Chicago Sun Times
You beat the 'fair tax,' big business. Now what's your politically doable alternative?
The Editorial Board| November 24, 2020

We have two questions for all the business groups and billionaires who succeeded this month in killing a proposal to create a progressive income tax for Illinois:

- What spending cuts should the state now make to erase a $3.9 billion deficit for the current budget year, which ends on June 30, and a projected $4.8 billion deficit for the next budget year?

Be specific. Don't hide behind vague talk about the need to "streamline" government. Don't duck political reality by saying the solution is a constitutional amendment to reduce the growth of government pensions. There is no way Democrats in Springfield — and even many Republicans who represent districts that are heavy with state employees — will ever support that, just as there was no way you would support a progressive income tax.

We think that's unfortunate. We have long favored both changes to the Illinois Constitution — the change you love and the change you hate — but wishing won't make it so. What then, in the real world of Illinois politics, should the state do to dramatically cut costs?

- Where should the state find more revenue? Because the state really needs more revenue. Spending cuts alone won't be enough. Not in a state where budget deficits are projected to be $4 billion annually through at least 2026. Where the backlog of unpaid bills is projected to reach $33.16 billion by 2026. Where pension obligations, which stand at $8.624 billion for this budget year, are projected to hit $10.59 billion in 2026.

Cuts alone not enough

Let's have no more sitting on the sidelines. You opposed a ballot proposal on Nov. 3 to allow the state to move from a flat income tax to a progressive tax. You spent millions of dollars to defeat the so-called "fair tax" amendment, just as the other side spent millions of dollars in support of the amendment, and you won.

Well done and fair play. But now what?

Tax hike always likely

It was always a fiction, perpetuated in your TV ads, that a vote against the progressive tax amendment was a vote against an increase in income taxes. That was not true.

The reality, we wrote then, is that Illinois income taxes were likely to be increased no matter what, given the dire state of the state's finances and the absence of a politically viable alternative. The only question was whose taxes would go up first or more. Would income taxes be raised only on the wealthiest people in Illinois, as allowed by a progressive tax? Or would taxes be raised on everybody, even the working poor, as required by the flat tax?

And now we're there. As predicted. We fully expect that Gov. J.B. Pritzker, who is running out of options, soon will propose a significant increase in the flat tax, along with more spending cuts and perhaps a cap on future spending.

If you find the first part of that approach — hiking the flat tax — to be abhorrent, then it's on you to give the governor a better idea. A politically doable idea. One that can fly. Railing about corruption in Springfield (as real as that is) or the need for pension reform (as real as that is) or the need to reduce the 6,963 units of government in Illinois (as real as that is) won't balance the state's budget or wipe out the red ink.

Supporters of the progressive income tax amendment, including this editorial page, always understood it to be a Hail Mary pass, a way to repair decades of damage to the state's finances in one quick and minimally painful way. But now that the amendment has failed, there's much to be said for the extra pressure that puts on Pritzker and the Legislature to reduce the costs of government in every responsible way. We get that.

Pritzker, along those lines, has ordered the heads of all state agencies to cut 5% from their current budgets.

Feet firmly on the ground

But we also know that many of the more prominent opponents of the progressive tax amendment always understood that the measure's defeat would not necessarily avert the need for a tax hike of some kind or size. Anti-tax ideologues working for supposed "think tanks" might make that argument, but mainstream business-minded groups with their feet on the ground, such as the Civic Federation and the Illinois Chamber of Commerce, knew better.

The simple fact, they understand, is that Illinois still must pay its bills. Pension obligations, like it or not, must be met. Essential services provided by the state — school funding, access to health care and social services for children, the elderly and the disabled — must be continued. We still need state troopers. We still need high quality public universities.

Exactly what then — priced out in dollars and cents — should be cut? Who exactly should be fired? Which state highways should go unpatrolled? Which universities should be closed? Which recreational centers for the elderly should get no more funding?

And if you dread an increase in the flat tax, where else would you find new revenue? What tax breaks for businesses would you end? What corporate loopholes would you close?

Let's hear best ideas

The fair tax is dead, and here comes an increase in the flat tax. If there are honest alternatives — short of truly ill-considered ideas such as a "LaSalle Street tax" on financial transactions — let's hear them all now.

Knowing that every alternative is bound to rile up somebody.

You won. You beat the fair tax.

Now get in the game for real.

Forbes
States With The Most And Least Debt In 2020
Andrew DePietro| November 23, 2020

The year 2020 has not been a kind one for budgets. Whether it's spending more than ever to stay alive or cutting costs to stay afloat, everyone's been feeling the pressure, especially state governments. Fortunately, most states are in the black in terms of their finances, at least according to their latest comprehensive annual financial reports (CAFR), covering the fiscal year July 1, 2018 to June 30, 2019. There are, however, several states whose budgets went into this year's pandemic crisis already in poor shape.

We analyzed every U.S. state's most recent CAFR to determine how much debt it was carrying, based total assets, total liabilities, deferred outflows of resources and deferred inflows of resources. Deferrals are not assets or liabilities. They also are not revenues or expenses. While revenues are inflows of resources and expenses outflows of resources, they are related to the period in which they occur. Deferred inflows of resources and deferred outflows of resources are related to some period in the future. A state's net position is calculated by total assets and deferred outflows minus total liabilities and deferred inflows.

States With the Most Debt in 2020

Looking at states in terms of their debt ratio — total liabilities to total assets — the state with the most debt has almost five times as much debt as assets — $248.67 billion in liabilities to $53.05 billion in assets. There are 13 states whose net positions are negative, meaning, they have more total liabilities and deferred inflows of resources than they do total assets and deferred outflows of resources. In absolute numbers, California is the states with the most debt with $362.87 billion in total liabilities in 2019. However, with total assets worth $301.1 billion, California's net position is better than some states with less debt.

Since there are 13 states with negative net positions, here's a list of the 13 states with the most debt in terms of their debt ratio:

U.S. States With the Most Debt in 2020
13 U.S. states that have an overall negative position on their balance sheet

Ranking	State	Total Assets	Total Liabilities	Total Assets + Deferred Outflows of Resources	Total Liabilities + Deferred Inflows of Resources	Net Position	Debt Ratio: Total Debts/Total Assets
1	**Illinois**	$53,052,938,000	$248,672,866,000	$72,073,406,000	$259,765,206,000	($187,691,800,000)	468.70%
2	**New Jersey**	$50,320,930,715	$222,270,326,641	$73,783,404,467	$272,455,473,822	($198,672,069,355)	441.70%
3	**Connecticut**	$25,535,755,000	$85,531,822,000	$34,042,754,000	$87,514,389,000	($53,471,635,000)	334.90%
4	**Massachusetts**	$34,214,302,000	$104,534,280,000	$42,891,236,000	$111,322,110,000	($68,430,874,000)	305.50%
5	**New York**	$106,607,805,000	$291,896,298,000	$121,354,682,000	$325,127,834,000	($203,773,152,000)	273.80%
6	**Delaware**	$7,418,960,000	$12,921,284,000	$8,149,354,000	$14,062,079,000	($5,912,725,000)	174.20%
7	**Maryland**	$48,413,470,000	$59,977,544,000	$52,495,913,000	$62,740,135,000	($10,244,222,000)	123.90%
8	**Kentucky**	$33,036,740,000	$40,107,220,000	$39,416,204,000	$53,638,539,000	($14,222,335,000)	121.40%
9	**California**	$301,100,203,000	$362,873,113,000	$328,965,794,000	$384,928,647,000	($55,962,853,000)	120.50%
10	**Hawaii**	$22,734,769,000	$26,918,251,000	$24,949,166,000	$27,173,262,000	($2,224,096,000)	118.40%
11	**Rhode Island**	$7,664,251,000	$8,589,858,000	$8,488,617,000	$8,754,072,000	($265,455,000)	112.10%
12	**Vermont**	$5,438,291,083	$5,734,095,422	$6,168,697,709	$6,229,386,422	($60,688,713)	105.40%
13	**Pennsylvania**	$73,842,068,000	$76,238,040,000	$78,821,327,000	$84,508,415,000	($5,687,088,000)	103.20%

In absolute terms, New York has the worst net position, being $203.77 billion in the red. With total assets worth about $106.61 billion, New York's debt ratio is actually lower than many states with better net positions.

A big source of debt in Illinois are pension obligations. According to its state's CAFR, Illinois's net pension liability totaled $138.59 billion. Related to pension obligations are other postemployment benefits (OPEB), including health, dental, vision and life insurance policies for state and university retirees. Illinois's OPEB liability for the fiscal year 2019 totaled $54.52 billion. Indeed, OPEB liabilities are a significant issue for all indebted states. New York state's net OPEB liability totaled $107.79 billion in 2019, which accounts for more than a third of the state's nearly $292 billion in total liabilities.

Liabilities from pension obligations are also a major source of debt in New Jersey, the No. 2 state with the most debt. Interestingly, according to New Jersey's CAFR, the primary reason for the state's enormous debt is due to changes made by the Government Accounting Standards Board (GASB) in regards to how pension plan data is reported and measured. Two new standards adopted, GASB 67 and GASB 68, were aimed at greater transparency and accuracy, the latter of which required states like New Jersey to start reporting their unfunded pension liabilities on their CAFR balance sheet. With these changes implemented in 2015 plus the implementation of GASB 75 in 2018, which set new standards for reporting OPEB other than pensions, New Jersey's financial position assumed its current negative position. These GASB accounting changes have been often cited as the explanation for deficits by many states in their CAFRs.

States With the Least Debt in 2020

The states with the least amount of debt are an interesting mix of states geographically. Mountain states, such as Idaho, Montana, Utah and Wyoming made the top-10 list, as did upper Midwest states like Nebraska, North Dakota and South Dakota. Alaska takes the No. 1

spot, with a tiny debt ratio of only 14.2%. Its total liabilities amount to only $12.65 billion compared to total assets of approximately $89.17 billion in 2019.

Here's a breakdown of the top-10 states with the least amount of debt in 2020:

U.S. States With the Most Debt in 2020
10 U.S. states with the least amount of debt in terms of total liabilities to assets

Ranking	State	Total Assets	Total Liabilities	Total Assets + Deferred Outflows of Resources	Total Liabilities + Deferred Inflows of Resources	Net Position	Debt Ratio: Total Debts/Total Assets
1	**Alaska**	$89,168,499,000	$12,653,950,000	$89,940,334,000	$13,196,776,000	$76,743,558,000	14.20%
2	**Nebraska**	$17,085,675,000	$2,585,190,000	$17,551,757,000	$2,867,086,000	$14,684,671,000	15.10%
3	**South Dakota**	$8,071,131,000	$1,222,742,000	$8,257,057,000	$1,260,000,000	$6,997,057,000	15.10%
4	**Idaho**	$13,826,064,000	$2,260,223,000	$13,984,026,000	$2,352,789,000	$11,631,237,000	16.30%
5	**Tennessee**	$46,536,529,000	$8,036,053,000	$47,569,782,000	$8,269,790,000	$39,299,992,000	17.30%
6	**Oklahoma**	$27,322,897,000	$5,336,352,000	$27,687,916,000	$5,510,248,000	$22,177,668,000	19.50%
7	**Utah**	$34,082,136,000	$6,883,587,000	$34,577,619,000	$6,989,918,000	$27,587,701,000	20.20%
8	**North Dakota**	$32,302,393,000	$7,875,818,000	$32,710,327,000	$7,974,035,000	$24,736,292,000	24.40%
9	**Wyoming**	$26,846,267,871	$6,724,771,586	$27,119,787,571	$7,077,934,917	$20,041,852,654	25.00%
10	**Montana**	$12,894,195,000	$3,782,853,000	$13,677,045,000	$3,998,550,000	$9,678,495,000	29.30%

Many of the states with the least amount of debt have much smaller populations than other U.S. states. Plentiful natural resources, especially mineral resources, is another theme. Having smaller populations typically means smaller bureaucracies and state employees, whose retirement benefits often become the biggest obligations facing state budgets.

Below you'll find a table with the full breakdown of all 50 states, their total assets, liabilities, deferred outflows and inflows, net position and debt ratio. You can rank the table by any of the individual factors as well. States are ranked from 1 to 50, 1 being the state with the most debt and 50 the least debt.

Crain's Chicago Business
Lightfoot borrowing to cost city taxpayers an extra $2 billion
GREG HINZ| November 16, 2020

Chicago taxpayers will be on the hook for more than $2 billion in extra debt repayment costs under the borrowing plan that is central to Mayor Lori Lightfoot's proposed 2021 city budget.

Figures released today by the city after weeks of requests indicate that taxpayers will have to pay as much as $207 million a year in extra costs between now and 2050. For those years as a whole, the extra costs above the city's current debt service amount to $2.012 billion.

City officials say the proposed restructuring and extension of city debt is worth it because, in the middle of the COVID-19 pandemic, the city will be able to book $450 million in savings this year and $500 million in 2021. Because of inflation, the city actually will come out slightly ahead in real terms, since a dollar received is worth more than a deflated dollar that will have to be paid later.

But one top local financial watchdog is skeptical.

In an interview, Civic Federation President Laurence Msall said the city's claimed win depends on unpredictable factors such as what interest rate it will have to pay to borrow billions of dollars in a municipal bond market roiled by COVID and how high the inflation rate will be in coming years.

Msall termed the mayor's plan "troubling," and "an extraordinary scoop and toss. It depends on where the market goes."

"Scoop and toss" is a much criticized financial tactic, phased out by former Mayor Rahm Emanuel, in which the city refinances old debt, sometimes at lower interest rates, but in the process borrows more than it needs and defers repayment farther into the future, ergo "scooping" now and "tossing" debt until later.

According to data released by Lightfoot's financial team today, the city will "generate approximately $74 million in savings" long term even while booking $950 million in budget relief this year and for the proposed 2021 budget. Minus $43 million in refinancing costs, the city in the end will be ahead $31 million overall in net value—after inflation savings, it says.

However, to get to those figures, the city assumes it will be able to refinance debt at 4 percent, a full percentage point below what it's paying on that debt now. And, according to a spokeswoman, the Lightfoot administration is also assuming inflation will average 4 percent a year between now and when the debt is paid off in 2050, with $1 today worth only 29 cents of what it is now.

But Msall underscored that there is no guarantee the city, which is rated at junk levels by Moody's Investors Service, can borrow at that rate. And inflation lately has run just 1 percent or slightly more a year, not 4 percent.

The one thing that is certain is that city taxpayers legally will be required to pay more than under the city's current debt schedule. For instance, extra costs of $10 million in 2022 will rise to about $40 million a year for the rest of the decade. After a small dip in 2030-31, they'll then climb higher, hitting $207 million a year in additional required debt repayments in each of 2048, 2049 and 2050.

In a meeting with Crain's editorial board the day she unveiled her proposed budget, Lightfoot shrugged off such risks, saying she was confident the plan offered by her financial team was worth trying amid the strain COVID-19 has placed on city finances.

he new figures do not include an extra $15 million in borrowing that Lightfoot announced over the weekend. The borrowing will be repaid from tax revenue from legal cannabis sales.

The borrowing was part of a deal with labor groups and may make it easier for Lightfoot to obtain the votes needed to approve the rest of her budget, and specifically a proposed $94 million property-tax hike. But mayoral aides confirm it means that, despite the COVID emergency, no city worker will lose his or her job or suffer a pay cut. The only exception is nonunion workers earning more than $100,000 a year, who will have to take several unpaid furlough days.

Crain's Chicago Business
This Anchor Is Dragging Down Illinois' Economy
Orphe Divounguy| November 13, 2020

Eight months into an unprecedented public health crisis and accompanying economic downturn, much of the nation has slowly but surely been adding jobs and lowering unemployment.

Yet Illinois just last week saw the largest increase in the number of unemployment claims of any state in the nation. Illinois' employment picture deteriorated as other states saw their labor markets improve.

It doesn't take an expert to realize that consecutive months of declining employment are a troubling sign that economic activity is on a decline and that the state could be headed toward more economic pain.

Here more than anywhere else, state lawmakers need to do everything in their power to foster a strong recovery. That means public spending that directly supports struggling families and businesses.

Yet that approach is exceedingly difficult, as nearly a quarter of Illinois' budget is siphoned off for severely indebted public pensions, with serious implications for the state's recovery.

Crises have a way of exposing fault lines and structural problems.

In good economic times, pension liabilities were growing so fast that even multiple tax hikes and cuts to government services were simply never enough. Spending on pensions in Illinois has increased more than 500 percent during the past 20 years, causing spending on services and programs for the poor and disadvantaged to fall by nearly one-third during that same period.

Three decades of data shows that higher pension contributions as a share of state expenditures are associated with on average 0.08 percentage points lower growth in per capita personal income. For Illinois, that represents roughly $1,400 in forgone income per person each year on average.

Still, Illinois leaders ignored repeated warnings that rising pension costs would soon swallow large chunks of government budgets, putting at risk basic government functions and endangering services Illinoisans in need depend upon.

The arrival of COVID-19 has hastened the state's day of reckoning. When economic activity declines, tax revenues dry up. Local governments are being forced to make large cuts. It is not surprising that Illinois leaders have been holding their breath for more federal government help.

Ensuring a quicker recovery means focusing on families and businesses, not pension costs that, even before COVID-19, were growing faster than taxpayers' ability to fund them.

The only real answer to Illinois' pension crisis is a constitutional amendment that protects earned benefits but allows for changes to future benefit growth.

Research shows modest reforms similar to those in a law passed in 2013—before it was struck down by the Illinois Supreme Court—can solve the pension crisis while leaving public workers with generous retirement benefits that are more secure than the status quo. Reforms that replace 3 percent compounding post-retirement raises with a true cost-of-living adjustment pegged to inflation, that slightly raise retirement ages for younger workers, and that temporarily freeze annual benefit increases for some of the state's largest pensions to bring them back in line with inflation can save the state more than $2 billion per year while fully eliminating the debt by 2045.

State leaders are now urging the federal government to provide more fiscal support for state and local governments. However, the effectiveness of stimulus crucially depends on how the funds are spent. While direct government purchases that support struggling families can mitigate the economic damage, pension contributions to keep up with Illinois' growing pension liabilities do not.

It's time to stop the suffering under the broken status quo.