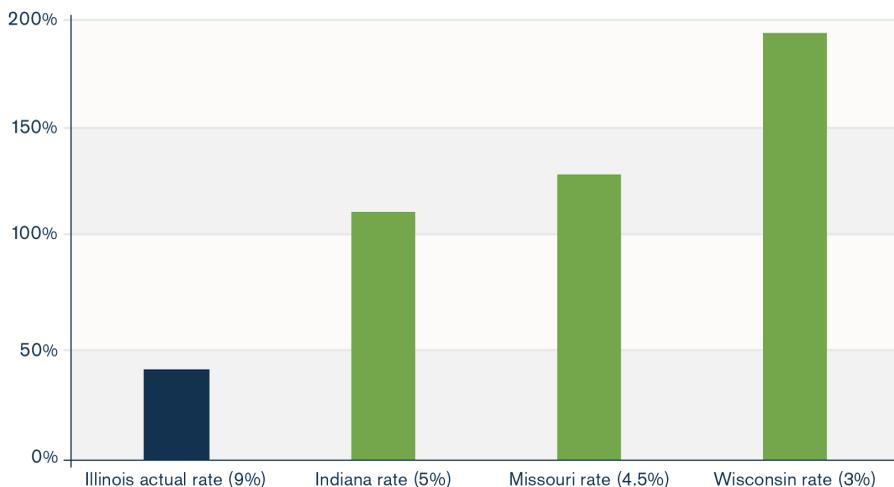
**Younger workers prop up more generous pensions for older workers**

The surest proof that benefits reached unsustainable levels came in 2010 when

**GRAPHIC 6**

**Illinois pensions would be more than fully funded if growth in actuarial liabilities matched that of Indiana, Missouri or Wisconsin**

Funded ratio of Illinois' state pension systems if 30-year growth in accrued liabilities matched the recent growth rate of neighboring states



Source: Illinois Department of Insurance, The Pew Charitable Trusts

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lawmakers enacted a change to the pensions of new state workers.<sup>13</sup>

Politicians desperately needed a new revenue stream to fund the burgeoning pensions of existing workers. They found that stream in the pension contributions of newly hired state workers.

State workers hired after Jan. 1, 2011, were required to enroll in a substandard pension plan known as Tier 2. That plan forces workers to contribute more to the pension fund than they will actually get out in retirement. New workers actually lose money when saving for retirement.

For example, new TRS employees contribute 9 percent of their annual salary to their pension fund. But the benefits they accrue are only worth 7 percent of their salary annually. They lose 2 percent yearly.<sup>14</sup>

In contrast, pre-2011 hires also contribute 9 percent of their salaries annually, but the benefits they accrue are worth 22 percent of their annual salary.

A loss for newer workers is a subsidy for pre-2011 workers. Without that subsidy, Illinois' pension funds would be collapsing even faster. Unfortunately, the pension system is being propped up on the backs of newer state workers.

Newer employees should not be asked to sacrifice their retirements to pay for the mistakes of politicians.

## The way forward for state workers' retirements

Illinois' pension system doesn't work: not for retirees who are being deprived of a secure retirement; not for younger workers who are forced to subsidize a broken system; not for taxpayers who are being saddled with unaffordable burdens; and not for Illinois' vulnerable who depend on the state's social services.

### GRAPHIC 7

**Pension benefits of recently retired, career pensioners\* in Illinois**

Pension fund	Average current pension	Average age at retirement	Average employee contribution	Average total pension payout**	Average total contribution vs. lifetime payouts
TRS	\$73,300	59	\$153,900	\$2.2 million	7%
SERS	\$50,000	59	\$63,000	\$1.6 million	4%
SURS	\$71,600	58	\$145,200	\$2.3 million	7%
JRS	\$174,600	70	\$196,700	\$2.9 million	7%
GARS	\$134,400	67	\$187,900	\$2.1 million	10%
<b>Average</b>	<b>\$66,800</b>	<b>59</b>	<b>\$128,000</b>	<b>\$2.1 million</b>	<b>6%</b>

Source: Pensioner data obtained from the 5 state-run pension systems pursuant to a 2015 FOIA request

\*Retired since Jan. 1, 2013 (GARS and JRS since Jan. 1, 2008), with 30 years' creditable service

\*\*Average total pension payout" is based on approximate life expectancies from Social Security's available actuarial life tables. Current ages as of 2015 were used to determine pensioners' life expectancies.

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### GRAPHIC 8

**In Illinois, 60% of state pensioners began drawing benefits in their 50s**  
Approximate ages at which state workers retired

Age at retirement	All state pensioners	% of total	Cumulative % of total
< 50	2,499	1%	1%
50 - 55	41,421	19%	21%
55 - 59	83,244	39%	60%
60 - 64	62,605	29%	89%
65 - 70	18,522	9%	98%
> 70	4,781	2%	100%
	<b>213,072</b>		

Source: Pensioner data obtained from the 5 state-run pension systems pursuant to a 2015 FOIA request

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Illinois laid the foundation for a comprehensive transformation of worker retirements in 1998 when it created a self-managed plan, or SMP, for its university workers. The defined-contribution 401(k)-style SMP now has 20,000 active and inactive participants, all of whom control their own retirement accounts.<sup>15</sup>

The SMP continues to attract new members every year. In 2014 alone, 19 percent of new university workers chose to enroll in the plan.<sup>16</sup>

It's easy to see why. SMP members get to benefit from the current booming market. They don't have to be concerned about the insolvency of the pension funds. And they don't have to worry about politicians using workers' retirement dollars as a slush fund.

Other states have recognized the inherent problems with pensions and have ended their unmanageable and nearly insolvent defined-benefit plans. Over the past two decades, over a dozen states have enacted some form of



- » Provides increasingly stable and predictable costs for the state budget going forward.
- » Significantly reduces the growth in accrued liabilities over time.
- » Ends Illinois' reliance on its broken and nearly bankrupt pension system.
- » Enrolls all new workers in a new hybrid SMP. Gives all current workers the option to enroll in that same plan.
- » Eliminates the unfair Tier 2 benefit plan going forward and allows existing Tier 2 members to opt in to the new SMP.
- » Sends a strong message to the investor and credit agency communities that Illinois is finally tackling its pension crisis.
- » Phases in the costs of any pension funds' actuarial changes over a five-year period. This will reduce the required \$800 million increase in state contributions by nearly \$650 million in 2018.
- » Creates a new contribution schedule with a 2018 payment that is \$1 billion less than baseline contributions. That will protect overburdened Illinoisans from tax hikes and allow the state to prioritize funding for social services.

## Retirement plan summary

Under the Institute's pension reform plan, all new workers would be required to enroll in a hybrid SMP, the core of which is based on the State Universities Retirement System's, or SURS's, Self-Managed Plan. The hybrid plan contains two key elements: an SMP and an optional, Social Security-like benefit.

All current workers are given the option to enroll in the SMP. If they opt in, their already-

earned pension benefits are protected. They stop accruing benefits under the pension plan going forward.

Current workers who do not opt in to the SMP and current retirees would not be affected by the SMP.

## Details of the plan

The core of the Institute's retirement reform proposal is modeled after the defined-contribution-style SMP created for SURS in 1998.<sup>19</sup>

The SURS SMP's nearly 20,000 participants control their own retirement accounts.

Under the SURS plan, each employee contributes 8 percent of his or her salary, and the employer contributes an equivalent of 7 percent of the employee's salary into the employee's SMP account annually. Participants invest their money with investment service providers that have been chosen by SURS.

SURS's SMP works well for those who have enrolled, and it continues to attract new members every year. Fifteen to 19 percent of new university workers have chosen to enroll in the SMP in recent years.<sup>20</sup> **[GRAPHIC 10]**

Under the Institute's retirement plan, new workers and current workers who opt in would own and control a hybrid SMP that contains two key elements: an SMP based on the SURS model and an optional Social Security-like benefit.

The SMP would allow workers access to market returns, while the Social Security-like benefit would provide retirement stability through fixed monthly benefit payments. As with the SURS SMP, state workers would not be allowed to borrow against or withdraw money from their accounts before they retire.

**Self-managed plan:** Part of the Institute's hybrid retirement plan for state workers would consist of an SMP. Each worker would contribute a mandatory 8 percent of his or her salary each pay period toward a retirement account he or she both owns and controls.<sup>21</sup>

The self-managed retirement account would give an employee the opportunity to participate in long-term market returns by investing in a broad range of options vetted by the state. The money in this account would grow over time through accruing employee contributions and investment returns during the employee's working career.

The self-managed retirement accounts would be portable and transferable from job to job. This would allow state workers to change careers and take their retirement savings with them wherever they go.

When a state worker reaches retirement age, he or she would begin to withdraw funds from his or her self-managed account to provide income. The remaining assets in the account would continue to grow during retirement.

**Social Security-like benefit:** The other part of the hybrid retirement plan for state workers would consist of an optional Social Security-like benefit. Employers would contribute a matching 7 percent of salary toward their employees' retirements each pay period. The employer contribution would be used to purchase an annuity-like contract each year from a vetted insurance company. These contracts would provide each employee with a fixed monthly benefit during retirement.

Employees would purchase a new annuity-like contract every year. Each additional contract would add to the total fixed monthly benefit an employee would receive during retirement. Like the self-managed portion, the contracts purchased by the employee would be portable and transferable from job to job.

When state workers reach retirement age, their annuity-like contracts would begin to provide a steady stream of income annually. Because the contracts provide fixed annual payments, much like Social Security, they would provide workers with a retirement safety net independent of the SMP portion of their plan.

If a state worker does not wish to participate in the Social Security-like benefit, the employer's 7 percent contribution would be deposited into the employee's self-managed retirement account instead.

## Plan membership

The Institute's plan is designed to end the state's reliance on pensions by moving all new workers into a Tier 3 hybrid SMP. All current workers – from both Tier 1 and Tier 2 – would also have the option to join the SMP.

Ideally, all current workers would opt in to the SMP right away. That would immediately freeze the defined-benefit system going forward and would result in an immediate end to the accumulation of future pension benefits.

The more likely scenario, however, is that many Tier 1 workers would stay in the current pension plan. Those closer to vesting, for example, have little incentive to leave their current plan.

Younger Tier 1 workers and those who have little to nothing vested in the pension plan, however, might choose to move to the SMP. And others, those with less faith that the pension system will be solvent when it's their turn to get retirement checks, might also opt in to the SMP.

In contrast, a vast majority of current Tier 2 workers are likely to join the SMP because of the bad pension plan they're currently under. For them, an SMP option means getting a real

retirement plan. In addition, since Tier 2 was started just six years ago, most Tier 2 workers have yet to vest. Tier 2 requires 10 years before an employee is vested in the pension plan. That also makes Tier 2 workers more likely to convert to the SMP.

## Plan results

To determine the total benefits and financial impact of eventually ending pensions, the Institute reform plan was analyzed by Segal Consulting, the actuarial firm used by the state for its annual pension analyses.

Segal's analysis used 2015 data, the most recent data available at the time, and focused on TRS as the proxy for the three major state pension plans.

Those projections were then extrapolated by the Institute to include the impact on SERS and SURS.<sup>22</sup>

Segal ran two separate scenarios regarding the implementation of the Institute's plan:

- » Scenario 1: Assumes all current workers, both Tier 1 and Tier 2, join the SMP.
- » Scenario 2: Assumes only current workers who are members of Tier 2 join the SMP.

Both scenarios achieve a 90 percent funded ratio for the pension systems within 30 years, just as the current pension systems' funding projections do.

Scenario 1 can be considered the "best case scenario" under the Institute's SMP. It assumes the unlikely case that all current state workers, in both Tier 1 and Tier 2, will join the optional defined-contribution plan upon its creation.

Scenario 2 can be considered the "worst case scenario" under the Institute's SMP. It assumes that only current Tier 2 workers will join the defined-contribution plan, even though many younger Tier 1 employees are likely to opt in to the plan.

Scenarios 1 and 2 serve as the two extremes in terms of the financial results of the Institute's plan. But for the remainder of this analysis, Scenario 2 will serve as the primary comparison. That's because the Institute's plan and analysis work even under the worst case scenario.

However, the resulting impact of the SMP improves for every Tier 1 worker who joins the SMP. The reality is participation in the SMP would fall somewhere between Scenarios 1 and 2 (but likely far closer to 2) as some younger Tier 1 workers could be expected to take advantage of the SMP for its portability and access to market returns.

In either case, the Institute's plan does the following:

### »The Institute's plan is designed to reduce the state's accrued liabilities.

Under the status quo, promised benefits to Illinois workers will grow to over \$350 billion by 2047.<sup>23</sup> According to Segal's analysis, the Institute's plan under Scenario 2 decreases accrued pension liabilities by over 15 percent compared with the status quo (baseline). The reduction under Scenario 1 is even greater.

### »The plan phases out worker participation in pensions.

Under Scenario 2, all Tier 2 workers are assumed to switch to the SMP in 2018. Afterward, the proportion of workers paying into the SMP would grow steadily over the years as current workers enrolled in the defined-benefit plan retire and new workers are hired.

By 2047, the portion of workers contributing to the defined-benefit plan would be less than 1 percent. Under Scenario 1, all current workers join the SMP upon its creation and the pension plan is frozen immediately.

[GRAPHIC 11]

## Benefits of moving to an SMP

To achieve the above goals – including ending unfair Tier 2 pension benefits – the state must invest the equivalent of \$7 billion to \$18 billion (likely closer to \$18 billion) in today's dollars over the next 30 years. That amount depends on how many and which tier of workers opt in to the SMP. The more Tier 1 members who opt in, the lower the cost will be.

While \$7 billion to \$18 billion might sound like a high number, it pales in comparison with the costs the defined-benefit plans have extracted from taxpayers and retirees over the last 30 years. Year after year, despite increasingly larger contributions by taxpayers and relatively strong financial markets, the shortfall – and subsequent cost – of pensions has only grown. In 1996, pension debt totaled just \$20 billion. Today, it's \$130 billion.<sup>24</sup>

[GRAPHIC 12]

In fact, in 2016 alone, the pension shortfall jumped an incredible \$19 billion despite:

- » Record-high stock markets,<sup>25</sup>
- » \$8 billion in contributions by taxpayers in 2016,<sup>26</sup>
- » Pensions consuming 25 percent of the state's general fund budget,<sup>27</sup> and
- » The ever-larger subsidy that Tier 2 workers provide as more and more post-2011 workers join the state workforce.<sup>28</sup>

Opponents of SMPs will say the investment needed to implement SMPs and to end the

### GRAPHIC 11

#### Summary of Illinois Policy Institute's defined-contribution plan under separate scenarios vs. baseline pension projections

Segal Consulting actuarial projections for Teachers' Retirement System

	Accrued pension liabilities by 2047	Percent reduction in accrued liabilities compared with baseline	% of active workers in defined-contribution plans by 2047	Present value of increased state contributions over 30 years
<b>Baseline</b>	<b>\$211 billion</b>	<b>--</b>	<b>0%</b>	<b>--</b>
Defined-contribution plan: Scenario 1	\$89 billion	58%	100%	\$3.8 billion
Defined-contribution plan: Scenario 2	\$168 billion	21%	99%	\$10.3 billion

Illinois Policy Institute actuarial projections for Teachers' Retirement System, State Employees' Retirement System, State Universities Retirement System

	Accrued pension liabilities by 2047	Percent reduction in accrued liabilities compared with baseline	% of active workers in defined-contribution plans by 2047	Present value of increased state contributions over 30 years
<b>Baseline</b>	<b>\$374 billion</b>	<b>--</b>	<b>0%</b>	<b>--</b>
Defined-contribution plan: Scenario 1	\$157 billion	58%	100%	\$6.9 billion
Defined-contribution plan: Scenario 2	\$297 billion	21%	99%	\$18.1 billion

Source: Segal Consulting actuarial projections for Teachers' Retirement System. Illinois Policy Institute calculations

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### GRAPHIC 12

#### Illinois pension debt grows to \$130B

Unfunded liabilities of the 5 state pension funds (in billions)



Source: Commission on Government Forecasting and Accountability

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unfair Tier 2 plan is too high. But the costs of staying with the current pension plan are sky-high, and they are on a path to bankrupting the state and state worker retirements. Illinois cannot afford to continue the current pension system.

Here are the main reasons SMPs make sense for active state workers, retirees and all Illinoisans:

### 1. SMPs provide stable and predictable costs going forward

Pension liabilities have grown worse year after year due to failed actuarial assumptions such as investment returns and mortality rates. The state has little to no idea how much more pensions are going to cost in the future. That's been true for the past 30 years, and there's no reason to expect anything different in the future.

Pension plans are inherently unpredictable and unmanageable. That's why Illinois' pension debt has reached record levels despite the billions of extra dollars contributed by taxpayers over the past decade.

In contrast, defined-contribution plans are a stable and predictable way to budget for retirement costs. Instead of the growing costs associated with traditional pension plans, defined-contribution retirement plans are a known cost – a fixed percentage of payrolls each year.

The state's SMP employer costs will equal a flat 7 percent of payroll annually under the Institute's plan.

Until Illinois gets politicians completely out of the pension business, the state will never be certain what its retirement costs will be and pensions will continue to crowd out other core services. That's why moving to the known and manageable costs of a defined-contribution plan is so important.

### 2. A significant reduction in accrued liabilities

The Institute's SMP begins to end the state's pension crisis by slowing down and eventually reversing the accrual of pension benefits (accrued liabilities) for state workers.

Under the status quo, accrued liabilities for Illinois workers will grow to over \$350 billion by 2047.<sup>29</sup> According to Segal's analysis, the Institute's plan under Scenario 2 decreases liabilities by 21 percent compared with the status quo (baseline).

The reduction in accrued liabilities under Scenario 1 is even greater. Liabilities would fall to under \$160 billion by 2047, a decrease of 58 percent compared with the baseline. **[GRAPHIC 13]**

The actual reduction in benefits under the Institute's plan would fall somewhere between Scenarios 1 and 2, depending on how many Tier 1 current workers chose to enroll in the optional SMP.

### 3. An end to the defined-benefit pension system

Given the poor health of the current system, younger government workers, even those in Tier 1, are forced to pay into a pension system that ultimately may not have enough funds to pay them any retirement benefits. Tier 2 members have it even worse. The benefits promised to Tier 2 workers in today's dollars are actually less than what these workers are required to contribute to the system. This puts Tier 2 workers in even greater danger of never receiving a pension benefit – even though they are subsidizing the pension plans.

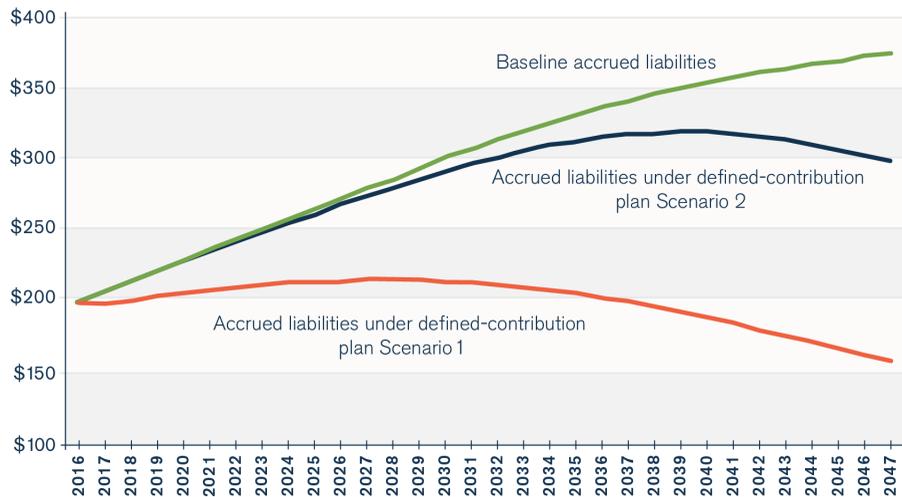
Creating an optional SMP for current state workers would give them the ability to leave the unfair pension system and control their own retirements.

Under Scenario 2 of the defined-contribution plan, all Tier 2 workers are assumed to switch to the SMP in 2018. Afterward, the proportion of workers paying into the SMP would grow steadily over the years as current workers

#### GRAPHIC 13

#### Illinois Policy Institute's defined-contribution plan reduces accrued liabilities by at least 20% by 2047

Accrued liabilities of TRS, SERS, SURS, baseline vs. Institute defined-contribution plan Scenarios 1 and 2 (in billions)



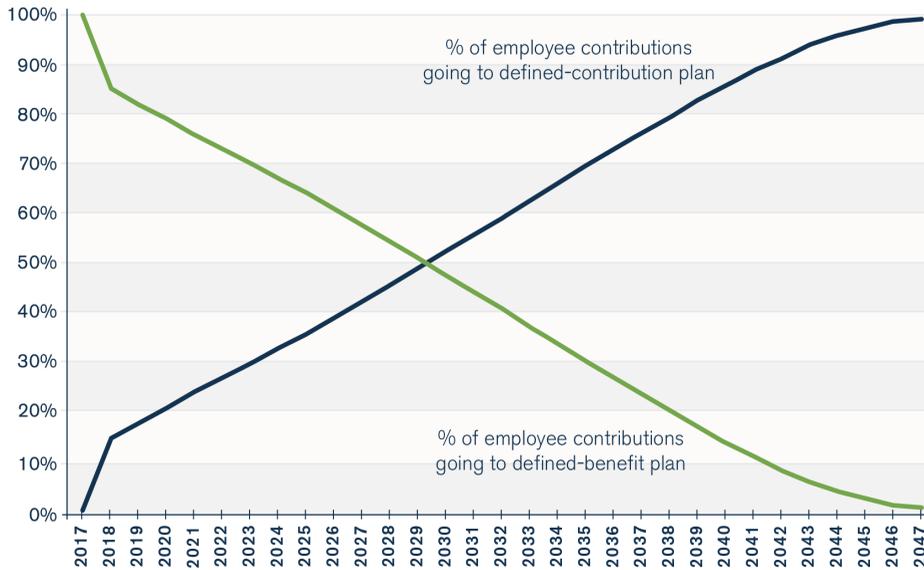
Source: Actuarial data from Segal Consulting, Illinois Policy Institute calculations

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**GRAPHIC 14**

**Illinois Policy Institute’s defined-contribution plan ends active participation in pensions by 2047**

Employee contributions to defined-contribution and defined-benefit plans under defined-contribution plan Scenario 2



Source: Actuarial data from Segal Consulting, Illinois Policy Institute calculations

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enrolled in the defined-benefit plan retire and new workers are hired.

2030 would mark the halfway point of the transition between the defined-benefit and defined-contribution plans. Over half of all active workers would be enrolled in the SMP by that year.

By 2047, the portion of workers contributing to the defined-benefit plan would be less than 1 percent. That means the threat of skyrocketing accrued liability costs would decline significantly as time passes. [GRAPHIC 14]

The defined-benefit plans will end sooner depending on how many Tier 1 workers actually opt in to the SMP.

**4. The end of Tier 2 benefits**

Moving workers to a defined-contribution plan would also end one of the most unfair aspects

of the current system: the disparity between Tier 1 and Tier 2 members' benefits.

Tier 2 employees actually provide a net subsidy to the state pension plans. In other words, they are forced to sacrifice their own retirements to compensate for the failure of Illinois' pensions and the politicians who created the pension crisis.<sup>30</sup> Tier 2 is an unfair arrangement that will not last.

Either politicians will be pressured to increase Tier 2 benefits or the IRS might force the state to increase benefits in line with the agency's minimum retirement requirements. Either way, the subsidy provided by Tier 2 members would end and the pension funds' pension debt would jump dramatically.

Illinois should eliminate the unfair Tier 2 system immediately. The Institute's plan does that by providing all new workers, and all current workers who choose to participate, an SMP.

The state's goal has always been to provide a secure, sustainable and fair retirement to all state workers.

Tier 2 pensions don't provide that. The Institute's SMP does.

**5. Protection of funding for social services and avoidance of tax hikes**

The state's pension crisis has grown despite massive taxpayer contributions and pension bond repayments. Those costs have grown to consume a quarter of the state's budget, crowding out spending on vital social services for the developmentally disabled, grants for low-income college students and aid to home health care workers, to name just a few programs. To protect spending for those services and protect taxpayers from the harm of another tax hike, the Institute's plan alters pension costs by \$1.65 billion in 2018.

**1. Phasing in the cost of actuarial changes will reduce pension costs by \$640 million in 2018**

Currently, the pension systems have the power to demand billions of additional dollars from the state budget annually by changing their actuarial assumptions. That includes lowering investment assumptions, altering mortality assumptions and other actuarial items. Those changes are based entirely on the funds' discretion and their impact on the budget is instantaneous, hurting everything from classroom funding to social services.

For example, in 2012, TRS lowered its investment rate assumptions to 8 percent from 8.5 percent. That change forced the state to increase its contributions to the pension funds by more than \$500 million compared with the projections prior to the change.

Assumptions were changed again this year. SERS's and TRS's assumption changes will increase the state's 2018 contributions by \$800 million compared with last year's cost projection for 2018.

This setup is simply not fair. Failed assumptions is one of the major reasons why pension costs now consume 25 percent of the state's budget. And no other institution can automatically carve out billions from the state budget like the pension funds can. Social services and education can't automatically take billions more from the state if they feel their costs have changed.

The impact of actuarial changes on the budget and other programs should not be immediate. Instead, they should be treated in the same way the pension funds treat investment returns. The funds' investment returns are smoothed over five years to reduce the impact of negative markets on the pension plans' performance. The same rationale should be applied to changes in actuarial assumptions.

Under the Institute's plan, the costs of any pension funds' actuarial changes will be phased in over a five-year period. As a result, the projected \$800 million increase in state contributions due to changes in actuarial assumptions will fall to \$160 million in 2018. The remaining \$640 million will be spread over the remaining four years.

## 2. 2018 payment \$1 billion less than the baseline

No other plan does what the Institute's plan does. It protects worker benefits in accordance with the requirements of the Illinois Constitution while initiating the ending of the broken pension system, eliminating the unfair Tier 2 benefit structure, and providing real retirement security to state workers. And it's part of an overall plan that avoids tax hikes

on Illinoisans and reprioritizes spending on social services.

The Institute's reforms allow the plan to begin with a contribution toward state worker retirements that is \$1 billion less than the current pension systems require in 2018.<sup>31</sup> Contributions then increase gradually to be in line with Segal's Scenario 2 projections, which are based on a fixed percentage of payroll.

The pension systems will reach 90 percent funded in 2047 under the Institute's plan. Afterward, state contributions will begin to decline until they reach a constant 7 percent of payroll as designed under the SMP.

[GRAPHIC 15]

### GRAPHIC 15

#### Schedule of state contributions to worker retirements, Segal Consulting projection vs. Illinois Policy Institute plan

State contributions to TRS, SERS, SURS under defined-contribution plan Scenario 2, Segal Consulting projection vs. Illinois Policy Institute plan (in billions)



Source: Actuarial data from Segal Consulting, Illinois Policy Institute calculations

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# C. Align AFSCME costs with what taxpayers can afford

## 2018 state savings: \$1.1 billion

### The problem: State worker pay and benefits increase burden on taxpayers

Illinois' middle class is struggling in one of the worst-recovering job markets in the nation.

Illinois has lost more than 300,000 manufacturing jobs since 2000, and the state's private sector has created no net new jobs since before the millennium.<sup>1</sup> Real household incomes have suffered and only now are beginning to recover from the Great Recession. And under ObamaCare, health care premiums are soaring, taking more and more from worker paychecks.<sup>2</sup>

This pain will only get worse if the costs of state government – which drive Illinoisans' taxes higher and make it costly for job-creating businesses to stay in the state – continue to climb. The union representing 35,000<sup>3</sup> Illinois state workers, the American Federation of State, County and Municipal Employees, has been relentless in its demands for more pay and enhanced benefits. In contract negotiations with the state, AFSCME has demanded provisions that will cost state taxpayers an additional \$3 billion dollars in wage and benefit increases over the next three years.<sup>4</sup>

These demands include wage increases of 11.5 to 29 percent by 2019, platinum-level health insurance at little cost to workers and a workweek with overtime pay after just 37.5 hours.<sup>5</sup>

### AFSCME workers already receive top-notch pay and benefits

Illinois state workers (including AFSCME and others) already are the highest-paid state workers in the nation when adjusted for cost of living.<sup>6</sup> [GRAPHIC 1]

When the most recent AFSCME contract expired in 2015, the median AFSCME salary was \$63,660 – compared with just under \$32,000 for an Illinois worker in the private sector. In fact, the median income for an individual AFSCME worker is higher than the median income for an entire Illinois household in the private sector (just over \$60,400 in 2015).<sup>7</sup>

The median AFSCME worker salary increased more than 40 percent from 2005 to 2015, to more than \$63,660 in 2015. During that same period, median private-sector earnings in Illinois remained virtually flat. [GRAPHIC 2]

On top of the nation's highest salaries, AFSCME workers get platinum-level health insurance at bronze-level prices. That's because taxpayers subsidize 77 percent of the average AFSCME worker's health care, costing taxpayers \$14,880 a year per worker.<sup>8</sup> [GRAPHIC 3]

Most AFSCME employees also receive free health insurance at retirement, simply by working 20 or more years. This benefit alone costs taxpayers \$200,000 to \$500,000 per employee.<sup>9</sup> [GRAPHIC 4]

In addition, state retirees on average receive \$1.6 million in pension benefits, in addition to Social Security.<sup>10</sup>

Notwithstanding the generous compensation state workers already receive, the union has

#### GRAPHIC 1

### Illinois state workers are the highest-paid in the country

Annual wages per state employee, nominal and indexed to cost of living, 2014

State	Average state-worker annual wage	Cost-of-living-adjustment index, 2013	Annual wage adjusted for cost of living	National rank
Illinois	\$59,679	101.0	\$59,088	1
California	\$65,654	114.5	\$58,463	2
New Jersey	\$65,292	112.3	\$57,023	3
Alaska	\$59,104	106.0	\$55,758	4
Connecticut	\$60,220	108.5	\$55,502	5
Iowa	\$48,974	90.3	\$54,235	6
National average	\$49,224	100.0	\$49,224	--
Wisconsin	\$42,445	92.9	\$45,689	28
Kentucky	\$40,309	89.1	\$45,240	34
Missouri	\$37,820	89.2	\$42,400	42
Indiana	\$37,981	91.4	\$41,555	46

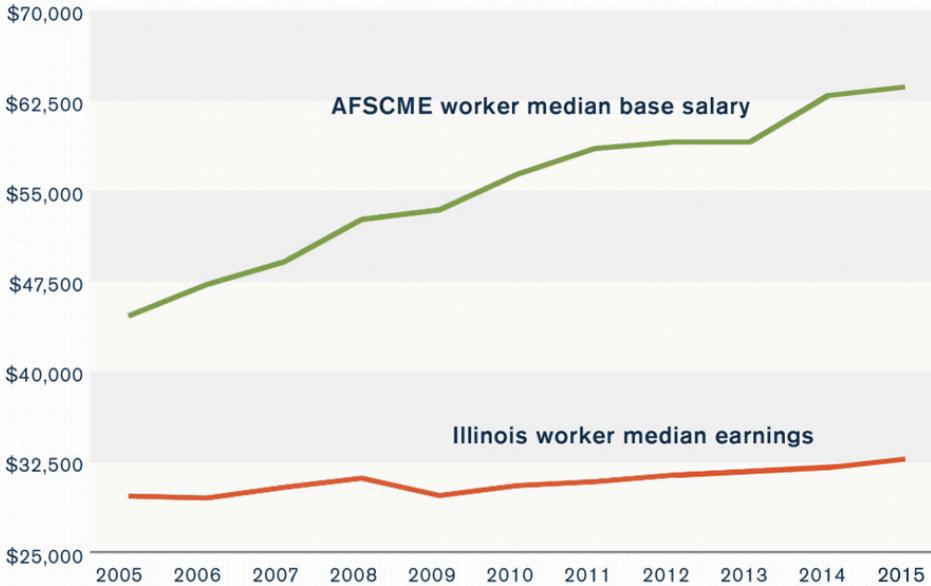
Source: U.S. Bureau of Economic Analysis

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**GRAPHIC 2**

**Illinois state AFSCME worker salaries have grown 41% while private-sector workers' earnings stagnate**

Median AFSCME employee base salary\* vs. Illinois worker median earnings (age 16+), 2005 - 2015



Source: Illinois Department of Central Management Services; U.S. Census Bureau, "American Community Survey"  
 \*Annual base salary is only a portion of employee compensation – it does not include compensation for bonuses or overtime.

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made contract demands that would cost state taxpayers an additional \$3 billion in pay and benefits. AFSCME has demanded wage increases of 11.5 to 29 percent by 2019, continued platinum-level health care heavily subsidized by taxpayers, and a workweek with overtime pay for workers after just 37.5 hours. The wage-increase demands alone would cost state taxpayers nearly \$1 billion.<sup>11</sup>

Should the union prevail in its demands, the \$1 billion in higher wages and \$2 billion in other benefit increases would come from Illinois residents who are already overtaxed.

**The solution: Bring union costs in line with what taxpayers can afford**

If the state is able to implement its last, best contract offer to AFSCME, which represents 35,000 state workers, it will save taxpayers hundreds of millions in government overtime and health care costs, among other expenses.

In addition, the state can further reform the costs of employee compensation by reducing state payroll by \$500 million, or a little more than 10 percent, in 2018.

**1. Implement the state's last, best contract offer (Savings: \$600 million)**

Through contract negotiations with AFSCME, the state is trying to bring union costs in line with what taxpayers can afford. The state's proposed contract would save taxpayers approximately \$600 million dollars in 2018 due to major savings in employee overtime and health care costs, among other items.

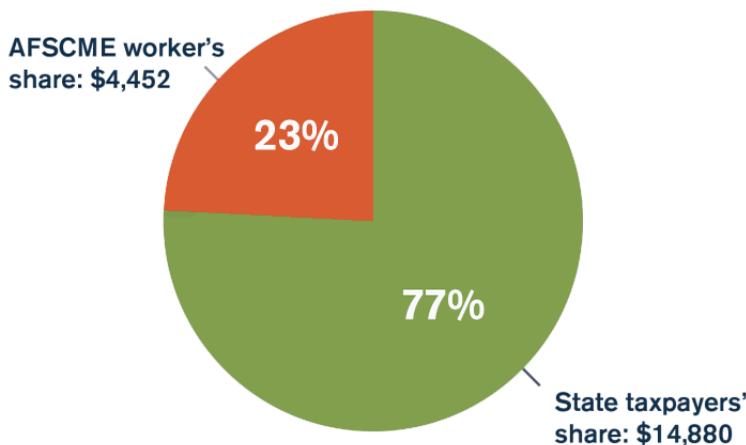
**Overtime reform**

The state has proposed reasonable overtime provisions that more closely reflect what exists in the private sector – provisions that would save the state approximately \$40 million in 2018.

**GRAPHIC 3**

**Illinois taxpayers subsidize 77% of AFSCME workers' Cadillac health care plans**

Average annual health care cost per worker\*: \$19,332, fiscal year 2016



Source: Health care cost data obtained from the Governor's Office pursuant to a FOIA request  
 \*The average AFSCME worker has one to four dependents on his or her insurance plan.

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**GRAPHIC 4**

**Illinois state workers highest-paid in nation, receive Cadillac benefits**

Salary and insurance	Yearly value
Illinois state workers are highest-paid in nation, adjusted for cost of living	\$59,088
Yearly taxpayer subsidy of an AFSCME worker's health insurance cost	\$14,880
Additional benefits	Value over course of retirement
Free health insurance in retirement for workers with service of 20 years or more	\$200,000 to \$500,000
Pension of average career state worker (service of 30 years or more)	\$1,600,000
Other retirement benefits	Social Security

Source: Ted Dabrowski, John Klingner, "AFSCME health benefits, wages out of sync with what Illinois taxpayers can afford," Illinois Policy Institute, Spring 2016; Ted Dabrowski, John Klingner, "What's driving Illinois' \$111 billion pension crisis," Illinois Policy Institute, April 2016

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The state's offer does away with the daily computation of overtime and provides instead that overtime kicks in once an employee has worked 40 hours in a week – reflecting what is typical in the private sector and required by federal law.

According to data the Illinois Policy Institute obtained through a Freedom of Information Act request, taxpayers' cost savings from paying overtime after a 40-hour workweek instead of paying overtime after a 37.5-hour workweek would amount to \$17 million in 2018 alone.<sup>12</sup>

In addition to regular overtime pay, AFSCME employees are also currently eligible to earn generous overtime pay for working on a holiday. The amount earned depends on the holiday.<sup>13</sup>

Under the previous contract, AFSCME employees received double-time pay for

working on major holidays. Employees received even more – double-and-one-half-times pay – for "super holidays," which include Labor Day, Thanksgiving Day and Christmas Day.

The governor's proposal modifies holiday overtime pay to provide more reasonable compensation in line with what private-sector workers receive. Thus, under the state's plan, AFSCME employees would receive overtime pay at the rate of time and one-half for regular holidays and double time for super holidays.<sup>14</sup> [GRAPHIC 5]

**Employee health care reform**

The state's proposed health care reforms for AFSCME workers would bring their costs more in line with those in the private sector, while still maintaining effective, affordable coverage for state employees.

The state is seeking to realign AFSCME workers' health care costs so they more closely match their corresponding benefits. The goal is to reform benefits while still providing affordable, flexible and reasonable health care options for employees. AFSCME employees would be able to keep their current plan at a higher premium, choose a different plan with a lower premium, or choose to create some combination of the two.<sup>15</sup> [GRAPHIC 6]

Under the plan, Illinois taxpayers would still subsidize 60 percent of AFSCME workers' annual health care costs, or over \$11,600 per worker annually. Workers would be asked to pay 40 percent of their costs, up from 23 percent under the previous contract.

The insurance program would still offer the same medical, dental, life and other insurance coverage as before. The amount of catastrophic protection provided to workers would not change. No matter what health

care expenses a worker accumulates, his or her maximum out-of-pocket costs would still equal \$6,850 a year.

Retiree health insurance benefits would also remain untouched, so state workers would still receive a benefit with a cash value of up to \$500,000.<sup>16</sup>

The state's flexible health care offerings and the implementation of other provisions such as wellness plans, would save taxpayers approximately \$500 million in 2018.

## 2. Align state payroll costs with what taxpayers can afford (Savings: \$500 million)

Private-sector Illinoisans struggling with a decade of stagnant wages should not be burdened with the higher payroll costs of state workers who receive the highest salaries in the nation, heavily subsidized health care and other generous benefits.

Bringing down the total cost of employee compensation must begin with payroll, as it is the driver of pension costs and other future benefits.

Total payroll for state employees will cost \$4.5 billion in 2018.<sup>17</sup> The state should reform the cost of government by reducing payroll costs by \$500 million, or a little over 10 percent, in 2018.

### GRAPHIC 5

#### AFSCME's rejection of reasonable overtime provisions will cost Illinois taxpayers \$111M over next 3 years

Difference in yearly costs between AFSCME demands and state's final offer, 2017 – 2019 (in millions)

What AFSCME is demanding	3-year operating costs	Social Security and pension costs	3-year total cost to taxpayers
Overtime after 37.5 hours*	\$51	\$12	\$63
2 times pay for regular holidays**	\$25	\$6	\$31
2.5 times pay on "super holidays" ***	\$14	\$3	\$17
<b>Total 3-year cost</b>			<b>\$111</b>

\* Market norm is 40 hours.

\*\*The state has offered 1.5 times pay, though federal law does not require overtime pay for holiday work.

\*\*\*The state has offered 2 times pay for "super holidays" (e.g., Christmas, Labor Day, Thanksgiving).

Source: FOIA request to Illinois Department of Central Management Services

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### GRAPHIC 6

#### Reform options for Illinois state AFSCME workers

Breakdown of annual health care costs for AFSCME workers under proposed reforms

	Worker's out-of-pocket costs	Worker's premium costs	Worker's net cost
<b>Current plan</b>	<b>\$1,548</b>	<b>\$2,904</b>	<b>\$4,452</b>
Reform plan – same benefits	\$1,548	\$6,180	\$7,728
Reform plan – same premium	\$4,824	\$2,904	\$7,728
Reform plan – mixed offer	\$3,864	\$3,864	\$7,728

Source: Data on governor's proposed health care reforms obtained from the Governor's Office pursuant to a FOIA request

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# D. Streamline Medicaid spending

## 2018 state savings: \$415 million

### The problem: Illinois Medicaid spends billions but fails those who need it most

Illinois spends 25 percent of its general fund budget on health care, largely on Medicaid.<sup>1</sup>

Despite government spending of more than \$13 billion on Medicaid, recipients typically experience poor access to health care.<sup>2</sup>

Today, Medicaid patients are often forced to use lower-quality doctors, hospitals and specialists, if they can get access at all. According to a recent report by physician placement and consulting firm Merritt Hawkins, 55 percent of doctors in major metropolitan areas refuse to take new Medicaid patients.<sup>3</sup> Another study by the Department of Health and Human Services found 56 percent of Medicaid primary care doctors and 43 percent of specialists weren't available to new patients.<sup>4</sup>

And without regular access to physicians, Medicaid patients are 65 percent more likely to visit emergency rooms than privately insured patients.<sup>5</sup>

Many enrollees are denied access to new revolutionary drugs because there isn't enough money to cover the costs for all eligible patients.<sup>6</sup> Even when patients are able to get the drugs, patients are only allowed to get two weeks' worth of medicine at a time, and if they fail to refill their prescriptions, the

treatment is canceled altogether. Moreover, health outcomes for Medicaid patients are mediocre. A randomized study by the Oregon Health Study Group revealed that health results of Medicaid enrollees were not significantly better than those of people without access to any insurance.<sup>7</sup>

### Medicaid's rapid boom in enrollment has contributed to those poor outcomes

In 2000, just 1.37 million, or 11 percent, of all Illinoisans were enrolled in Medicaid.<sup>8</sup>

As of 2015, enrollment had swelled to 3.2 million – a 135 percent increase. With more than a quarter of all Illinoisans on Medicaid, it is no longer a safety net for Illinois' neediest residents. Medicaid overenrollment means Illinois' most vulnerable are getting crowded out of the care they need. [GRAPHIC 1]

As the number of Medicaid enrollees has increased, costs have too. Since 2000, total general revenue fund, or GRF, and GRF-like Medicaid costs have jumped by \$7 billion.<sup>9</sup> That increase alone is nearly what Illinois state

government appropriates for K-12 education each year.

The recent addition of ObamaCare enrollees, while currently 100 percent funded with federal dollars, will put additional strain on an already overworked health care system. An additional 600,000 Illinoisans have been added to the insured rolls, costing the state \$1.8 billion in 2015 alone.<sup>10</sup> [GRAPHIC 2]

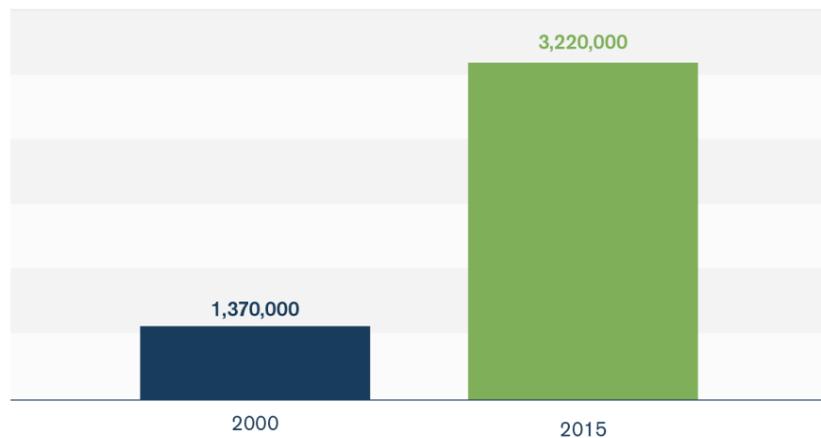
Health care costs, largely made up of Medicaid expenses, are projected to consume 25 percent of Illinois' general fund budget in fiscal year 2017. When compared with spending in 2000, those GRF and GRF-like Medicaid expenditures have grown by 141 percent – far more than the growth in tax revenues and spending on other core services.

By contrast, general fund state spending on human services is up just 10 percent over the same period. Spending on K-12 education is up just 35 percent. Higher education spending is down by 8 percent.<sup>11</sup> [GRAPHIC 3]

Without serious Medicaid reforms, spending will continue to compromise other programs that help Illinoisans in need.

#### GRAPHIC 1

**Medicaid enrollment spikes since 2000, no longer just a safety net**  
Medicaid enrollment, 2000-2015



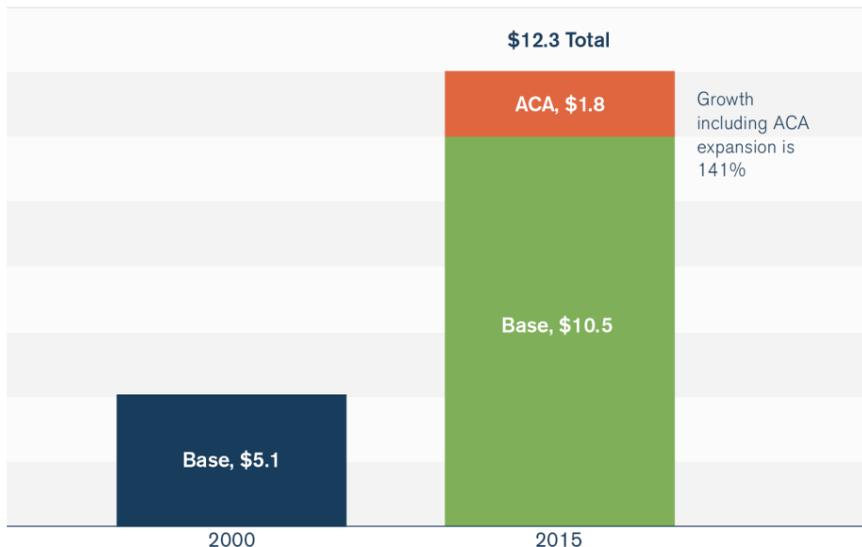
Source: Commission on Government Forecasting and Accountability, 2000 and 2015 budget summaries.

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GRAPHIC 2

**Medicaid spending has jumped by \$7 billion, crowding out other core government services**

Growth in state spending on Medicaid including Affordable Care Act expansion, 2015 vs. 2000 (in billions), general revenue fund, or GRF, and GRF-like liabilities



Source: Illinois Department of Health and Family Services, 2015 Medical Assistance Annual Report, governor's 2017 recommended budget

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**The solution: Lower costs through competitive bidding, focus spending on Illinoisans who need it the most**

Instead of continuing to pour money into a failing system, Medicaid needs comprehensive reform based on expected changes at the federal level. The Illinois Policy Institute proposed the following changes in 2013, and now the time is ripe to finally offer private insurance options to Illinois' neediest residents through:

**Federal block grants:** Reform should begin with swapping out the current Medicaid financing system of federal matching funds for a block grant. With a block grant, Illinois state government would have an incentive to reform and innovate how it delivers care without fear of losing its federal funds.<sup>12</sup>

**Premium assistance for Illinoisans:** With funding secured, Illinois can then transform Medicaid's fee-for-services and managed care programs into a sliding-scale, premium-assistance program based on need, allowing the state's most vulnerable residents the opportunity to purchase private health insurance.

Premium support funds for nonelderly and nondisabled patients would be placed in a Medicaid savings account, or MSA, similar to a health savings account.<sup>13</sup>

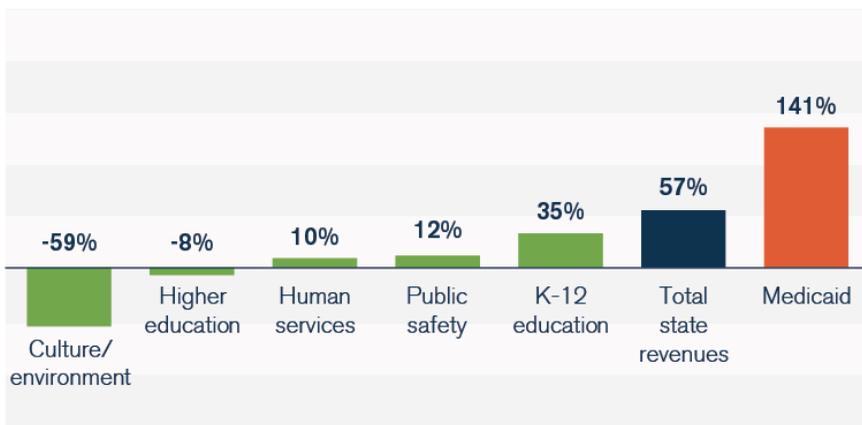
**Medicaid savings accounts:** With MSAs, individuals can select the insurance that best fits their needs and preferences. Patients could also use any remaining funds in their accounts for health care expenses such as doctor visit co-pays, prescription drugs and hospital stays.<sup>14</sup>

To make these reforms work, Illinois must also lower costs wherever possible and revisit eligibility requirements to ensure the most vulnerable residents aren't crowded out of the safety net.

GRAPHIC 3

**Spending on Medicaid outpaces growth in state revenues and other core services**

Percent change in state spending, 2015 vs. 2000



Source: State of Illinois Governor's 2017 Budget Summary

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## Immediate solutions

The major reforms outlined above involve changes in federal law that may require time to enact. In the meantime, Illinois needs to pursue other improvements that will lower the cost burden of Medicaid.

### 1. Monitor eligibility throughout the year (State savings: \$135 million)

The federal government requires each Medicaid enrollee's eligibility be redetermined every 12 months. But life changes happen much more frequently. Monitoring eligibility through other state programs throughout the year would reduce ineligible expenses, focusing funding for those most in need. Based on other states' changes in the frequency of their experience, Illinois can save as much as \$135 million in the state portion of Medicaid costs.<sup>15</sup>

### 2. Lower drug costs (State savings: \$70 million)

Medicaid enrollees not participating in a managed care program use an uncoordinated network of pharmacies to fulfill prescriptions. Purchases are reimbursed at regular, retail prices. Illinois' Medicaid program should instead utilize a pharmacy benefit manager to leverage volume buying of commonly used medicines to reduce costs.<sup>16</sup>

This third party will aggressively manage utilization of pharmaceutical drugs and implement further cost-saving strategies: greater use of generics; prior approval of multiple-agent use; and bringing dispensing fees, ingredient costs, and drug utilization in line with Medicare.

Based on spending \$1.3 billion on prescription drugs in fiscal year 2016, just a 4.5 percent savings target will reduce costs by \$70 million in 2018.

### 3. Procurement reforms and competitive bidding for medical equipment (State savings: \$55 million)

Many medical providers paid through Medicaid pass along their costs for major equipment to taxpayers. There are no restrictions on the amount of reimbursement, so there is little incentive to keep the costs of equipment down. The U.S. Department of Health and Human Services has found that millions of dollars in savings can be obtained simply by mimicking buying practices from Medicare.<sup>17</sup>

Based on the most recent purchasing data, Illinois stands to save as much as \$55 million in 2018 by reforming procurement practices.

### 4. Repeal ObamaCare's Medicaid expansion (State savings: \$125 million)

ObamaCare expanded Medicaid eligibility to over 600,000 new enrollees in 2014 for all single, able-bodied adults – nearly double the original projections. This growth has taken vital resources away from those already in the program and most in need of services.<sup>18</sup>

ObamaCare is expected to cost Illinois' general fund and related funds \$2.3 billion in 2017. While the federal government currently covers 100 percent of the program costs, the state will be required to pay 5 percent of total costs beginning January 2017.<sup>19</sup>

Were Illinois to repeal the recent expansion, the state would save up to \$125 million in 2018.

### 5. Utilize ambulatory surgical centers (State savings: \$30 million)

Many medical facilities outside of hospitals, known as ambulatory surgical centers, or ASCs, specialize in common, low-risk medical procedures that are completed at a

significantly lower cost than at large hospitals. Seventy percent of all surgeries in the U.S. are performed on an outpatient or ambulatory basis.<sup>20</sup>

But Illinois continues to pay more for these procedures performed in hospitals. The state should lower the rates it pays to hospitals for these common procedures to level the playing field. At lower rates, hospitals will either defer services to ASCs or offer the same procedures at a more competitive rate.

These new rates will save Illinois over \$30 million each year, based on Illinois' actual costs in 2015.



# E. Higher education: Prioritize students over administrators

## 2018 state savings: \$500 million

### The problem: Illinois spends too much money on higher education administration

Illinois' college and university officials blame the state's budget crisis for the mess in higher education.

But budget gridlock isn't why Illinois' higher education system is facing financial troubles. Instead, it's the growing number of administrators and the ballooning costs associated with them that's making college unaffordable for too many of Illinois' students, especially those with limited means.

Rather than using state-collected taxes to keep tuition low, Illinois colleges and universities have taken an influx of federal and state funding available to higher education over the past two decades and spent it on a massive increase in administrative positions and exorbitant executive compensation.

Illinois spends more money on administrative and retirement costs than on university operations. In fact, more than 50 percent of Illinois' \$4.1 billion budget for state universities is spent on retirement costs.<sup>1</sup>

If this trend continues, students with the means will continue to leave Illinois for neighboring state colleges and universities,

while lower-income students will increasingly be shut out.

### More and more administrators

Over the past several decades, Illinois' public colleges and universities have gone on an administrative hiring spree. They've grown the size of the higher-education bureaucracy in Illinois while hiking tuition and spending state money to offset the cost.

According to the Illinois State Senate Democratic Caucus' report, the rate at which colleges and universities across the nation are hiring administrators far outpaces the hiring of professors: "The disproportionate increase in the number of employees hired by colleges and universities to manage or administer people, programs and regulations has continued unabated in recent years, increasing 50 percent faster than the number of instructors between 2001 and 2011."<sup>2</sup>

#### GRAPHIC 1

#### Top higher education administrators in Illinois receive excessive salaries, bonuses and other benefits

Chief executive compensation at Illinois public colleges and universities, fiscal year 2014

Chief executive compensation at Illinois public universities, fiscal year 2014					
University	Name	Base pay	Bonuses/ additional compensation	Annuities/ retirement enhancement	Total compensation
University of Illinois, Chicago	Paula Allen-Mearns	\$437,244	\$450,000		\$887,244
Illinois State University	Timothy J. Flanagan	\$350,004	\$344,158		\$694,162
University of Illinois, Urbana-Champaign	Phyllis Wise	\$249,000	\$311,500		\$560,500
University of Illinois	Robert Easter	\$462,375	\$90,000		\$552,375
Southern Illinois University, Carbondale	Rita Cheng	\$354,963	\$27,500	\$20,400	\$402,863
Northern Illinois University	John Peters	\$388,656	\$298		\$388,954
Governors State University	Elaine Maimon	\$298,595	\$35,000	\$34,800	\$368,395
Northeastern Illinois University	Sharon Hahs	\$293,600	\$36,531		\$330,131
Eastern Illinois University	William Perry	\$290,000	\$32,289		\$322,289
Southern Illinois University, Edwardsville	Julie Furst-Bowe	\$260,100	\$27,322	\$19,999	\$307,421
Western Illinois University	Jack Thomas	\$265,224	\$2,748	\$26,522	\$294,494
University of Illinois, Springfield	Susan Koch	\$148,953	\$111,920		\$260,873
Chicago State University	Wayne D. Watson	\$199,570			\$199,570

Chief executive compensation at Illinois community colleges, fiscal year 2014					
Community college	Name	Base pay	Benefits/ extra duty pay	Annuities/ retirement enhancement	Total compensation
Lewis and Clark Community College	Dale T. Chapman	\$279,661	\$214,742	\$46,000	\$540,403
College of DuPage	Robert Breuder	\$292,739	\$127,772	\$74,581	\$495,092
Illinois Central College	John S. Erwin	\$241,143	\$127,366	\$23,000	\$391,509
Harper College	Kenneth Ender	\$260,969	\$115,983		\$376,952
Elgin Community College	David Sam	\$260,000	\$91,283	\$10,000	\$361,283
Lincoln Land Community College	Charlotte J. Warren	\$231,420	\$78,684	\$49,992	\$360,096
Oakton Community College	Margaret B. Lee	\$259,066	\$89,314		\$348,380
College of Lake County	Girard W. Weber	\$241,118	\$60,765	\$21,150	\$323,033
Richland Community College	Gayle M. Saunders	\$214,724	\$80,759		\$295,483

Note: See Senate report for a full description of each compensation category  
Source: Illinois Senate Democratic Caucus Investigative Report on Executive Compensation at Illinois Higher Education Institutions, 2015

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Illinois has followed that pattern. The number of administrators in Illinois' universities grew by nearly a third (31.1 percent) between 2004 and 2010. At the same time, faculty only increased 1.8 percent, and the number of students only grew 2.3 percent.<sup>3</sup>

At community colleges in Illinois, the number of administrators grew 13.5 percent while the number of faculty and students grew 6.8 percent and 3.9 percent, respectively.

In 1975, the administrator-to-student ratio for higher education institutions nationally was one administrator for every 84 students.

By comparison, in Illinois that ratio was approximately 1-to-45 in 2011.

## Growing administration costs

Not only have colleges and universities massively expanded their number of administrators, but they have also been paying those administrators exorbitant salaries. According to the Illinois Board of Higher Education, over half of Illinois' 2,465 university administrators received a base salary of \$100,000 or more in 2015. Ninety-five percent of the University of Illinois system's top 126 administrators made \$100,000 or more as a base salary.<sup>4</sup>

Many top administrators also receive other perks such as housing allowances, cars, club memberships and generous bonuses that can cost universities hundreds of thousands of additional dollars per administrator.

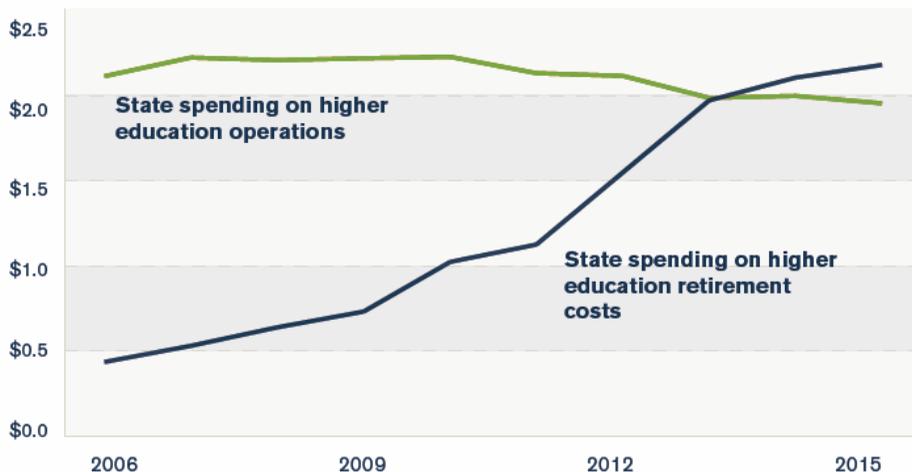
The top-compensated administrator in 2014, the University of Illinois' Chancellor Paula Allen-Meares, received much of her total compensation in the form of a bonus. Meares received a base salary of \$437,244 and a bonus retention incentive of \$450,000, bringing her annual compensation to \$887,244. [GRAPHIC 1]

The enormous salaries university administrators and other employees receive

## GRAPHIC 2

### Retirement costs now consume more than 50 percent of all state spending on higher education

State spending on higher education retirement costs vs. spending on operations (in billions)



not only increase expenses for colleges and universities, but directly contribute to the growing costs of university pension benefits for which state taxpayers are responsible.

A decade ago, retirement costs made up only 20 percent of the state's total higher education spending. Today, that figure has ballooned to 53 percent. As spending on retirement rose from 2006 to 2015, state spending on higher education operations fell by over \$150 million. Higher education costs are out of control in many states, but Illinois adds an untenable pension crisis to the mix of too many administrators and too much budget bloat.<sup>5</sup> [GRAPHIC 2]

Because university retirees' annual pension benefits are determined in part by their final average salaries, large salary increases, coupled with generous pension rules, have boosted the retirement benefits of university employees far beyond what state taxpayers can afford.

Of the over 52,000 current State Universities Retirement System, or SURS, retirees:<sup>6</sup>

- » 50 percent retired in their 50s, many with full pension benefits.

- » Almost half will see their annual pension benefits double over the course of their retirement, based on approximate life expectancies.

- » Over 40 percent will receive more than \$1 million in total retirement benefits, and over 7,400 (14 percent) will receive more than \$2 million in benefits.

The retirement experience of an average, recently retired career university employee (retired since Jan. 1, 2013, with 30 years of service or more) demonstrates how the politician-granted benefits boost retirees' pensions. For example, Betty Pilchard, a professor who retired from Heartland Community College in 2014 at age 58, received a starting annual pension benefit of \$71,551.

By the time Pilchard reaches her approximate life expectancy of 84, her annual pension will have increased to \$154,306 a year. This is because the 3 percent cost-of-living adjustment, or COLA, she receives every year causes her original \$71,551 annual benefit to build upon itself,

**GRAPHIC 3**

**Pension benefits of State Universities Retirement System retirees**

Chief executive compensation at Illinois public colleges and universities, fiscal year 2014

**Top 10 SURS pensioners by current annual pension**

Name	University	Current annual pension	Estimated total lifetime payout
Heffez, Leslie	University of Illinois - Chicago	\$547,862	\$17,982,542
Das Gupta, Tapas	University of Illinois - Chicago	\$466,409	\$7,411,985
Abraham, Edward	University of Illinois - Chicago	\$453,164	\$9,067,334
Guenther, Ronald	University of Illinois - Foundation	\$445,937	\$9,383,642
Maggs, Peter	University of Illinois - Urbana	\$414,871	\$2,408,285
Flaherty, Joseph	University of Illinois - Chicago	\$408,417	\$8,654,854
Mafee, Mahmood	University of Illinois - Chicago	\$404,463	\$8,621,374
Stukel, James	University of Illinois - Urbana	\$379,213	\$7,016,683
Abcarian, Herand	University of Illinois - Chicago	\$370,140	\$6,883,577
Albrecht, Ronald	University of Illinois - Chicago	\$368,742	\$6,199,043

**Select list of average recently retired career SURS pensioners**

Name	Last employer	Current annual pension	Estimated total lifetime payout
Barling, Connie	Illinois State University	\$73,633	\$3,013,865
Pilchard, Betty	Heartland Community College	\$72,803	\$2,680,684
Berbert, Kirk	University of Illinois - Chicago	\$72,766	\$2,234,646
Lifonti, Eugene	University of Illinois - Chicago	\$72,708	\$2,682,477
Minor, Cindy	John A. Logan College	\$71,609	\$2,763,489
Simmons, Rosemary	Southern Illinois University - Carbondale	\$71,546	\$3,163,247
Patton, Brent	Southern Illinois University - Carbondale	\$71,448	\$2,411,582
Finucane, William	Northern Illinois University	\$70,799	\$1,848,978
Simpson, Aquanette	Northern Illinois University	\$70,529	\$2,202,885
Harris, Frances	University of Illinois - Urbana	\$70,010	\$2,222,647

Source: Retiree data obtained from SURS pursuant to FOIA request

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doubling Pilchard's benefit in 25 years.<sup>7</sup>  
[GRAPHIC 3]

While administrator costs have skyrocketed, university officials have complained for years about the state's lack of commitment to higher education, perpetuating a myth that the state's appropriations have been in steady decline.

But state funding has increased by more than 60 percent over the last decade, growing to over \$4.1 billion in 2015 from \$2.5 billion in 2006.<sup>8</sup> Unfortunately, a

majority of that money has gone toward administration salaries and retirement costs, not classroom instruction. [GRAPHIC 4]

**Tuition pays for too much administration**

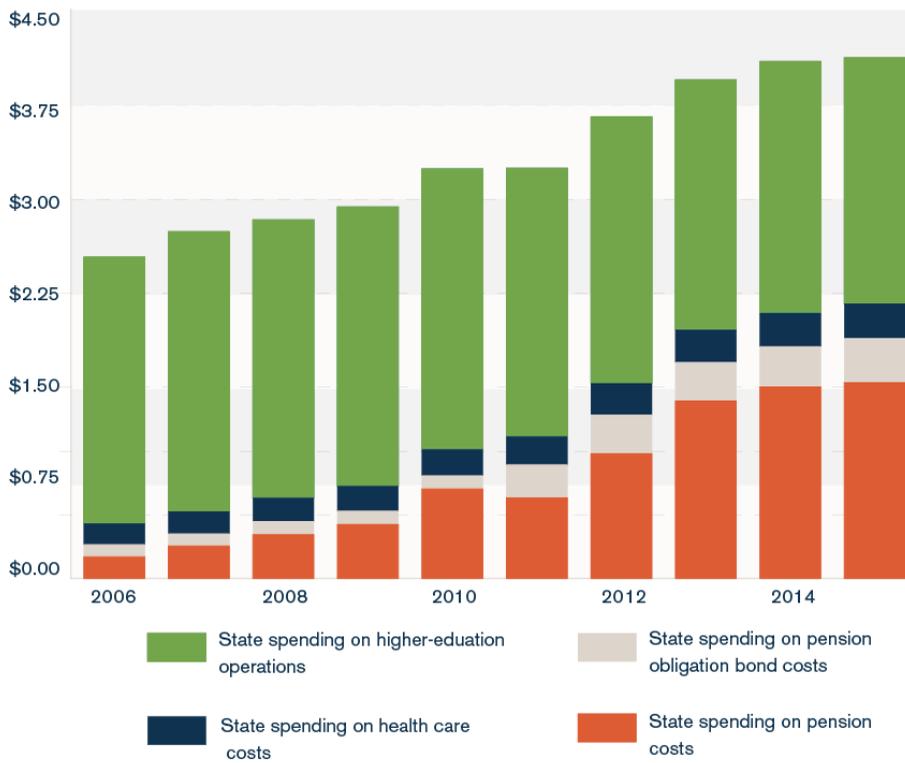
University officials have effectively shut the door for many of Illinois' college-bound students through alarming tuition increases to pay for their growing executive salaries and benefits.

Faced with massive tuition hikes, students with the financial means choose to go to less expensive schools out of state while low-income families are stuck – unable to afford any college at all.

Overall enrollment for Chicago State University is down 25 percent from just last year. The 86 freshmen who registered this fall include both full-time and part-time students – smaller than the incoming kindergarten classes at many Chicago public schools.<sup>9</sup>

**GRAPHIC 4**

**Total state spending on higher education has risen to over \$4 billion annually**  
 Total state spending on higher-education appropriations by expenditure (in billions of \$)



Note: See appendix for more information.

Source: Illinois Board of Higher Education, Commission on Government Forecasting and Accountability

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According to the Illinois Board of Higher Education, tuition has increased dramatically at Illinois' public universities for more than a decade. Combined student tuition and fees grew anywhere from 74 to 112 percent between 2006 and 2016, depending on the university.<sup>10</sup> [GRAPHIC 5]

At the University of Illinois at Urbana-Champaign, the public university with the highest tuition and fee costs in the state, average tuition now costs \$15,626 annually, up 80 percent since 2006.<sup>11</sup>

In fact, Illinois' average in-state tuition and fees for four-year public universities is over \$13,000. That's 42 percent to 67 percent higher than the tuition in neighboring states.<sup>12</sup> [GRAPHIC 6]

Illinois universities should rely less on state funding because of the tuition they charge. But the opposite is true.

Illinois universities' massive increase in administrative positions and exorbitant executive compensation over the past few decades has made higher education more reliant on state-provided dollars compared with universities in neighboring states.

The state of Illinois' annual appropriation to higher education equals nearly \$11,000 per student. That's 70 percent higher than the average state-provided appropriations of Illinois' neighbors.<sup>13</sup> [GRAPHIC 7]

So not only do Illinois universities charge the highest tuition in the region, they are also the most reliant on the state for financial support.

This double burden on Illinois families – high tuition paid by parents and students and high state support funded through taxes – cannot continue.

**GRAPHIC 5**

**Student tuition and fees have grown by as much as 100 percent since 2006**  
 Annual full-time resident undergraduate tuition and fees: entry level

University	2006 average tuition and fees	2016 average tuition and fees	Average annual growth rate	Total growth 2006 - 2016
Chicago State	\$6,626	\$11,758	5.90%	77%
Eastern Illinois	\$6,339	\$11,305	5.96%	78%
Governors State	\$5,050	\$10,246	7.33%	103%
Illinois State	\$7,091	\$13,666	6.78%	93%
Northeastern Illinois	\$6,306	\$13,374	7.81%	112%
Northern Illinois	\$7,229	\$14,318	7.07%	98%
Western Illinois	\$6,899	\$12,889	6.45%	87%
<b>Southern Illinois</b>				
Carbondale	\$6,831	\$13,137	6.76%	92%
Edwardsville	\$5,209	\$10,247	7.00%	97%
<b>University of Illinois</b>				
Chicago	\$8,498	\$14,816	5.72%	74%
Springfield	\$5,965	\$12,411	7.60%	108%
Urbana-Champaign	\$8,688	\$15,626	6.05%	80%

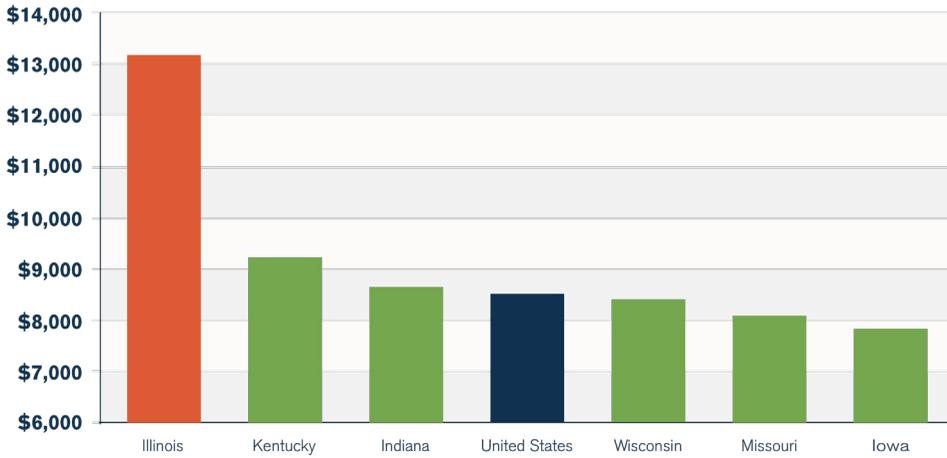
Source: Illinois Board of Higher Education

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GRAPHIC 6

**Illinois' university tuition and fees are on average 50% higher than those in neighboring states**

Average per-student in-state tuition and fees of 4-year public universities, 2015



Source: National Center for Education Statistics

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**The solution: Prioritize students**

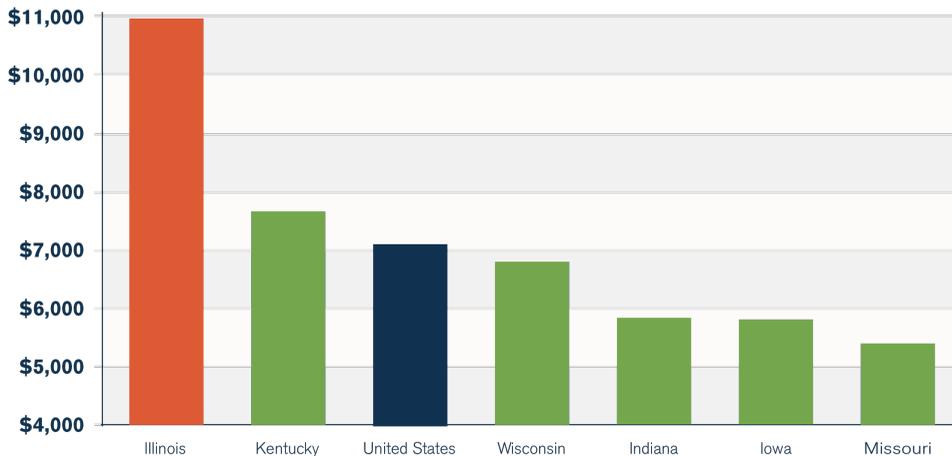
Instead of letting Illinois' higher education system deteriorate further, Illinois' colleges and universities must first freeze and then begin to reduce the cost of tuition. They must reform their operational spending, reduce the cost of salaries, and eliminate administrative bloat – then pass the resulting savings on to students.

The Institute's plan calls for a \$500 million reduction in state appropriations to colleges and universities – the equivalent of approximately 10 percent of projected payroll costs in 2018.<sup>14</sup> Until colleges and universities enact reforms, the destructive circle of hiking tuition while relying increasingly on state subsidies will continue, making higher education less and less affordable for Illinois' students and more and more expensive for state taxpayers.

GRAPHIC 7

**Illinois' per-student appropriation to higher education is on average 70% higher than those of neighboring states**

Total state appropriations to public higher education per student, 2015



Source: State Higher Education Executive Officers, "State Higher Education Finance Report 2015"

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## BUDGET SOLUTIONS - NUMBERS BREAKDOWN

1

REVENUES (in millions of \$)	ACTUALS		2017	2018		ACTUALS
	2015 <sup>1</sup>	2016 <sup>2</sup>	Estimate based on GOMB <sup>3</sup>	Estimate based on GOMB <sup>3</sup>	Illinois Policy Institute Budget Solutions	Value of reforms
Income taxes	18,119	14,862	15,859	16,364	16,364	0
Sales taxes	8,030	8,063	8,220	8,370	8,370	0
All other taxes	1,006	3,192	3,222	3,124	3,124	0
Other state sources	5,856	1,591	2,603	1,756	1,756	0
Federal sources	3,331	2,665	3,809	3,847	3,847	0
<b>TOTAL REVENUES</b>	<b>36,342</b>	<b>30,373</b>	<b>33,713</b>	<b>33,461</b>	<b>33,461</b>	

2

EXPENSES (in millions of \$)	ACTUALS		2017	2018		
	2015 <sup>1</sup>	2016 <sup>4</sup>	Estimate based on GOMB <sup>3</sup>	Estimate based on GOMB <sup>3</sup>	Illinois Policy Institute Budget Solutions	Value of reforms
<b>Education</b>	<b>8,505</b>	<b>8,144</b>	<b>9,303</b>	<b>9,471</b>	<b>8,721</b>	<b>(750)</b>
K-12 education	6,555	6,572	7,461	7,610	7,360	(250)
Higher education	1,950	1,572	1,842	1,861	1,361	(500)
<b>Human services</b>	<b>5,407</b>	<b>4,871</b>	<b>6,048</b>	<b>6,163</b>	<b>6,163</b>	<b>0</b>
<b>Health care</b>	<b>7,178</b>	<b>7,496</b>	<b>7,203</b>	<b>7,343</b>	<b>6,928</b>	<b>(415)</b>
<b>Pensions</b>	<b>6,046</b>	<b>6,631</b>	<b>6,971</b>	<b>7,889</b>	<b>4,819</b>	<b>(3,070)</b>
K-12 education pensions	3,413	3,743	3,988	4,565	2,574	(1,991)
State university pensions	1,347	1,411	1,521	1,614	962	(652)
State employee pensions	1,286	1,477	1,462	1,710	1,283	(427)
<b>General government</b>	<b>2,873</b>	<b>2,857</b>	<b>2,997</b>	<b>3,070</b>	<b>1,959</b>	<b>(1,111)</b>
Group health insurance	1,565	1,650	1,810	1,873	1,873	0
General government	1,308	1,207	1,187	1,197	86	(1,111)
<b>Economic development</b>	<b>104</b>	<b>48</b>	<b>58</b>	<b>59</b>	<b>59</b>	<b>0</b>
<b>Public safety</b>	<b>1,619</b>	<b>1,617</b>	<b>1,727</b>	<b>1,761</b>	<b>1,761</b>	<b>0</b>
<b>Environment and culture</b>	<b>67</b>	<b>54</b>	<b>64</b>	<b>65</b>	<b>65</b>	<b>0</b>
<b>Transfers and debt</b>	<b>3,559</b>	<b>4,364</b>	<b>4,642</b>	<b>4,734</b>	<b>2,986</b>	<b>(1,748)</b>
General salvage <sup>5</sup>	(1,024)	(251)	(240)	(259)	(259)	0
Statutory transfers out	2,489	2,486	2,532	2,575	827	(1,748)
Debt service: capital & POBs	2,094	2,129	2,350	2,418	2,418	0
<b>TOTAL EXPENDITURES</b>	<b>35,358</b>	<b>36,082</b>	<b>39,013</b>	<b>40,555</b>	<b>33,461</b>	<b>(7,094)</b>
<b>Actual spending</b>						
<b>ANNUAL BUDGET DEFICIT</b>	<b>\$984</b>	<b>(\$5,709)</b>	<b>(\$5,300)</b>	<b>(\$7,094)</b>	<b>\$0</b>	<b>7,094</b>

3

BUDGET REFORMS	\$ value of reforms (in millions of \$)
<b>A</b> Eliminate special carve-outs for select school districts	<b>\$250</b>
<b>B</b> Eliminate administrative bloat in higher education	<b>\$500</b>
<b>C</b> Ensure Medicaid spending goes to those who truly need it	<b>\$415</b>
<b>D</b> End Illinois' pension crisis through self-managed plans	<b>\$1,650</b>
<b>E</b> Require school districts to pay for their employee pension costs	<b>\$970</b>
<b>F</b> Require universities to pay for their employee pension costs	<b>\$450</b>
<b>G</b> Realign state worker compensation costs with what taxpayers can afford	<b>\$1,111</b>
<b>H</b> End state subsidies that fuel overspending at the local level	<b>\$1,748</b>
<b>subtotal</b>	<b>\$7,094</b>

The plan closes the \$7.1 billion budget gap

Comprehensive property tax reform must give local officials the ability to lower significant spending drivers and make the cost of government affordable to taxpayers.

4

LOCAL GOVERNMENT OFFSETS	(in millions of \$)
Give local governments the ability to set their own collective bargaining rules	<b>\$1,000 - \$2,000</b>
Enact changes to workers' compensation laws to reduce local governments' costs	<b>\$200</b>
Reform unfunded state mandates that burden local governments unnecessarily	<b>\$200</b>
Require teachers to pay their legally required contributions toward their pensions	<b>\$375</b>
Reform prevailing wage requirements	<b>\$280</b>
Consolidate local government bureaucracies and authorize municipal bankruptcies	<b>--</b>

**Footnotes:**

<sup>1</sup>Governor's Office of Management and Budget, Three-year projection, fiscal year 2016

<sup>2</sup>Commission on Government Forecasting and Accountability, FY 2017 Budget Summary (updated Aug. 10, 2016)

<sup>3</sup>Governor's Office of Management and Budget, Five-year projection, fiscal year 2017

<sup>4</sup>Governor's Office of Management and Budget, General Obligation Refunding Bond, Series of October 2016, official statement

<sup>5</sup>The state's budget normally lists an amount of spending salvage. This was presumed to be the case in 2017 as well.



## INTRODUCTION

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## PART A

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<sup>3</sup> Randolph, et al., "Growing Out of Control."

<sup>4</sup> Ibid.

<sup>5</sup> Costin, "Too Much Government."

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Mindy Ruckman, "Illinois Counties, Cities Should Have the Right to Dissolve Townships," *Illinois Policy Institute*, September 21, 2016, <https://www.illinoispolicy.org/illinois-counties-cities-should-have-the-right-to-dissolve-townships/>.

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<sup>11</sup> Ted Dabrowski and John Klingner, "Pensions vs. Higher Education," *Illinois Policy Institute*, February 2016, [https://files.illinoispolicy.org/wp-content/uploads/2016/02/PensionvsHigherEd\\_Report\\_web.pdf](https://files.illinoispolicy.org/wp-content/uploads/2016/02/PensionvsHigherEd_Report_web.pdf).

<sup>12</sup> Member compensation data from Illinois Municipal Retirement Fund pursuant to a 2016 FOIA request.

<sup>13</sup> Dabrowski, "Too Many Districts."

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<sup>15</sup> Benjamin Scafidi, Ph.D., *The School Staffing Surge: Decades of Employment Growth in America's Public Schools, Part II*, (Friedman Foundation for Educational Choice, February 2013), <http://files.eric.ed.gov/fulltext/ED543118.pdf>.

<sup>16</sup> Dabrowski, "Too Many Districts."

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Illinois Comptroller, *2015 Annual Financial Reports: Revenues*, <http://warehouse.illinoiscomptroller.com>.

<sup>21</sup> Illinois Department of Revenue, "An Overview of the Property Tax Extension Limitation Law by Referendum," <http://tax.illinois.gov/Publications/PIOs/PIO-62.pdf>.

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<sup>26</sup> Ted Dabrowski, Josh Dwyer and John Klingner, "Understanding Illinois' Broken Education Funding System: A Primer on General State Aid," *Illinois Policy Institute*, September 2016, [https://files.illinoispolicy.org/wp-content/uploads/2013/10/Ed\\_finance.pdf](https://files.illinoispolicy.org/wp-content/uploads/2013/10/Ed_finance.pdf).

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<sup>33</sup> Illinois State Board of Education, *2014-2015 Illinois Teacher Salary Study*, (April 2015), [http://www.isbe.net/research/pdfs/teacher\\_salary\\_14-15.pdf](http://www.isbe.net/research/pdfs/teacher_salary_14-15.pdf).

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<sup>36</sup> Teachers Contract, Chicago Teachers Union, <http://www.ctunet.com/for-members/salary-schedules>.

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<sup>44</sup> Illinois Department of Labor, "Current Prevailing Wage Rates by County," <https://www.illinois.gov/idol/Laws-Rules/CONMED/rates/2015/july/county.htm>.

<sup>45</sup> U.S. Census Bureau, "Median Workers' Earnings," *American Community Survey 2015*, <https://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>.

<sup>46</sup> Illinois Comptroller, *2015 Annual Financial Reports: Revenues*, <http://warehouse.illinoiscomptroller.com>.

<sup>47</sup> There are over 900 municipalities with populations below 5,000 that rely heavily on LDGF funds as a percentage of their budget when compared with larger municipalities in Illinois. Those communities collectively receive a little under \$100 million from LGDF annually. As those communities do not have the tax base of larger municipalities and cannot cope as easily with the loss of LGDF dollars, they are exempted from the Institute's cuts to LGDF in 2018.

<sup>48</sup> Hitt, "Playing Favorites."

<sup>49</sup> Teachers' Retirement System, *Teachers' Retirement System Actuarial Report 2016*, (2016), <http://trs.illinois.gov/pubs/actuarial/2016ActuarialValuationSegal.pdf>; State Universities Retirement System, *Actuarial Valuation Report 2015*, (2015). <http://www.surs.com/pdfs/invinfo/avr15.pdf>.

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