Counties *at the* Capitol

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Governor's budget address likely to include income tax increase

This Wednesday, March 18th, Governor Pat Quinn is scheduled to give his inaugural State of the State/Budget Address which will be the primary focus of the week. Below are some details that are beginning to become available:

Income Tax Increase
An increase to the personal income tax by 1.5% points with a corresponding increase of 2.4% for corporations. This would increase the current tax rates of 3.0% (individuals) and 4.8 % (corporations) respectively to new levels of 4.5% and 7.2% which fall within the constitutionally-mandated ration of 8 to 5. While a normal 1% point hike in the income tax and corresponding corporate tax increase generates just under $4 billion total, this proposal is set to generate only about $2.6 billion because of increases in the personal exemption from $2,000 to $6,000. According to Quinn's office this means that a family earning $56,000 and less will see no tax increase and a possible reduction. A family earning $100,000 would pay approximately $660 more in income taxes. If this proposal is enacted some groups, including the nonpartisan Tax Foundation, predict that Illinois will go from a State with one of the lowest income tax rates to one of the highest in the United States. While there are specific income tax nuances in each state, Illinois' rate would fall below only Minnesota, Iowa, Pennsylvania, and Washington D.C.

License Plate Registration Fee Increase
Governor Quinn is expected to propose an increase in license plate registration fees. The current fee is set at $78 and was last increased by $30 in 1999 as part of Gov. George Ryan's Illinois FIRST program. According to the Secretary of State, $90 million is generated for each $10 increase in fees. These funds are said to be slated for a six year, $26 billion capital infrastructure program.

State Pensions
The largest component of the Governor's budget plan will involve restructuring state pensions. Quinn is reportedly going to propose a 2-tiered pension system that would created a defined-contribution plan for new state employees. This would allow the State to skip making a pension payment of $3.5 billion into the pension system because out-year costs would be lessened.

Elimination of Tax Incentives
It is also rumored that Quinn plans on calling for the elimination of key tax incentives for businesses and corporate loop holes, though no list is currently available. And continuing with recycled ideas, sweeping funds from special state accounts will again be a part of the mix as will the use of federal stimulus funds. For example, the federal government has funds available to make sure that school districts receive no less funding that in the past fiscal year. So, in theory the state could reduce its payment to schools and then access federal money to make up the difference.

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Live video can be streamed via the Illinois General Assembly website (www.ilga.gov) at noon on Wednesday.

Monthly revenues fall – losses mount

by Jim Muschinske
CGFA Revenue Manager

Base general funds receipts fell $167 million in February as revenues continued to manifest the deepening recession. Key revenue sources experienced a dismal month as weakness spread to virtually all areas.

Gross personal income tax fell $77 million, or $84 million net of refunds. Sales tax continued to suffer as receipts dropped $46 million, while corporate income tax weakened by $27 million, or $24 million net of refunds. Inheritance tax receipts were off $13 million, reflecting a large month one year earlier. Public utility taxes dropped $8 million, while insurance taxes eased $7 million. Corporate franchise taxes dipped $5 million and vehicle use tax slowed by $1 million. Other sources managed to generate a $2 million gain, as did interest income as allocations of earnings boosted monthly returns.

Year to Date

Through the first two-thirds of the fiscal year, overall base revenues are down $1.209 billion. The declines are attributed to battered economic related sources as combined, income and sales taxes represent $509 million of the fall off. In addition, lower transfers account for $264 million of the slowing, with lower federal sources another $191 million. In fact, no major revenue source currently is demonstrating any growth on a year to date basis, indicating that the deepening recession is not discriminating, and that virtually all sectors of the economy are being negatively impacted.

Gross personal income tax is down $130 million, although on a net of refund basis that falloff grows to a loss of $251 million. Sales tax is down a startling $178 million, reflecting the bruised consumer who is reluctant to spend amid the worsening employment outlook. Gross corporate income tax also has been hit with receipts falling $75 million, or $80 million net of refunds. Unfortunately, corporate income tax performance will likely worsen considerable over the remainder of the fiscal year as key months yet to come will reflect the brutalized business sector. Interest income is off $95 million due to lower rates of return as well as reduced investable balances, while inheritance taxes are down $66 million. All other remaining tax sources add another $84 million in year to date losses.

As mentioned, total transfers are down $264 million, reflecting $116 million in lower other transfers, $109 million in transfers from riverboat gaming, and $39 million in reduced lottery transfers. Federal sources contributed $91 million to the year to date loss, although are expected to rebound in short order as increased Medicaid match stemming from the stimulus package can be expected in the new future.

BUDGET ADDRESS *continued*

State Spending Cuts

Quinn has also strongly indicated that he plans to cut around $850 million from current state spending; however, he said he would not touch education or health care.

Sales Tax Increase

And while we have not heard about any plans for a sales tax increase from the Governor's office, there has been plenty of talk from legislators from both the House and Senate Democrat offices about a possible increase and expansion of the sales tax to cover various services.

In Conclusion

On a side note people from within the Governor's Office have begun to publicly confirm that the total FY '09 and '10 deficits stand closer to $11.5 billion than the much lower estimate of $9 billion by Comptroller Dan Hynes. Hynes projection of the current deficit isn't very far off the mark as it stands at about $4.2 billion. But next year's deficit is skyrocketing uncontrollably. Contributing factors such as Medicaid spending, which alone is projected to increase by $1 billion, State employee wage and benefit hikes will cost the state an extra $300 million and Social service spending, exacerbated by the recession, will rise by about $300 million, all of which is pushing next year's deficit through the roof.

Respectfully,

Taylor Anderson
IACBMC Legislative Consultant

Mautino named House Democrats' budget negotiator

Rep. Frank J. Mautino (D-Spring Valley) is slated to take over as lead budget negotiator for the House Democrats. Mautino replaces former Rep. Gary Hannig of Litchfield who left the House a few weeks ago to become Secretary of the Illinois Department of Transportation (IDOT). Rep. Mautino is the Assistant Majority Leader and has served in the Illinois House since 1991.