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# A history of state and local government spending in Illinois

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\*The views expressed in this presentation are my own and do not necessarily reflect those of the Federal Reserve Bank of Chicago or of the Federal Reserve System.

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## Five questions

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1. Is Illinois government “big” compared to other states?
2. When did Illinois government expenditures start exceeding revenues?
3. Where has Illinois government spending been out of the ordinary compared to other states?
4. Has spending beyond revenues been a problem at the state level, local level, or both?
5. Have some local governments performed better than others?

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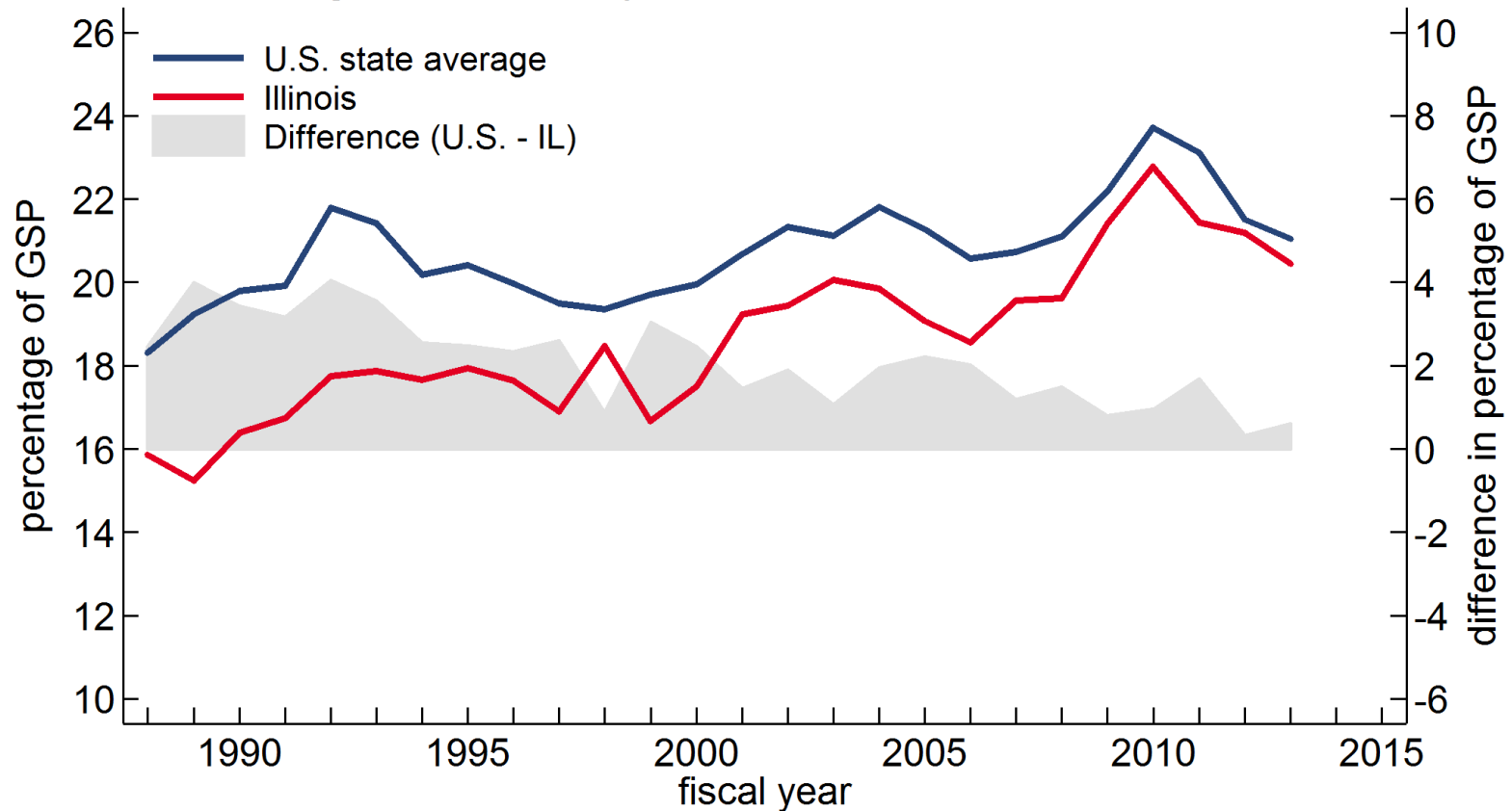
## Is Illinois government big compared to other states?

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- Have to combine state and local governments together for proper comparison
- Calculate total expenditures and total revenues as a share of gross state product (GSP)
- Treat any increases in pension obligations as spending in the current fiscal year (accrual accounting basis)

# Is Illinois government big compared to other states?

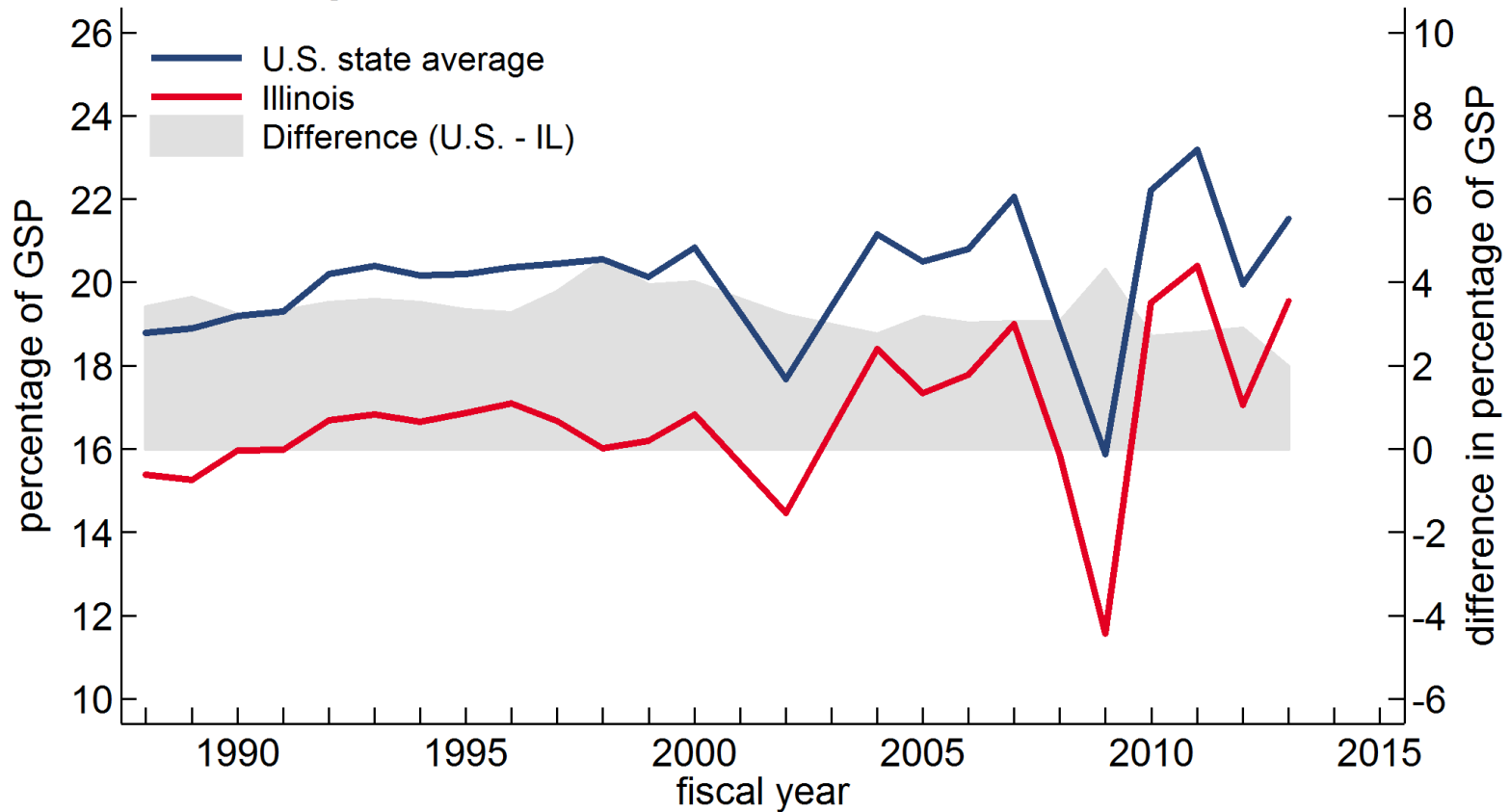
## State and local government expenditures as a share of GSP



Sources: Author's calculations based on data from the U.S. Census Bureau; U.S. Bureau of Economic Analysis from Haver Analytics; Board of Governors of the Federal Reserve System from Haver Analytics, and Illinois Department of Insurance.

# Is Illinois government big compared to other states?

State and local government revenues as a share of GSP



Sources: Author's calculations based on data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis from Haver Analytics.

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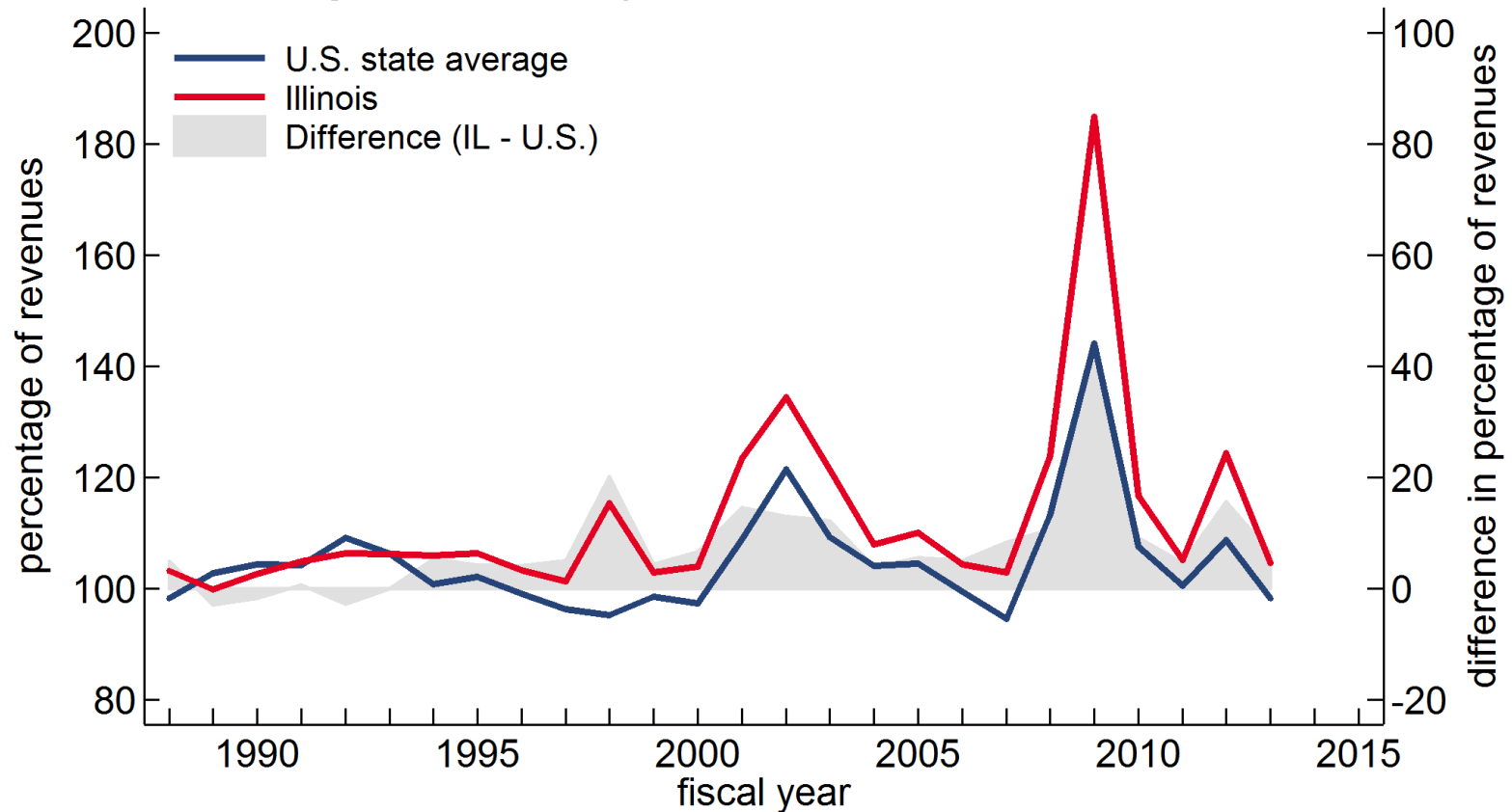
## When did Illinois government expenditures start exceeding revenues?

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- Calculate total expenditures as a share of total revenues

# When did Illinois government expenditures start exceeding revenues?

State and local government expenditures as a share of revenues



Sources: Author's calculations based on data from the U.S. Census Bureau; Board of Governors of the Federal Reserve System from Haver Analytics; and Illinois Department of Insurance.

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## Where was Illinois government spending out of the ordinary?

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- Calculate average spending for each budget category as a share of total revenues for fiscal years 1994 to 2010
- Stop in 2010 because taxes increased in 2011



# Where was Illinois government spending out of the ordinary?

Average annual expenditures as a share of total revenues, by category, FY 1994–2010

	Illinois	U.S. state average	Illinois minus U.S. state average
Expenditures	115.9	105.7	10.2
Intergovernmental expenditure	<0.1	0.1	-0.1
Direct expenditure	102.9	97.3	5.6
Direct general expenditure	86.5	83.9	2.6
Education services	30.3	29.4	0.9
Social Services and Income Maintenance	19.3	21.2	-1.9
Transportation	7.2	7.3	-0.1
Public Safety	7.9	6.8	1.0
Environment and Housing	7.3	6.5	0.8
Governmental Administration	4.5	4.6	-0.1
Interest on General Debt	4.9	3.7	1.3
General Expenditure (N.E.C.)	5.2	4.4	0.7
Utility Expenditure	6.0	5.8	0.2
Liquor Store Expenditure	<0.1	0.3	-0.3
Insurance Trust Expenditure	10.4	7.3	3.2
Unemployment Compensation Expenditure	2.6	1.7	0.9
Employee Retirement Expenditure	7.8	4.9	2.8
Workers' Compensation Expenditure	<0.1	0.5	-0.5
Other Insurance Trust	<0.1	0.1	-0.1
Change in Pension Liability	13.0	8.4	4.6

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## Has spending beyond revenues been a problem at the state level, local level, or both?

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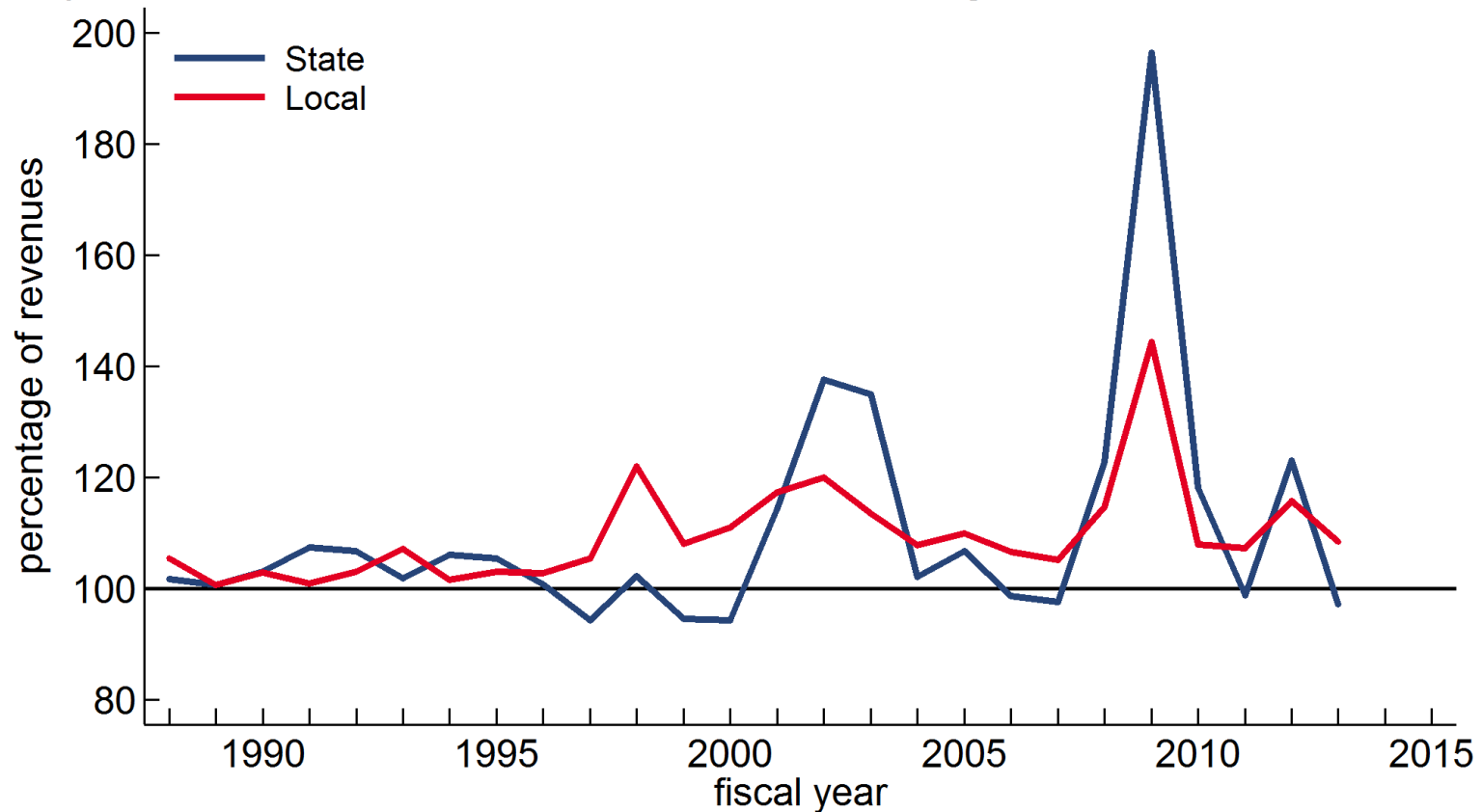
- Calculate total expenditures as a share of total revenues separately for state and local governments in Illinois
- Caveat: 25% of local government revenues are from the state government, but share is steady over time

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# Has spending beyond revenues been a problem at the state level, local level, or both?

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Expenditures as a share of revenues for Illinois governments



Sources: Author's calculations based on data from the U.S. Census Bureau and Illinois Department of Insurance.

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# Have some local governments performed better than others?

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- Problem: 6,963 local governments in Illinois
- Solution: look at unfunded pension liabilities
  - The difference between the current expected value of future payouts and value of pension's assets
  - Amount taxpayers must contribute to be able to cover future promised payouts

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# Have some local governments performed better than others?

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## Unfunded pension liability in Illinois by locale, fiscal year 2014

	Unfunded Liability (\$Bil)	Population (millions)	Liability per capita (\$)
Total	158.2	12.9	12,293
State	104.6	12.9	8,130
Local	53.6	12.9	4,163
City of Chicago	28.5	2.7	10,492
Teachers	8.7	2.7	3,190
Police and Fire	11.2	2.7	4,145
Other	8.6	2.7	3,158
Cook County	7.3	5.2	1,401
Suburban Chicago and Downstate	17.8	10.2	1,751
Police and Fire	8.8	10.2	867
Illinois Municipal Retirement Fund	9.0	10.2	884

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# Have some local governments performed better than others?

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## Liability per capita by place of residence

	<u>Chicago teachers fund...</u>	
	<u>...not treated as a state liability</u>	<u>...treated as a state liability</u>
City of Chicago	20,023	17,506
Suburban Cook County	11,282	11,954
Outside Cook County	9,881	10,553

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## Conclusions

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1. Illinois government is (still) “smaller” than the typical state
2. Illinois governments started spending beyond their revenues a long time ago
  - It’s been much worse than in other states
3. Illinois spent much more on pensions than other states
4. Governments at both the state and local levels have spent more than their revenues for a long time
5. Chicago is in particularly bad shape, but not it’s not just Chicago