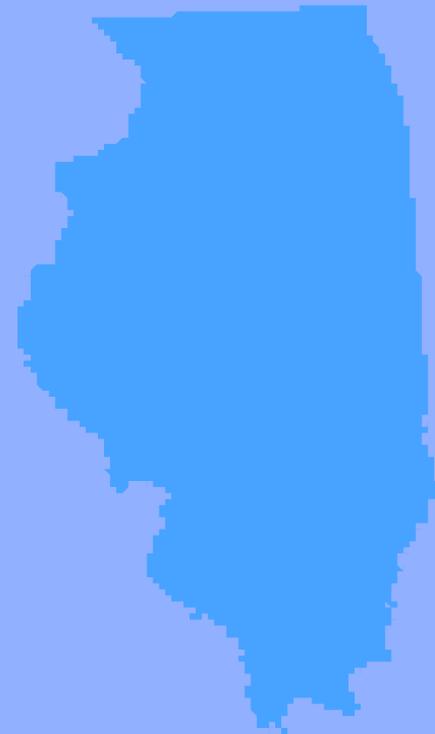




# The Illinois Turnaround

Governor Bruce Rauner

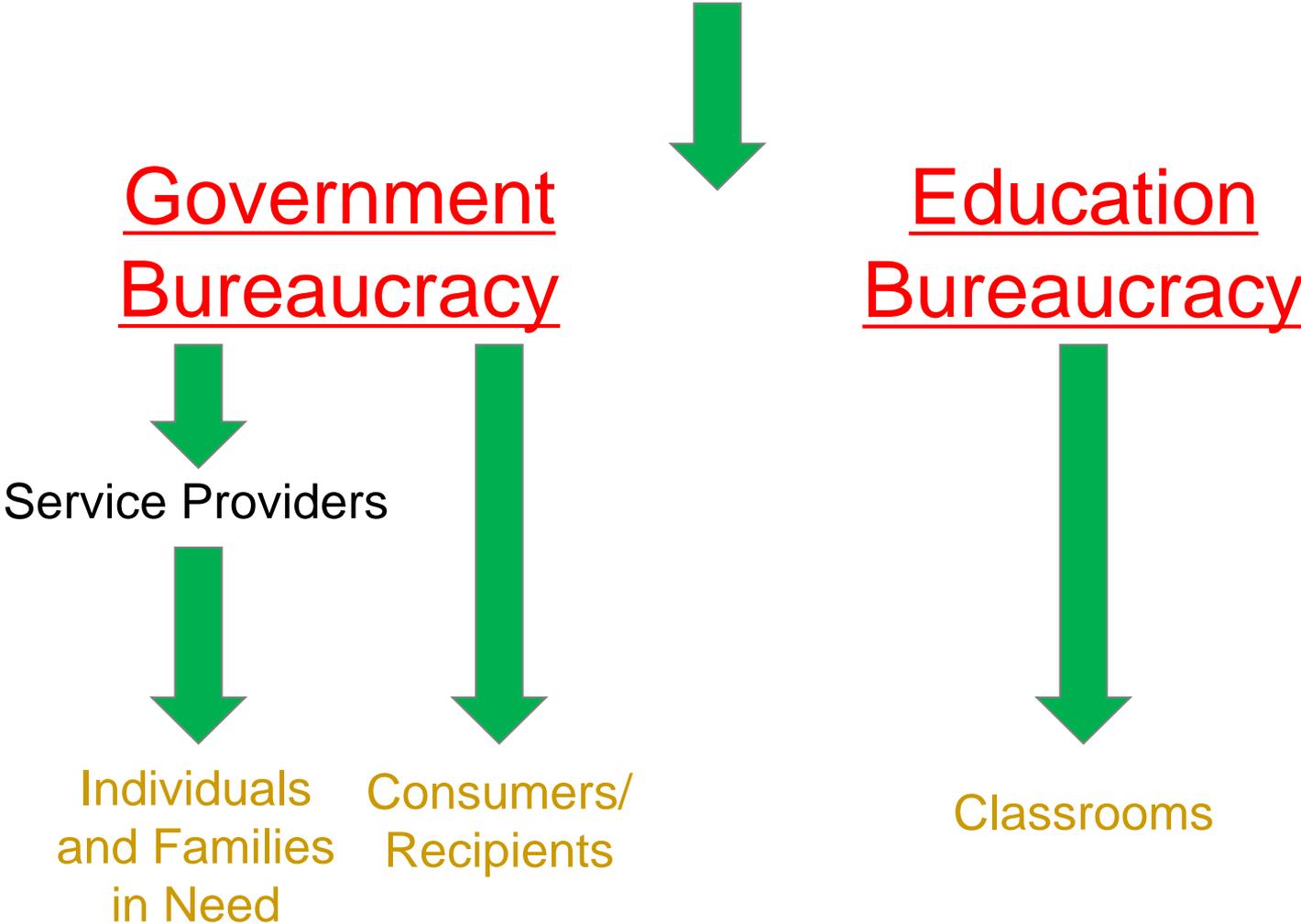


Our Goal:  
Make Illinois the Most  
**Competitive** and  
**Compassionate** State in  
America

# Illinois On Unsustainable Path

Raising Taxes Alone Won't  
Work

# Ability to be Compassionate Tax Revenues



# Competitiveness

$$\begin{aligned} & \text{Tax Rates} \\ & \times \text{Tax Base} \\ & \times \text{Economic Activity} \\ & = \\ & \text{Tax Revenues} \end{aligned}$$

# Job Creation vs. Neighboring States 2003 – 2014

	IL	IN	IA	KY	MO	WI	U.S.
Total percentage employment growth	0.2%	3.8%	8.0%	5.3%	3.6%	4.3%	7.3%
Annual compound growth rate	0.01%	0.3%	0.7%	0.4%	0.3%	0.4%	0.6%
Cumulative job growth	10,300	109,900	115,900	94,500	96,300	120,500	9,520,000
Cumulative job growth per 1,000 people	0.80	16.66	37.30	21.41	15.88	20.93	29.86
Multiple of Illinois growth		20.8x	46.6x	26.8x	19.9x	26.2x	37.3x

Source: U.S. Bureau of Labor Statistics

# How Illinois Ranks

Chief Executive

**48<sup>th</sup> – Best States for Business**  
2014 Chief Executive Magazine

*Thumbtack*

**F – Small Business Friendliness**  
2014 Thumbtack.com Small Business  
Friendliness Survey



**35<sup>th</sup> – Small Business Policy**  
2014 Small Business and  
Entrepreneurship Council



**31<sup>st</sup> – State Business Tax Climate**  
2015 Tax Foundation

# Top States for Business – 2014



## Chief Executive

### Ranking Criteria

1. Business Environment
2. Labor Climate
3. Infrastructure

Rank	State
1	Georgia
2	Texas
3	South Carolina
4	Alabama
5	Tennessee
6	Louisiana
7	Indiana
8	North Carolina
9	Ohio
10	Mississippi

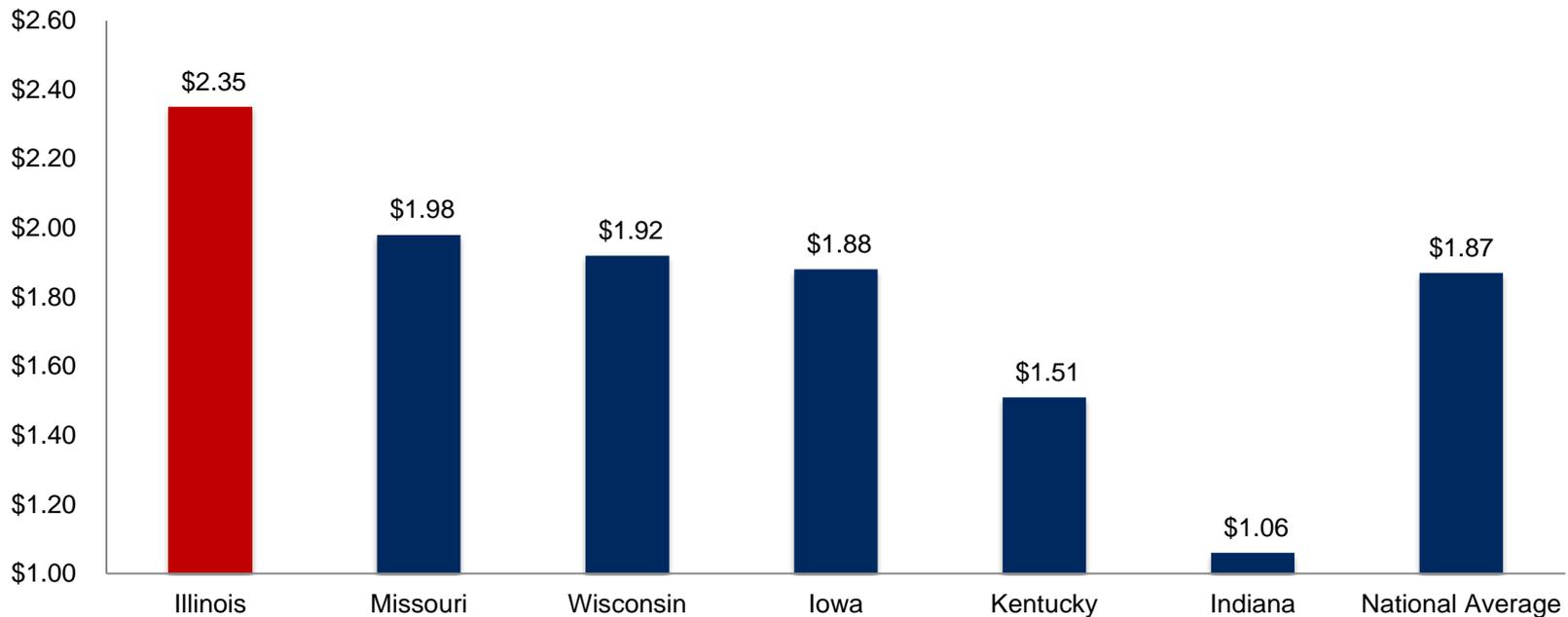
Rank	State
1	Texas
2	Florida
3	Tennessee
4	North Carolina
5	South Carolina
6	Indiana
7	Arizona
8	Nevada
9	Louisiana
10	Georgia
<b>48</b>	<b>Illinois</b>

### Ranking Criteria

1. Tax and Regulatory Regime
2. Quality of the Workforce
3. Quality of Living Environment

# Workers' Compensation Costs – 7<sup>th</sup> Highest in the Nation

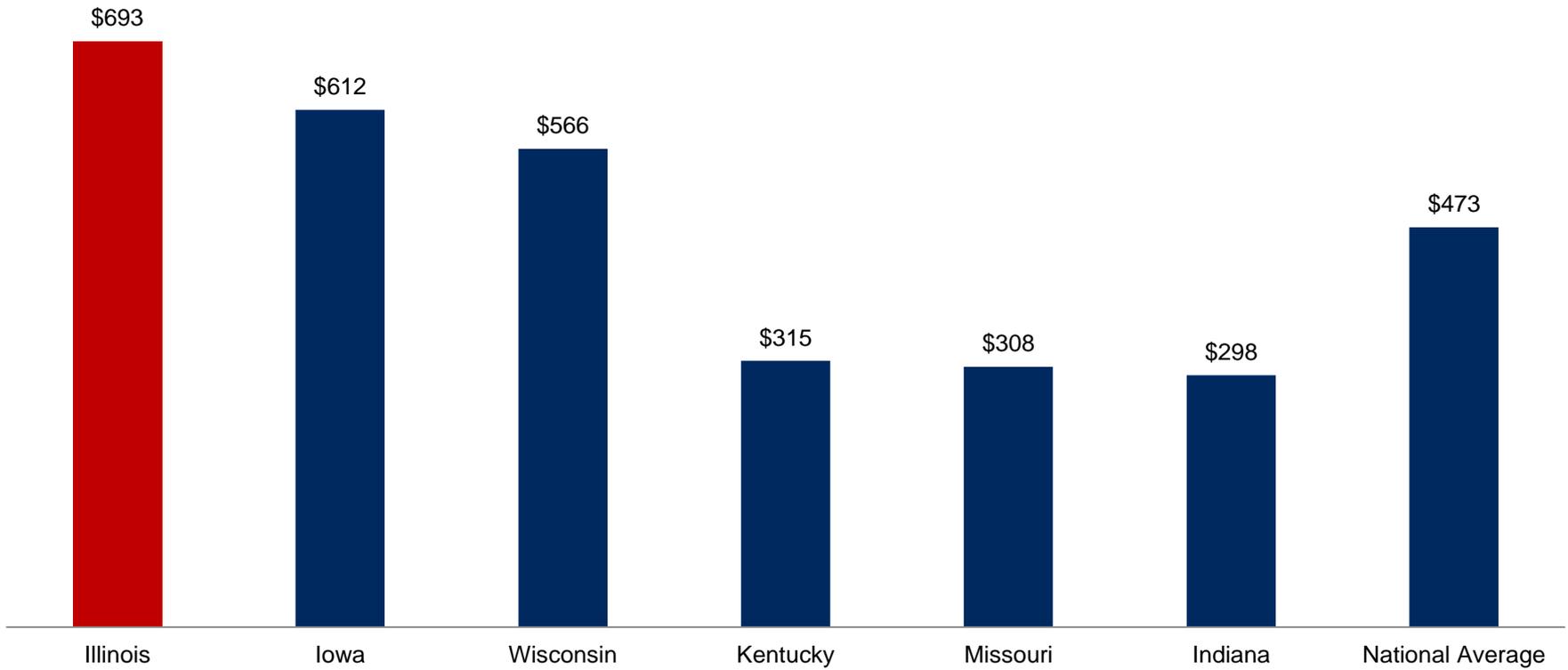
Employer Workers Compensation Cost Per \$100 of  
Salary



Source: 2014 Oregon Workers' Compensation Premium Rate Ranking Summary

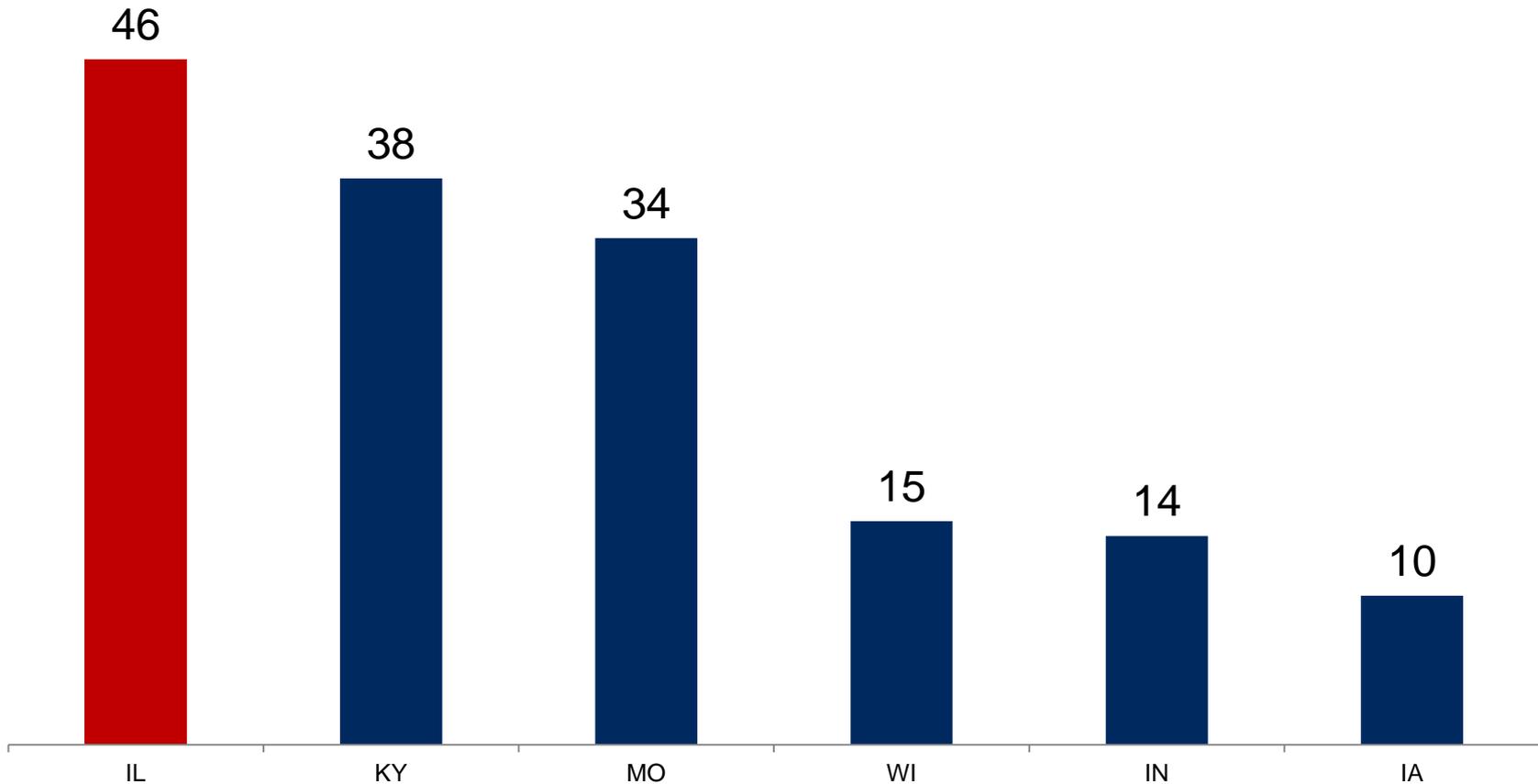
# Unemployment Insurance Tax Costs - 9<sup>th</sup> Highest in the Nation

## Unemployment Insurance Tax on Average FTE



Source: U.S. Department of Labor, Employment and Training Administration, UI Data Summary

# State Lawsuit Climate Rankings One of the Worst in the Nation



Source: U.S. Chamber Institute for Legal Reform – 2012

# Nation's Second Highest Property Taxes

	Mean Property Taxes Paid	Mean Property Tax as a Percent of Home Value
Kentucky	\$1,339	0.92
Indiana	\$1,200	0.93
Missouri	\$1,767	1.19
Iowa	\$2,398	1.6
Wisconsin	\$3,530	2.07
<b>Illinois</b>	<b>\$4,469</b>	<b>2.28</b>

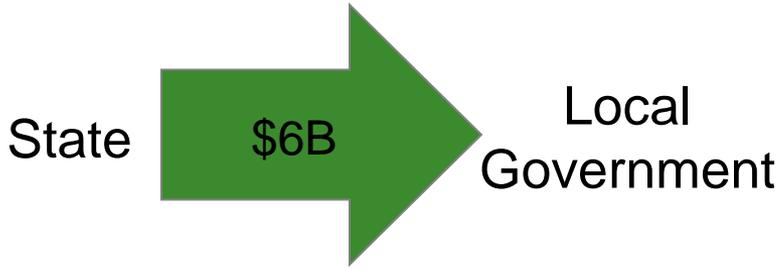
Source: Urban-Brookings Tax Policy Center – Nov. 18, 2013

# Root Causes of High Property Taxes

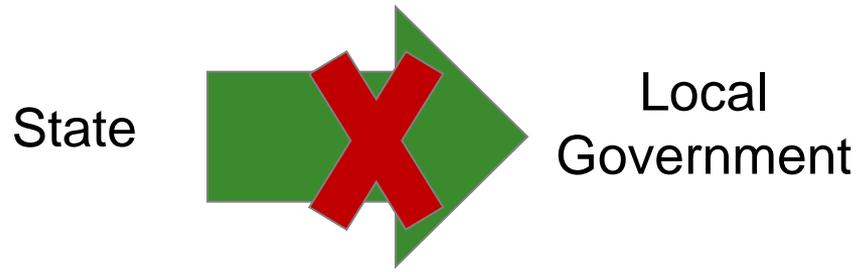
- Pensions - **\$2 billion** in 2013, and local governments neither control benefits nor contribution levels
- Over one decade, state and local governments lost **\$1.6 billion** due to prevailing wage requirements on education construction projects alone
- Project Labor Agreements can increase costs up to 18%
- Nearly 7,000 units of government

# Illinois Gives Billions to Local Government... ...But Costs Billions Too

**The State of Illinois Shares  
More than \$6 Billion in  
Revenue with Local  
Governments....**



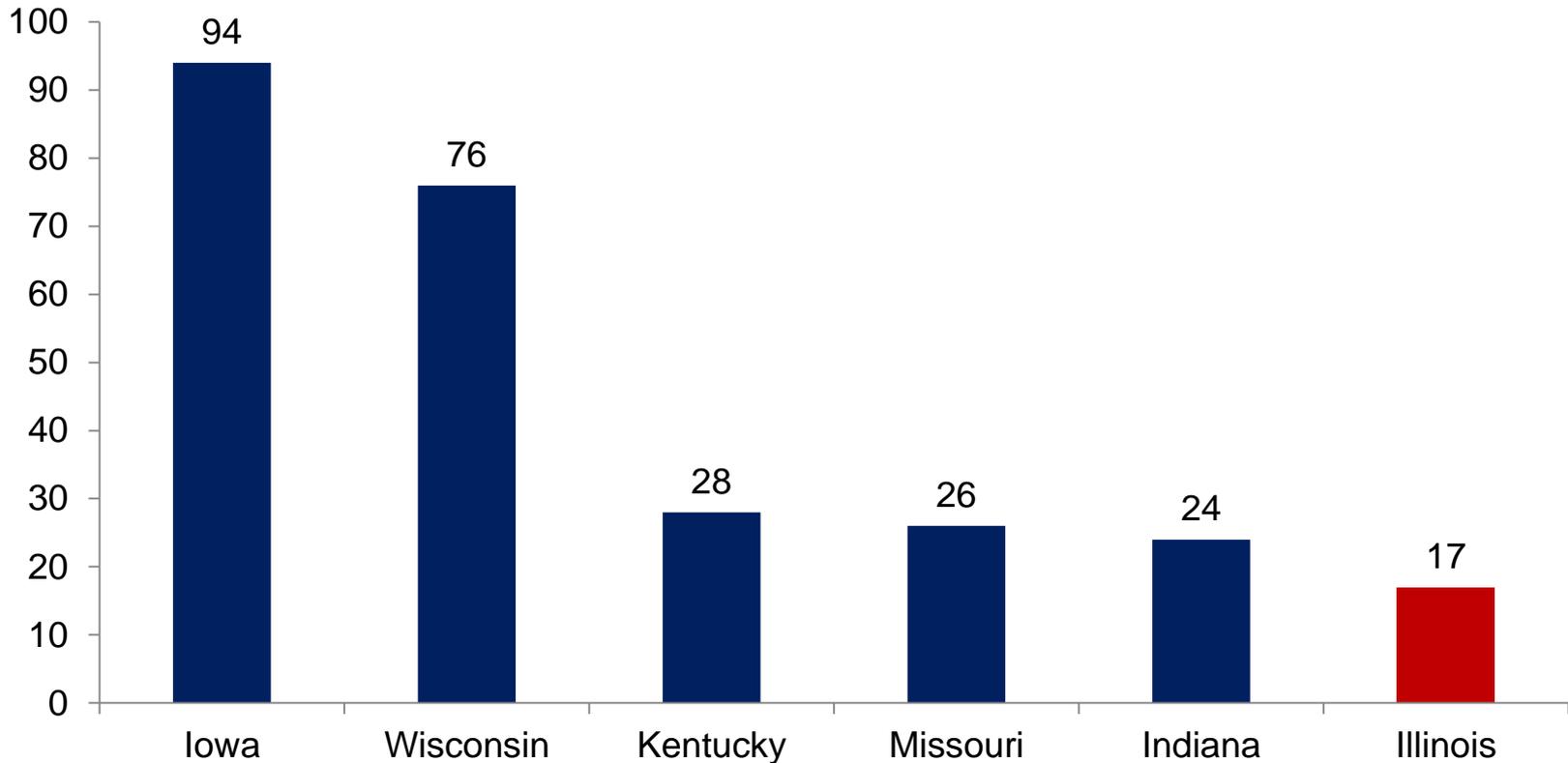
**But More than 280 State  
Imposed Unfunded  
Mandates on Local  
Governments Cost  
Communities Billions**



Source: GOMB, Illinois Municipal League

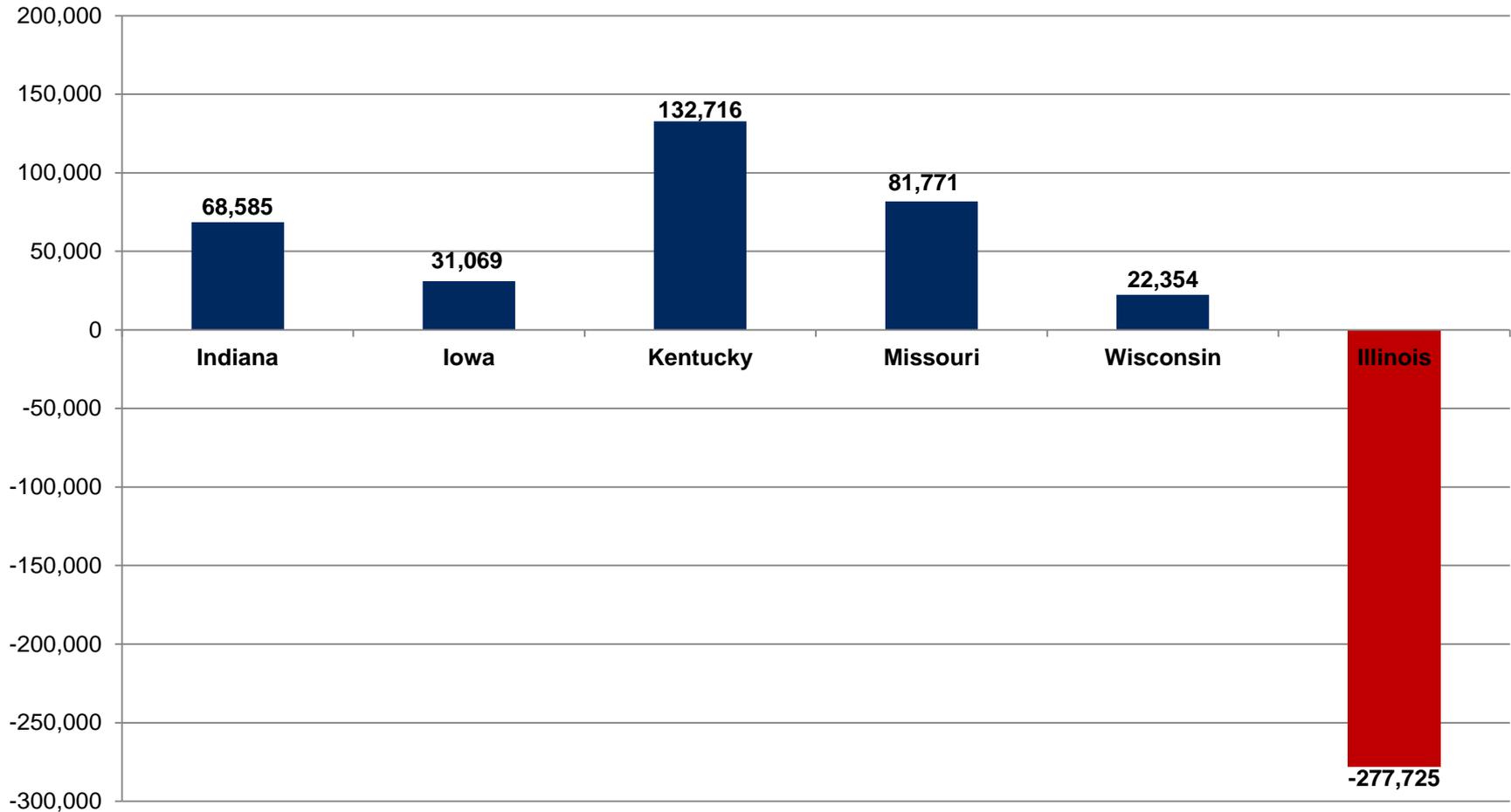
# Narrow Sales Tax Base

Services Covered by Sales Taxes



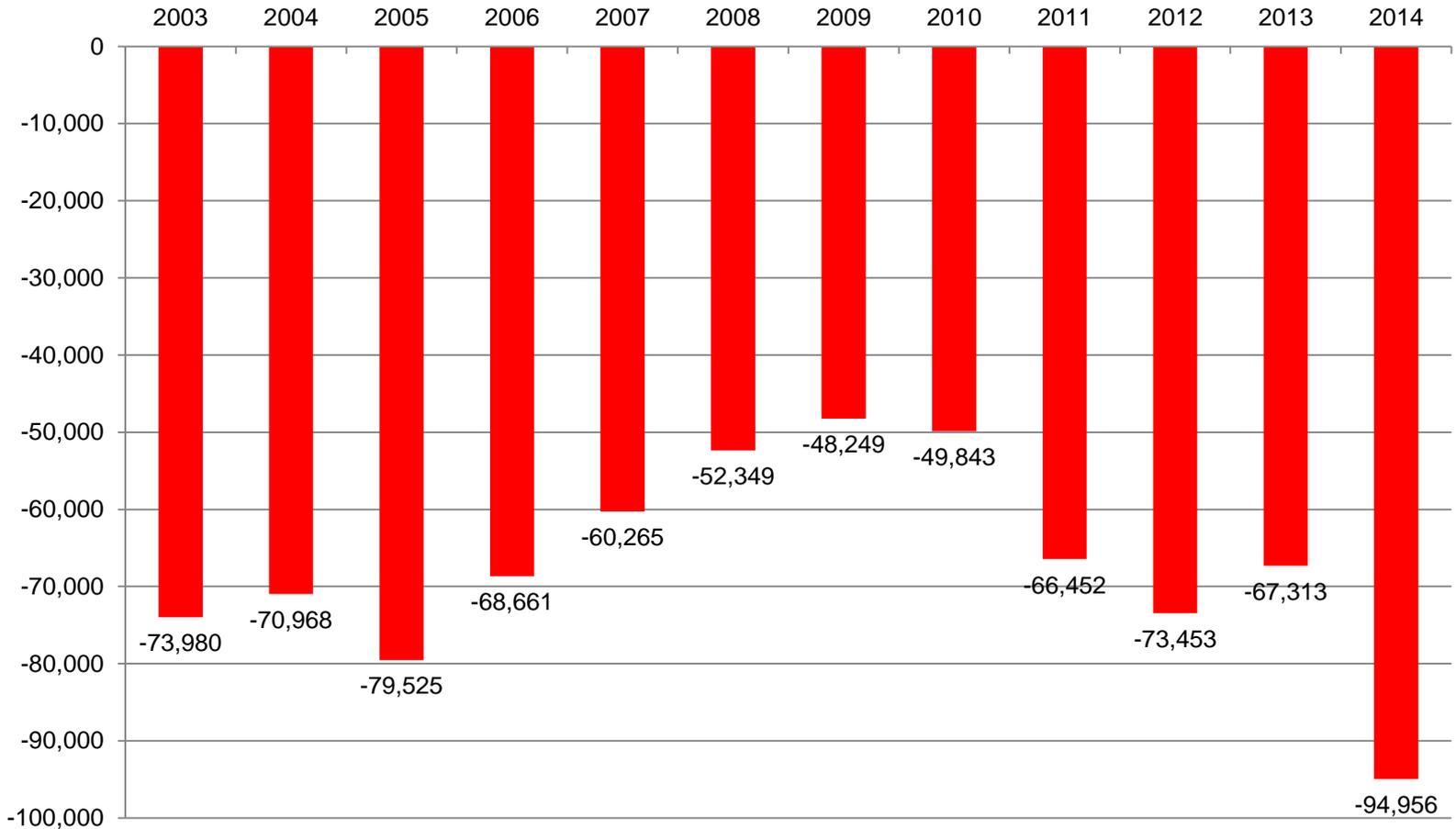
Source: Federation of Tax Administrators

# Net Migration 2003 - 2014



Source: U.S. Census Bureau

# Illinois Domestic Migration 2003-2014



Source: U.S. Census Bureau

# Declining Real Median Household Income

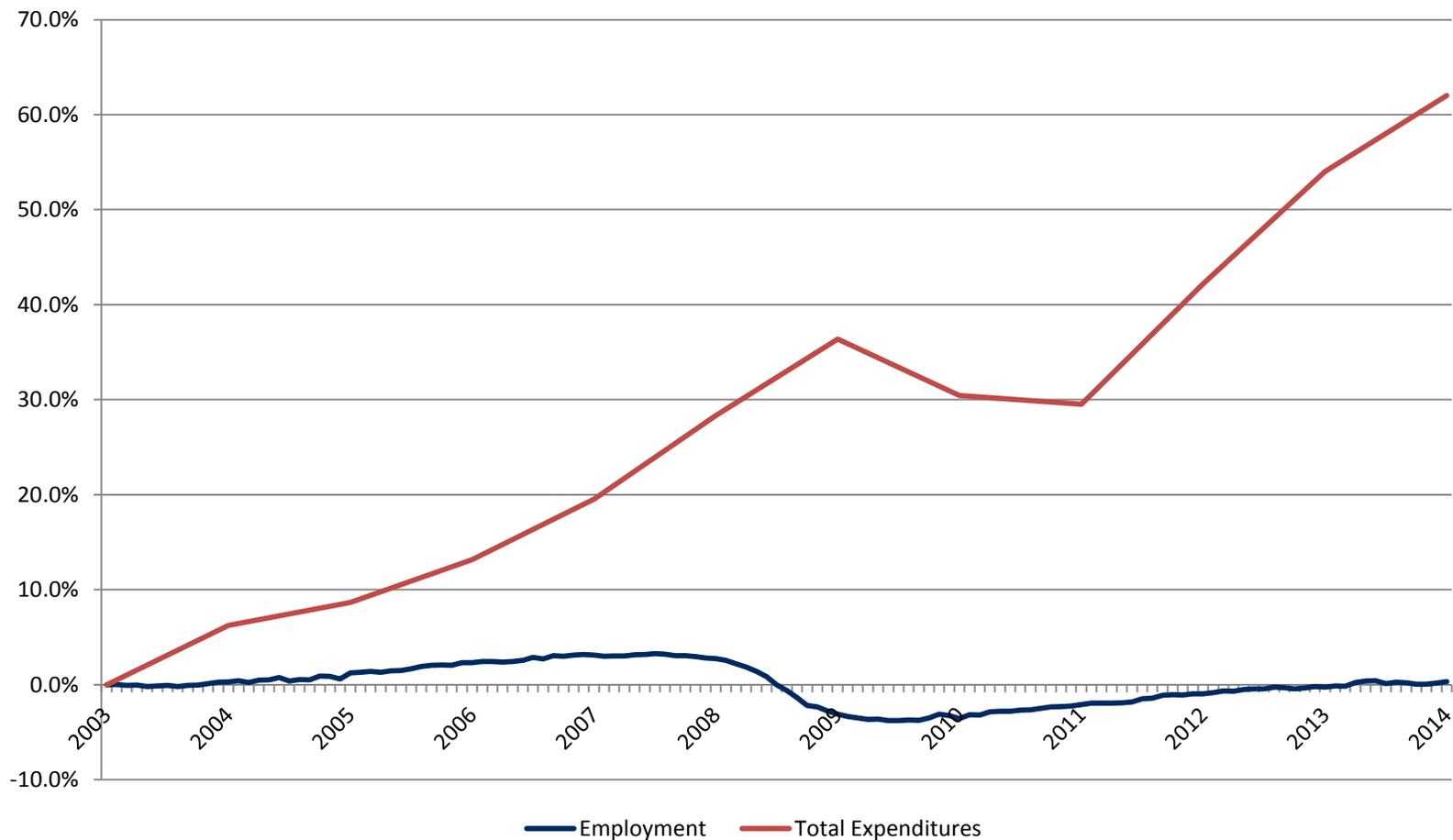
Even with a 9% spike in 2013, real median household income is still nearly 12% below its 1999 level



Source: U.S Bureau of Economic Analysis; income figures in 2014 dollars

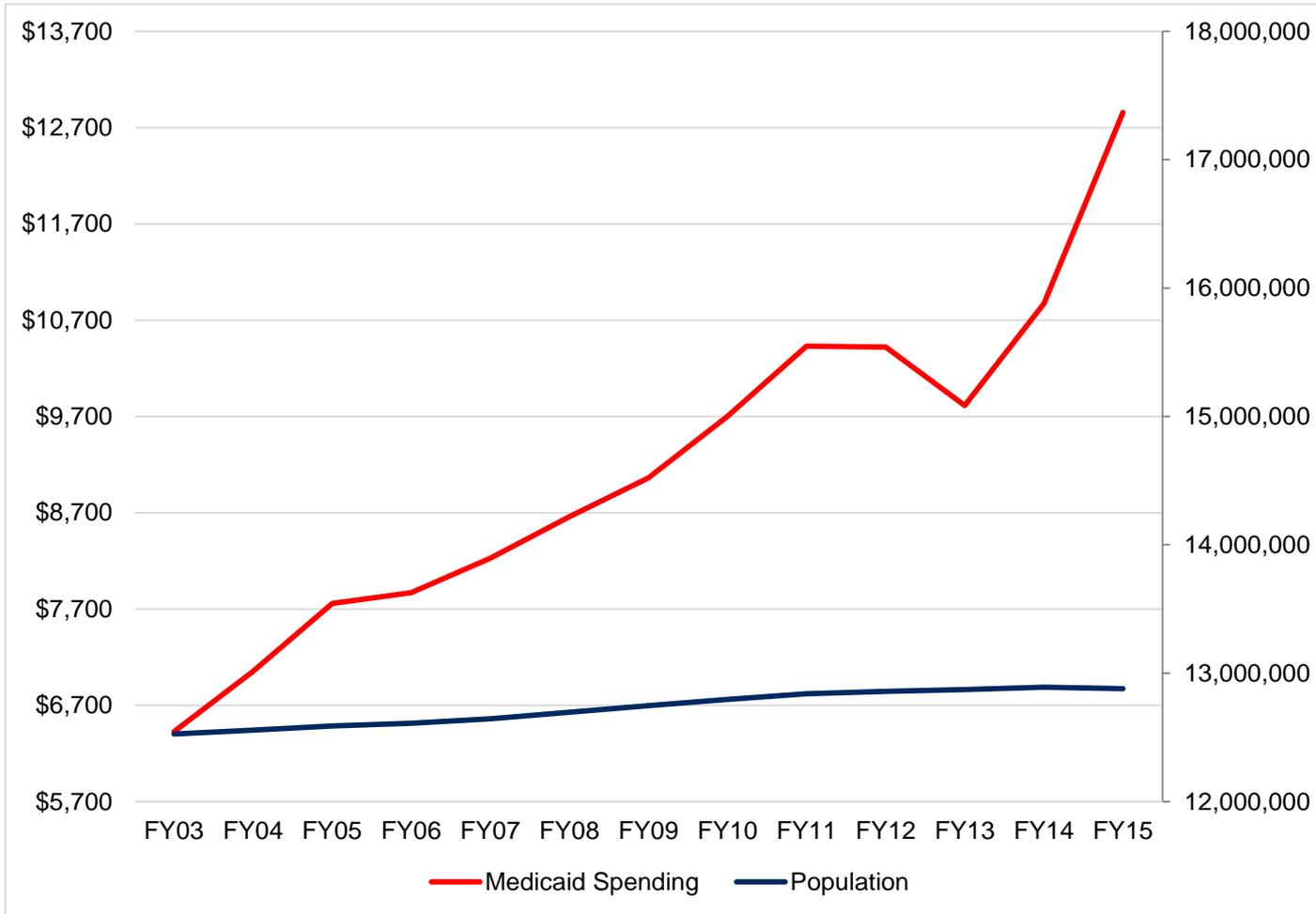
# Government Spending vs. Job Growth

- Spending is 62% higher than its 2003 level while employment is less than 0.5% above its 2003 level



Source: Illinois Office of Management and Budget; U.S. Bureau of Labor Statistics  
Expenditures in current dollars

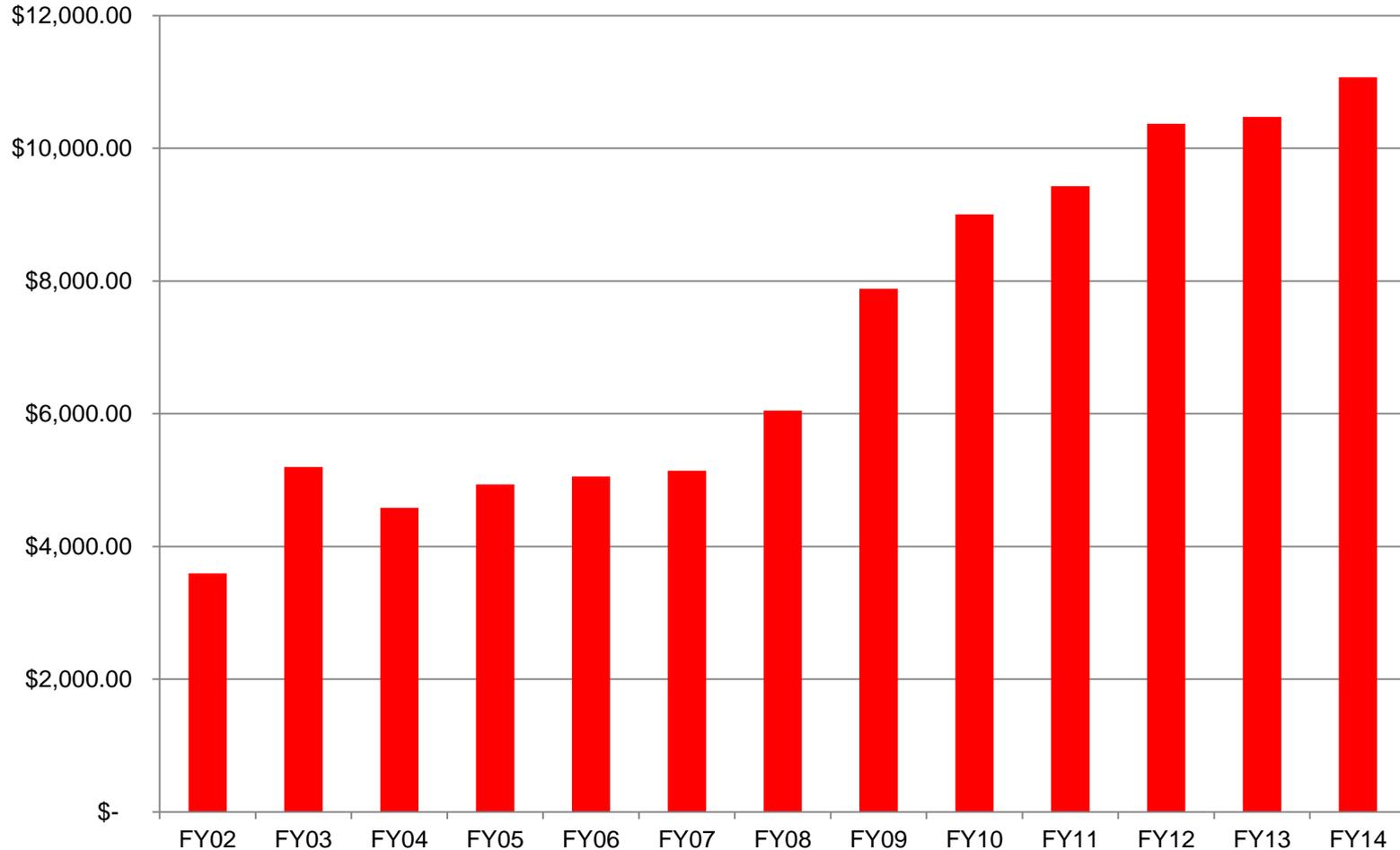
# Medicaid Spending vs. Population Growth



Source: GOMB, U.S. Census

# Unfunded Pension System Liability, and Bond and Unpaid Bill Debt per Capita

Excludes Retiree Health Care Liabilities

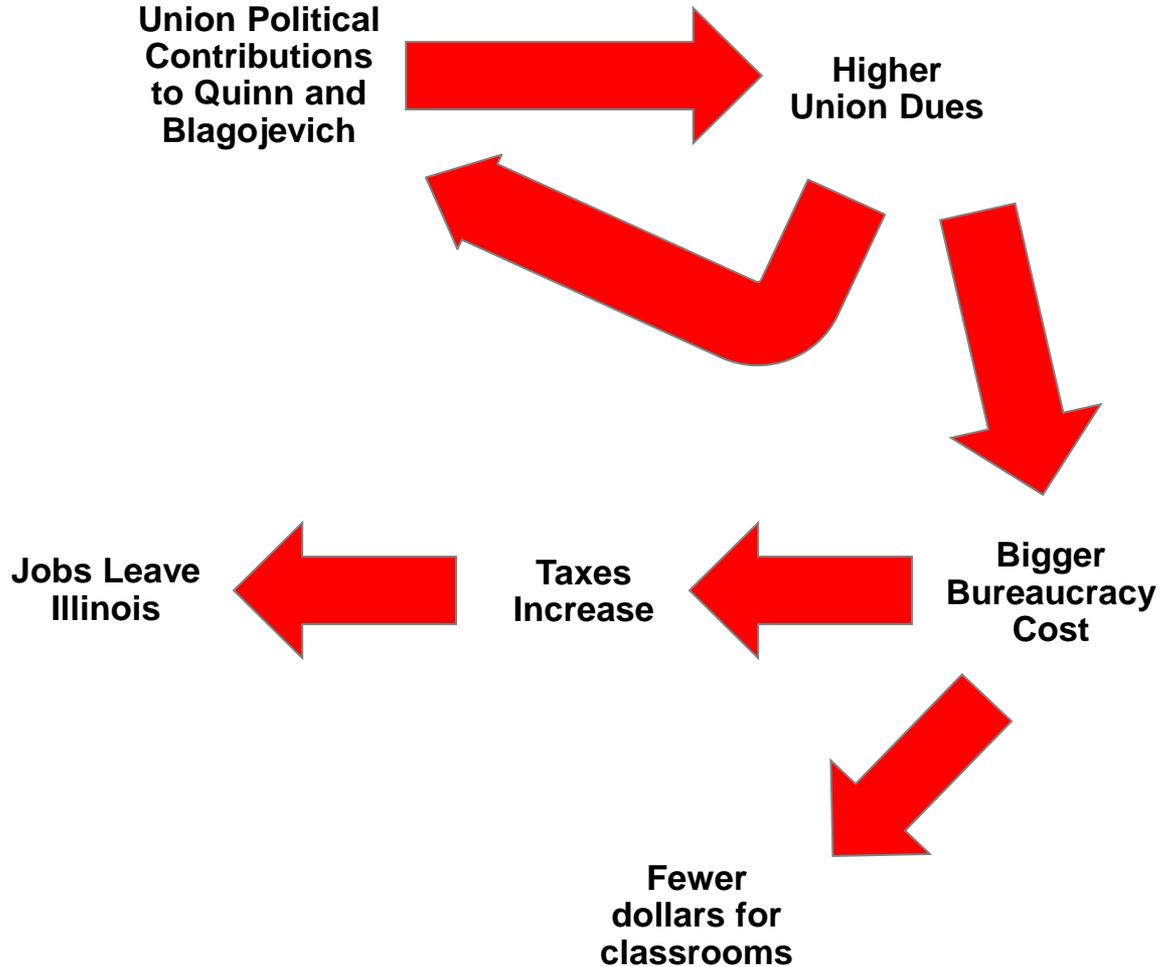


Source: GOMB and Illinois Comptroller

# Conflicts of Interest in State Political Contributions

- Illinois state law bans contributions from businesses that do more than \$50,000 worth of business with the state (30 ILCS 500/50-37)
- But Illinois law does not prohibit labor organizations with state collective bargaining agreements from contributing to the elected officials who negotiate their contracts.
- Numerous states already have bans on labor contributions, including Arizona, Michigan, Ohio, Texas and Wisconsin.

# A Corrupt Bargain



# Prior Governors and Conflict of Interest

- Blagojevich backed forced unionism by requiring government employees to join unions through card check
- Gave numerous raises to union members and denied raises to non-union employees
- Received millions of dollars in campaign contributions from government union leaders
- Now more than 93% of state workers are unionized – the highest rate in America.

# Top Seven Government Unions in Illinois

- SEIU
- AFSCME
- AFL-CIO
- Teamsters
- Illinois Federation of Teachers
- Illinois Education Association
- Chicago Teachers Union

**\$25.5 Million To Benefit  
Gubernatorial Candidates Since  
2002**

**Virtually All (99.9%)  
to Quinn and  
Blagojevich**

# Federal Government Employee Structure

Federal Service Labor–Management Relations Statute 1978  
Structure Put in Place by Democrats on a Bipartisan Basis

- **Employees have the right to organize and collectively bargain over work conditions including work hours, grievance procedures, work assignments**
- **Prohibited from strikes, work stoppages, slowdowns, picketing, etc.**
- **Cannot bargain over wages, benefits, pensions, personnel decisions and managerial rights (prohibits bargaining on mission, budget, organization, number of employees or internal security)**
- **Fair share prohibited**
- **No automatic mandatory arbitration provision or injunctions in aid of arbitration for collective bargaining impasse**
- **Prior to 1983, pension was defined benefit plan with no Social Security. Since then, a hybrid system including a defined benefit annuity, Social Security and a 401(k)**

# Illinois State Government Pay vs. Working Family Pay

	Average Illinois Government Salary	Average Illinois Working Family Salary
Switchboard Operator	\$40,207	\$27,740
Cook	\$43,723	\$22,430
Barber	\$70,561	\$44,480

Source: Illinois Comptroller and BLS

# Illinois State Government Pay vs. Neighboring States

	Average Illinois Salary	5 State Average Salary
Highway Maintenance Worker	\$49,090	\$34,690
Correctional Officer	\$61,660	\$36,220

*Many Illinois correctional officers make much more than wardens*

Source: BLS

# State Employee Salary Average 2012

Rank	State	Salary
1	New Jersey	\$66,232
2	California	\$65,548
<b>3</b>	<b>Illinois</b>	<b>\$63,669</b>
4	Rhode Island	\$62,201
5	Connecticut	\$60,621
6	Massachusetts	\$60,173
7	Iowa	\$60,055
8	Michigan	\$57,653
9	Ohio	\$57,516
10	New York	\$57,050
11	Minnesota	\$55,299
12	Alaska	\$55,054
13	Wisconsin	\$53,552
14	Pennsylvania	\$53,070
15	Colorado	\$52,495
16	Wyoming	\$51,972
17	Delaware	\$51,773
18	Washington	\$51,733
19	Arizona	\$51,225
20	Maryland	\$50,417
21	Vermont	\$49,587
22	Utah	\$48,480
23	Alabama	\$47,998
24	Kansas	\$47,889
25	New Mexico	\$47,819

Rank	State	Salary
26	Texas	\$47,710
27	New Hampshire	\$47,171
28	North Dakota	\$46,954
29	Louisiana	\$46,914
30	Nevada	\$46,716
31	Nebraska	\$46,300
32	Virginia	\$45,956
33	North Carolina	\$45,404
34	Hawaii	\$43,874
35	Oregon	\$43,810
36	Florida	\$43,588
37	South Dakota	\$43,507
38	Indiana	\$43,028
39	Kentucky	\$42,945
40	Tennessee	\$42,723
41	South Carolina	\$42,637
42	Montana	\$42,478
43	Arkansas	\$41,963
44	Mississippi	\$41,902
45	Oklahoma	\$41,716
46	Idaho	\$40,716
47	Georgia	\$40,622
48	West Virginia	\$40,487
49	Maine	\$40,116
50	Missouri	\$38,195

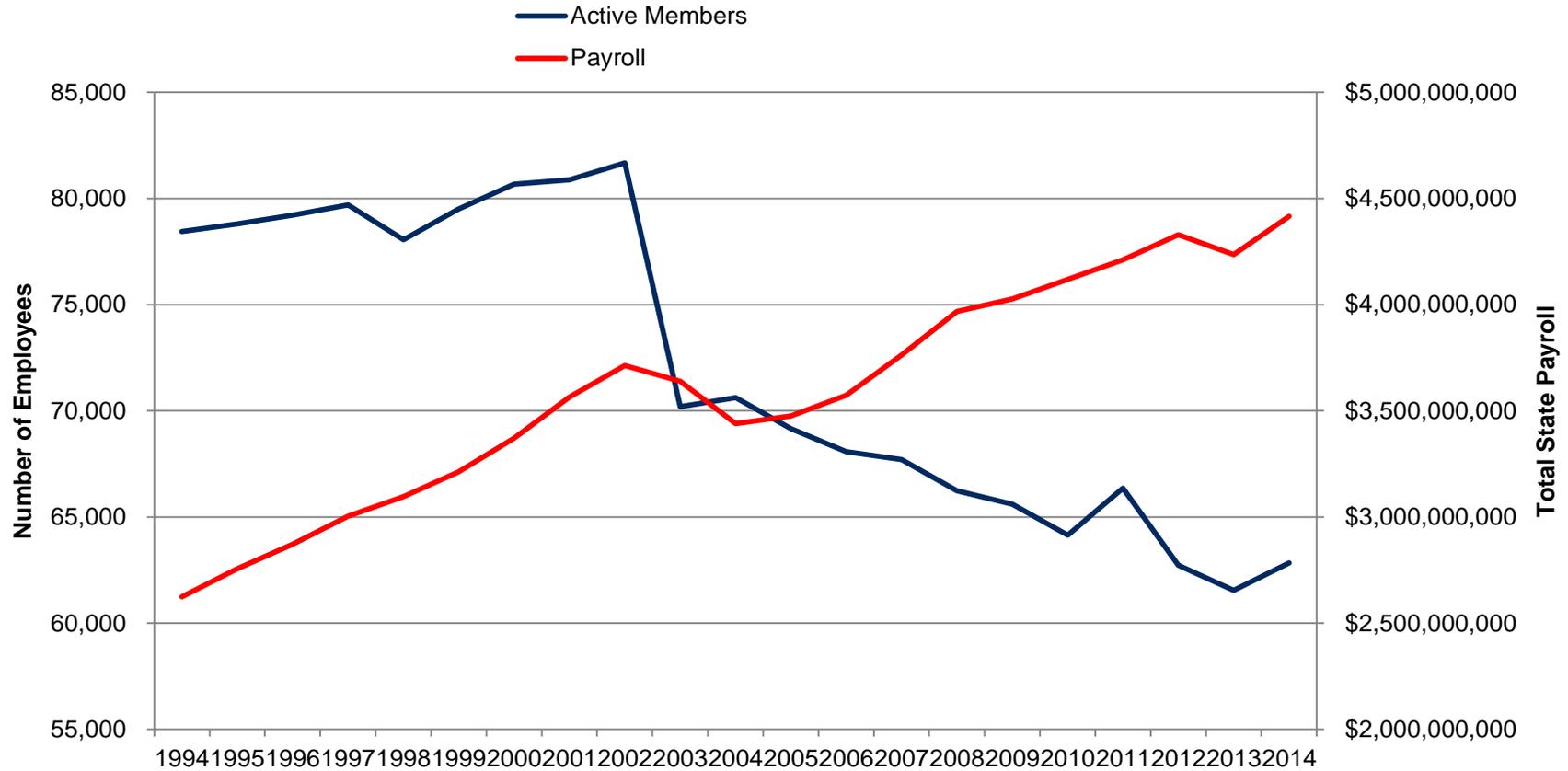
# Public Sector vs. Private Sector Salary

- The average public sector employee in Illinois makes almost 22% more -- over \$11,300 per year -- than the average private sector employee
- This difference is far greater than that at the national level, where the average public sector employee in the U.S. makes less than 9% (under \$4,000) more than the average private sector employee

	Public Sector	Private Sector	Difference (Public - Private)	% Difference
Illinois	\$63,669	\$52,336	\$11,333	21.7%
U.S. Average	\$49,330	\$45,332	\$3,998	8.8%

Source: Pew Center on the States

# State Employee Payroll vs. Number of State Employees



Source: State Employees' Retirement System

## Illinois Has the Second-Highest Premiums Among our Neighbors...

## ...But the Second-Lowest Employee Contribution Share

### Average Total Premium Per Employee

Wisconsin	\$1,331
<b>Illinois</b>	<b>\$1,181</b>
Indiana	\$1,018
Missouri	\$1,004
Iowa	\$982
Kentucky	\$875

### Average Employee Premium Contribution Percentage

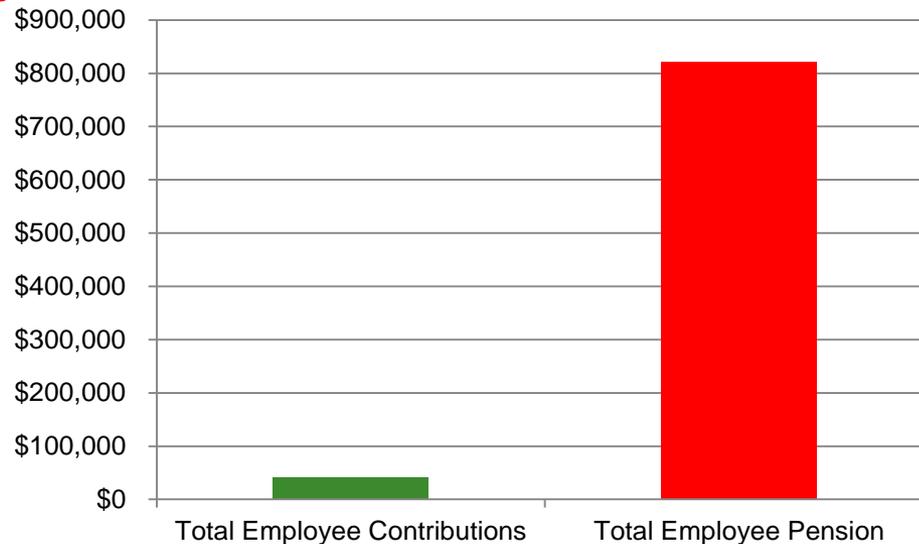
Kentucky	24%
Missouri	22%
Indiana	19%
Wisconsin	13%
<b>Illinois</b>	<b>12%</b>
Iowa	3%

Source: Pew Charitable Trusts

# Sample State Worker Pension Payout

A state worker retiring this year with an average career salary of \$38,979:

- **Contributes \$40,539 in pension contributions over a 26-year career**
- **Receives \$821,588 in total pension benefits after 20 years of retirement**



Source: State Employees' Retirement System

# Employee Empowerment vs. Forced Unionism

A study by a leading Canadian think tank (Fraser Institute) examined findings from an econometric model of state gross product and total employment for 49 states from 1977-2010

The results – Employee Empowerment Laws:

- Increase economic output by 1.8% for the average state
- Increase employment by 1% for the average state

A 1.8% increase in Illinois GSP would equal roughly **\$13 billion** in increased economic activity, which could result in approximately **\$675 million in tax revenue**

- Based on 2013 estimated GSP of \$720.7 billion (St. Louis Fed data)

A 1% increase in Illinois employment would equal **over 61,000 jobs**

- Based on BLS estimate of November 2014 IL employment of 6.1 million

# Employee Empowerment Increases Jobs and Income

## Percentage Growth in Non-Farm, Private-Sector Payroll Employment (2003-2013)

Employee Empowerment States	9.2%
Forced-Unionism States	4.0%
National Average	6.1%

Source: Department of Labor, Bureau of Labor Statistics (BLS)

## Percentage Real Growth in Private Sector Employee Compensation (2003-2013)

Employee Empowerment States	15.1%
Forced-Unionism States	8.2%
National Average	9.6%

Source: BEA; BLS

## Cost of Living-Adjusted Per Capita Disposable Personal Income (2013)

Employee Empowerment States	\$38,915
Forced-Unionism States	\$36,959
National Average	\$37,878

Source: Missouri Economic Research and Information Center; BEA

# Project Labor Agreements = Uncompetitive Bidding

- Estimates show that mandatory Project Labor Agreements can drive up the cost of a project by roughly 18 percent.
- In Illinois, the Tollway, the Illinois Department of Transportation, and the Capital Development Board have increasingly used and required PLAs over the past decade.

Source: The Impact of Government-Mandated Project Labor Agreements (PLAs): A Review of Key Reports and Studies (2014 Edition)

# Uncompetitive Bidding Costs Toll Payers \$1 Billion

- 100% PLA requirement under Multi-Project Labor Agreement (MPLA).
- From 2005 to present, the Tollway has awarded 419 construction contracts at a value of \$6.1 billion. Since 2012, the Tollway has awarded 166 contracts, representing \$2.18 billion that have included the MPLA construction contracts.
- **Estimated Resources Lost Because of PLAs since 2005:  
\$1,098,000,000**

# Uncompetitive Bidding Costs Taxpayers More than \$100 Million Per Year Just on IDOT Projects

Year	Number of awarded contracts	% of total amount awarded as PLA	Estimated savings if no PLA (18 percent)
2004	827	2.5%	\$6,188,459
2005	801	3.0%	\$6,157,613
2006	821	0.7%	\$1,871,340
2007	905	2.3%	\$4,590,173
2008	1035	4.0%	\$9,017,543
2009	1560	5.5%	\$21,397,479
2010	1444	25.0%	\$108,968,900
2011	1008	30.2%	\$99,179,671
2012	876	62.6%	\$164,851,405
2013	982	62.3%	\$224,139,254
2014	1011	57.7%	\$195,319,310
TOTAL	11,270		\$841,681,146

# Uncompetitive Bidding Costs Taxpayers \$250 Million on Capital Development Board Projects

Year	Number of awarded contracts	% of total amount awarded as PLA	Estimated Savings if No PLA (18 percent)
2004	498	15.7%	\$6,794,451
2005	274	12.8%	\$4,537,734
2006	356	71.2%	\$23,241,922
2007	349	61.0%	\$14,581,640
2008	443	23.0%	\$4,939,086
2009	371	42.8%	\$9,571,854
2010	375	92.0%	\$36,974,934
2011	339	92.6%	\$25,481,348
2012	404	96.8%	\$42,570,075
2013	352	96.1%	\$28,674,165
2014	364	99.0%	\$65,688,501
<b>TOTAL</b>	<b>4,125</b>		<b>\$263,055,710</b>

# Prevailing Wages Cost Schools Over \$1 Billion

- All government projects in the state are forced to use prevailing wage requirements.
- From 2002-2011 state and local governments overspent by \$1.6 billion on education construction projects alone due to our prevailing wage laws.
- Illinois schools could save nearly \$160 million a year with prevailing wage reforms.

Source: Anderson Economic Group, LLC, *“Illinois’ Prevailing Wage Law and the Cost of Education Construction”* (2014)

# Union Dues Cut State Worker Take Home Pay

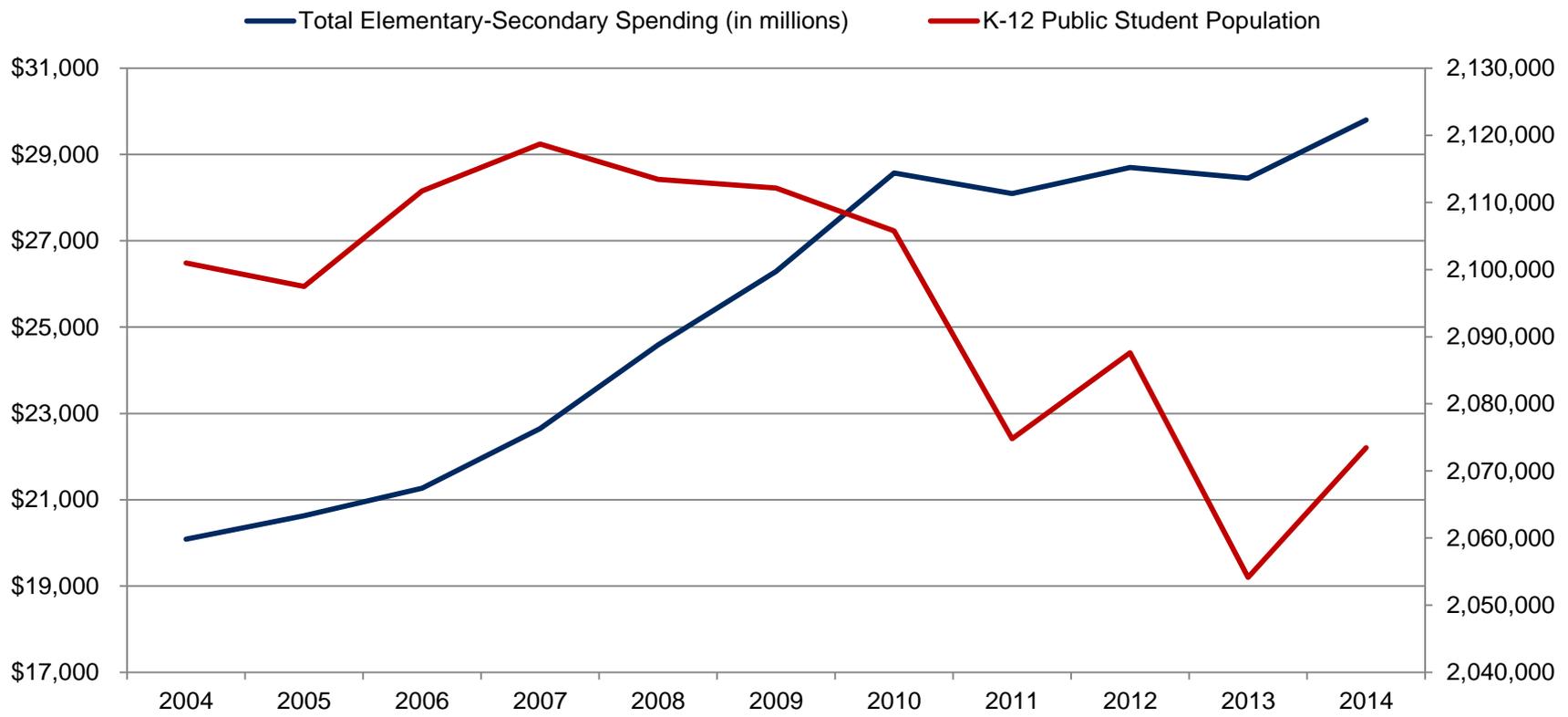
State union members pay **\$884** per year on union dues despite already having civil service protections.

# Union Dues Cut Teacher Take Home Pay

Chicago Teachers Union members pay **\$1,059** per year on union dues.

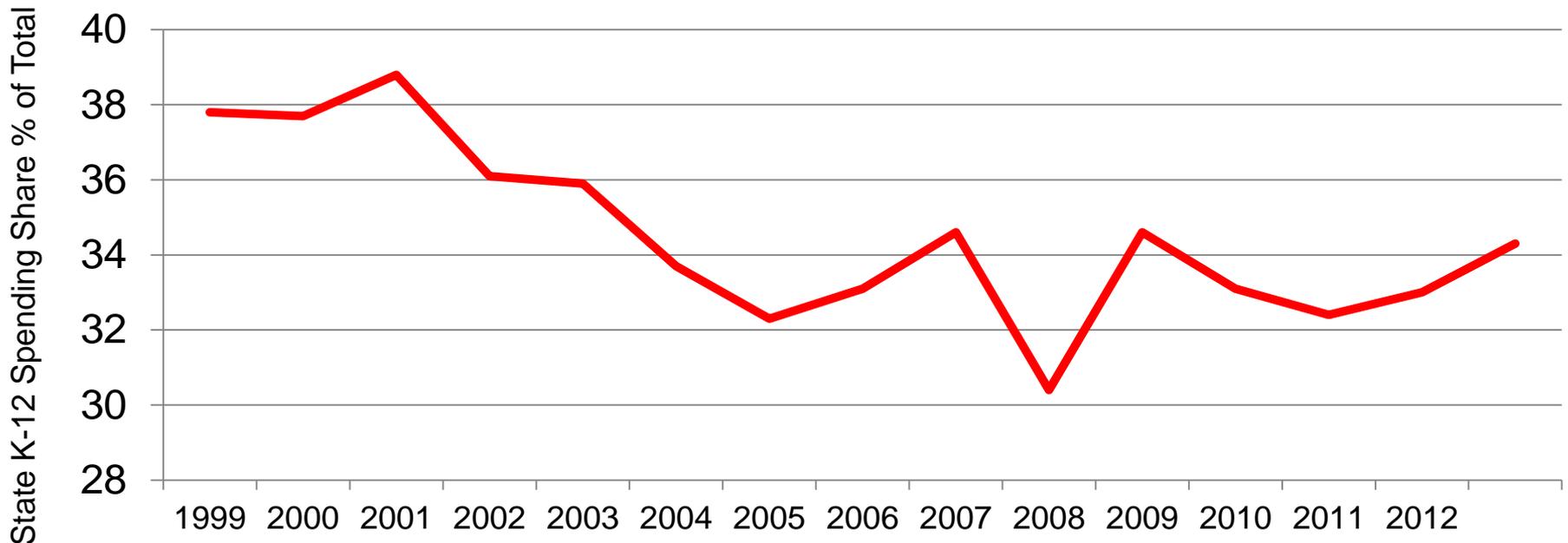
# Total K-12 Spending Has Increased Significantly...

## ...While Student Population Has Declined



Source: ISBE

# While K-12 Spending Increased... ...State Share Has Decreased Putting More Pressure on Local Property Taxes



Illinois Ranked **50<sup>th</sup>** in 2010

Source: Illinois State Board of Education

# Illinois Education Bureaucracy

**K-12 Administrators: 13,260**

**863 School Districts – 1 for every 4 schools**

**35 Regional Offices of Education (as of July 1, 2015)**

**Silos at Board of Education, Board of Higher Education, Community College Board**

# Schools Are Blocked from Efficiencies

Nearly **150 unfunded mandates** enacted since 1992

Schools are **legally barred** from using private vendors to save money

From 2002-2011 state and local governments overspent by **\$1.6 billion** on education construction projects alone due to our prevailing wage laws

Illinois schools could save nearly **\$160 million** a year with prevailing wage reforms

Source: Vision 20/20, Anderson Economic Group, LLC, *“Illinois’ Prevailing Wage Law and the Cost of Education Construction”* (2014), 105 ILCS 5/10-22.34c

# Money Caught in the Bureaucracy

## School District Spending Breakdown

- A typical school districts spends only 50% of its resources on student instruction
- The other 50% includes insurance, utilities, maintenance, administration, community services, etc.

# Guaranteed Pension Spiking

Prior to 2005, there was a 20 percent annual cap on salary spiking.

In 2005, this was “fixed” with a 6% Per Year Salary Increase Ceiling for Teacher Pensions...

(f) If ... a teacher's salary for any school year used to determine final average salary exceeds the member's annual full-time salary rate with the same employer for the previous school year by more than 6%, the teacher's employer shall pay to the System...the present value of the increase in benefits resulting from the portion of the increase in salary that is in excess of 6%.

Source: 40 ILCS 5/16-158

...But Teacher Contracts Make the Ceiling a Floor...

An eligible teacher will receive a maximum total increase in creditable earnings equal to 6% of the prior year's creditable earnings for each of the final three (3) years of employment.

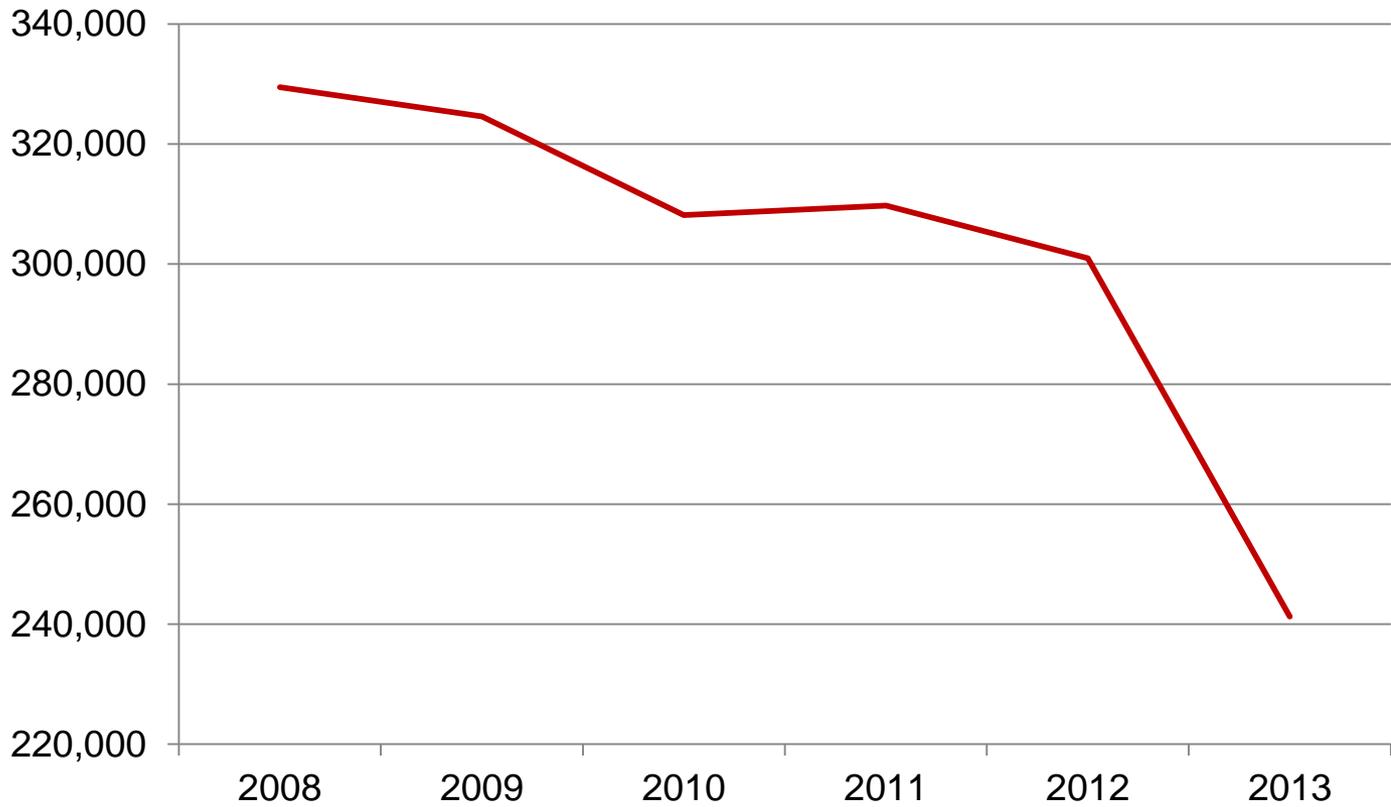
Source: Actual Teacher Contract Language

# We Aren't Preparing Students for Careers

- Only 34% of students finish fourth grade proficient in reading
- Only 36% of students finish eighth grade ready for high school
- **Only 31% graduate high school career or college ready**

Source: Advance Illinois

# Declining Student Participation in Career and Technical Education



Source: ISBE



# The Illinois Turnaround

Governor Bruce Rauner

