



Wirepoints Report

February 2018

Rauner's failed record: The best case for a reform agenda in Illinois

By Ted Dabrowski and John Klingner



-- Connecting the dots between our economy, government and business --

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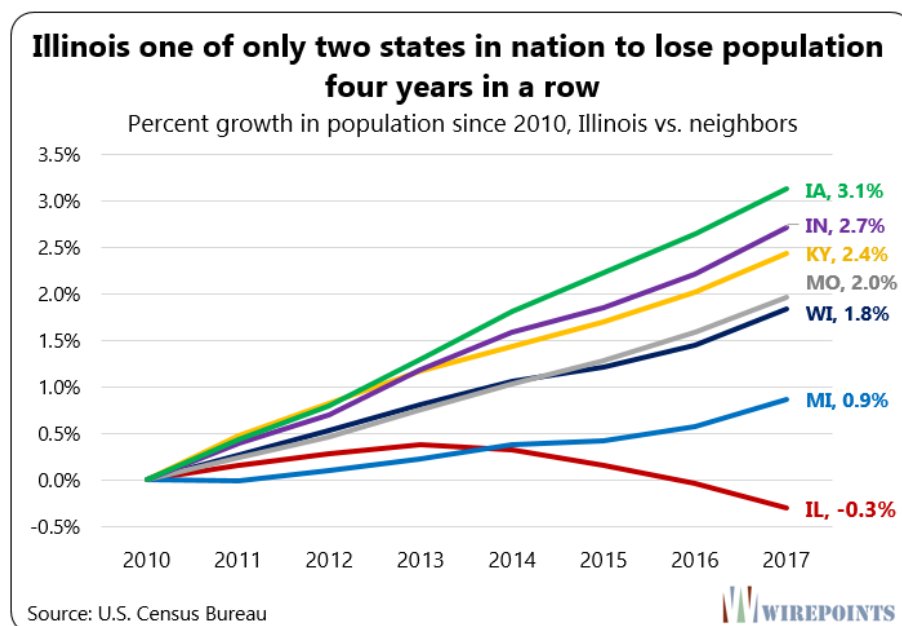
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Introduction

Gov. Bruce Rauner's leadership failures have deflated the political pressure for spending and economic reforms in Illinois.

For three years, he couldn't convince the legislature to pursue his reform agenda. He made things worse when he abandoned those reforms over time. Contradictions and outright falsehoods also damaged his credibility. As a result, the end of the two-year budget impasse left Illinoisans with no reforms and a 32 percent income tax hike. Now, in his latest budget address, Rauner has willingly [embraced](#) the tax hike he opposed just months ago. Gone is the reformer who would turn around Illinois.¹

But while Rauner deserves his share of the blame for Illinois' disastrous results – record outmigration, [a shrinking population](#) and a [near-junk](#) credit rating – the reform policies he initially espoused can't be blamed. They were never implemented. They were blocked at every turn.



Instead, Illinois continued – and continues – to be run by the same failed status-quo policies that have wrecked Illinois for nearly three decades. The same [fake budget process](#). The same punishing [workers' comp laws](#). The same [restrictive labor laws](#). Growing [pension promises](#). [More borrowing](#). And [ever-increasing](#) property and income tax burdens.

Yes, Rauner contributed to Illinois' mess. But his inability to change anything, ironically, only strengthens the case for structural reforms. The longer Illinois' status quo policies remain in place, the more this state will continue to decline.

Rauner's three years

Every statistic that could have gone against Rauner during his term did. The state's working-class job base [shrank](#), even as every one of Illinois' neighbors added tens of thousands of manufacturing jobs.²

The state's pension shortfall rose by \$25 billion and hit an all-time high of [\\$130 billion](#).³ Unpaid bills spiked to [a record \\$16 billion](#), up from just \$6.6 billion when he took office.⁴

The state's credit rating also suffered [eight downgrades](#) from the three major rating agencies.⁵ The threat of a junk rating is now a real possibility – the state is just one notch away. Both [S&P](#) and [Fitch](#) have warned Illinois cannot withstand another budget fight despite the tax hike passed last year.⁶

And people continue to flee Illinois in record numbers. As a result, the state's population has [shrunk every year](#) Rauner's been in office – a distinction only shared with West Virginia.⁷

The net result has been pain for everyone. Taxpayers face higher burdens. Illinois' most vulnerable have seen social services cut. And state workers' retirement security has worsened.

But none of the above is directly due to Rauner's reform policies. Other than a major increase in funding for K-12 education – which effectively guaranteed Illinoisans a tax hike – Rauner's proposals were constantly rejected by House Speaker Mike Madigan.

Even the negative effects of the budget impasse didn't come from anything Rauner got passed. The stalemate – and a government that spent recklessly while on autopilot – simply exposed all the dysfunction in Illinois, making things a whole lot worse a whole lot faster.

The reality is that Illinois has worsened due to the status-quo agenda set by Madigan and its former governors, from [Jim Edgar to Pat Quinn](#). It's their pension, [spending](#) and borrowing policies that are still locked in place.⁸

That's not to say Rauner is blameless. Far from it. As governor, Rauner never made the case for why his agenda was essential and continuously whittling down his own proposals.

Few people knew where he stood, including his own caucus. As a result, he lost the 2018 budget battle. His unwillingness to engage in policy and negotiations contributed to his loss.

Today, though he still talks sporadically about term limits, fair maps and perhaps a partial property tax freeze, Rauner has abandoned most of his previous campaign's 44-point reform agenda. He even used every dollar of the new tax hike to craft his record-spending \$38 billion [budget proposal for 2019](#).⁹

The result: Rauner has made it easy for lawmakers to divert the failures of the status quo – most of them decades old – onto him and, more importantly, his attempts at change.

That may doom Illinois to many years without any new efforts to pass comprehensive reforms.

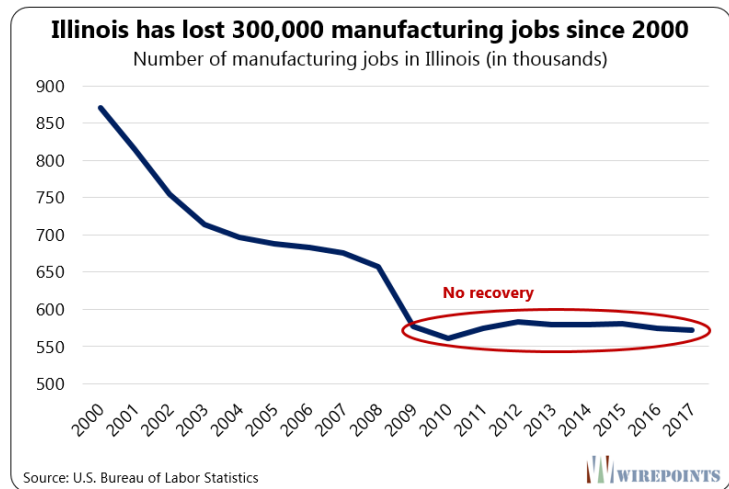
Anyone honestly seeking a balanced picture of why reforms are so urgent – and an understanding of why the status quo has to change immediately – should examine the facts before and during Rauner's term. Illinois' destructive status quo will become quite apparent.

Manufacturing jobs

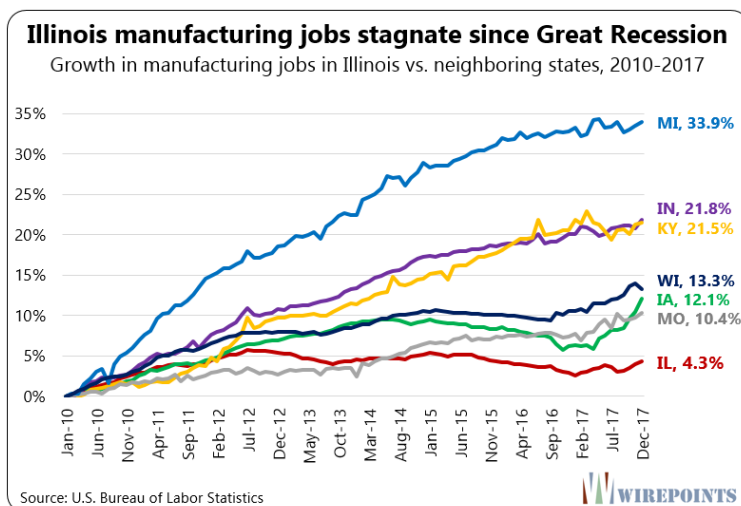
Critics blame Illinois' manufacturing woes on Rauner and his constant complaints of Illinois' economic dysfunction.

However, Illinois manufacturing lagged that of its Midwest peers long before Rauner took office. Since 2000, [Illinois has lost](#) more than 300,000 manufacturing jobs, or nearly a third of its manufacturing base, to other states and countries. Over 98 percent of those losses happened before Rauner's term.¹⁰

Job creators have long been forced to struggle with the state's [high property taxes](#), punitive [workers' comp costs](#) and a [growing debt burden](#).¹¹



Rauner isn't responsible for that. His opposition is. They blocked his workers' comp reforms. They stifled every labor reform he proposed. They kept the status quo in place. They – and not Rauner – should own the continuing collapse in manufacturing.



Worse, Illinois is falling behind just by standing still. All of its neighbors have enacted reforms to attract more manufacturing to them.

Every neighboring state has reformed their labor laws or restricted [collective bargaining](#) to some extent.¹² Some [like Indiana](#), have cut taxes.¹³ And [all have passed](#) right-to-work laws.¹⁴

The results of their reforms couldn't be clearer. Most of Illinois' neighbors have [recovered significantly](#) since the Great

Recession. Illinois hasn't.¹⁵

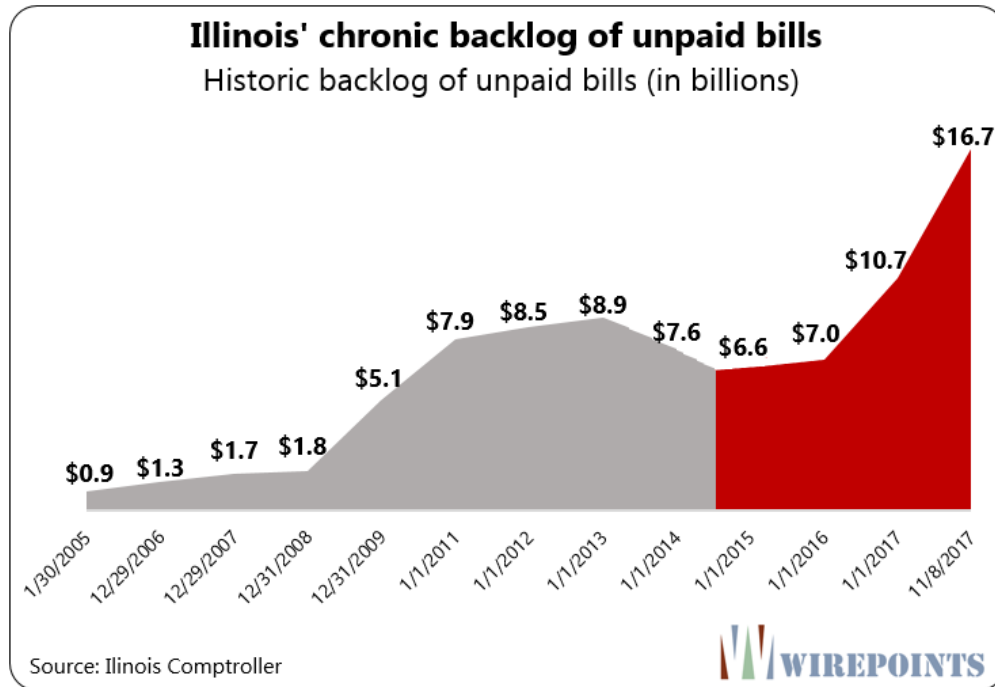
Since January 2010, Illinois has regained just 24,000 manufacturing jobs. Meanwhile, Wisconsin has recovered over 56,000 jobs. Indiana, half Illinois' size, has added nearly 100,000 jobs. And Michigan has recovered 150,000 jobs.

The decline in Illinois manufacturing isn't a Rauner problem, it's a status quo problem. Every day lawmakers refuse to pass common-sense workers' comp and labor reforms is another day Illinois becomes less competitive. And that means fewer jobs for Illinoisans.

Unpaid bills

Opponents also pin Illinois' massive increase in unpaid bills squarely on Gov. Rauner.

The budget impasse, with its continuing appropriations, court orders and consent decrees propelled spending, and consequently, the state's backlog, [to a record \\$16 billion](#).¹⁶



Ironically, even without a budget, the state spent more than it ever had before. The impasse only helped to reveal the dysfunction that defines Illinois.

But on top of that, the impasse backlog was made worse by the unpaid bills that had been building [since at least 2001](#), the last year that Illinois had a balanced budget.¹⁷

Illinois' backlog has been a chronic problem every year since then. Unpaid bills had already reached as high [as \\$9 billion](#) in 2013, two years before Rauner took office.¹⁸

Lawmakers who let those bills accumulate in 2001 and every year after are just as much to blame for Illinois' backlog as Rauner is.

Credit rating

Illinois was downgraded eight times during Rauner's first three years in office. Those downgrades have left the state's credit rating just [one notch](#) above junk.¹⁹

Critics pin those downgrades on Illinois' two-year budget impasse, which they attribute entirely to Rauner. But just like the fall in manufacturing, Illinois' credit rating was already in freefall long before the budget impasse.

In fact, Illinois was the [worst-rated state](#) in the nation by 2010, five years before Rauner took office.²⁰

The impasse simply extended the financial gimmicks and accounting tricks that lawmakers have [perpetuated for years](#).²¹

Illinois hasn't balanced its budget since 2001. Those unbalanced budgets and Illinois' growing pension liabilities led to 13 credit downgrades between 2009 and 2013, all under Gov. Quinn's watch.²²

Critics also blame the 2015 expiration of the 2011 temporary tax hike for the initial downgrades that occurred under Rauner. The loss of revenue, they say, made downgrades inevitable.

But their criticism ignores the five downgrades that occurred during the 2011-2014 tax hike. Even the \$32 billion in new money from the hike failed to quell the rating agencies' concerns about Illinois' fiscal mess. They were right to be concerned. Lawmakers took the money and spent it without reforming anything. That left Illinois at the edge of a fiscal cliff in 2015.

Illinois' politicians have learned nothing since then. An unbalanced 2018 budget and a \$5 billion tax hike have also failed to satisfy the rating agencies. Illinois is still [very much in danger](#) of [falling into junk](#), according to both [S&P](#) and [Fitch](#).²³

If lawmakers continue to use [accounting tricks](#) instead of passing real reforms, Illinois will be the first state ever to be given a junk rating.²⁴

Illinois' long free fall to near-junk credit rating Downgrades by the big-three credit rating agencies, 2009-2018				
	Downgrade date	Moody's	S&P	Fitch
Quinn years	Mar, Jul '09	↓	↓	↓
	Dec '09		↓	↓
	Apr '10			↓
	Jun '10	↓		↓
	Jan '12	↓		
	Aug '12		↓	
	Jan '13		↓	
	June '13	↓		↓
	Oct '15	↓		↓
	June '16	↓	↓	
Rauner years	Sept '16		↓	
	Feb '17			↓
	Jun '17	↓	↓	

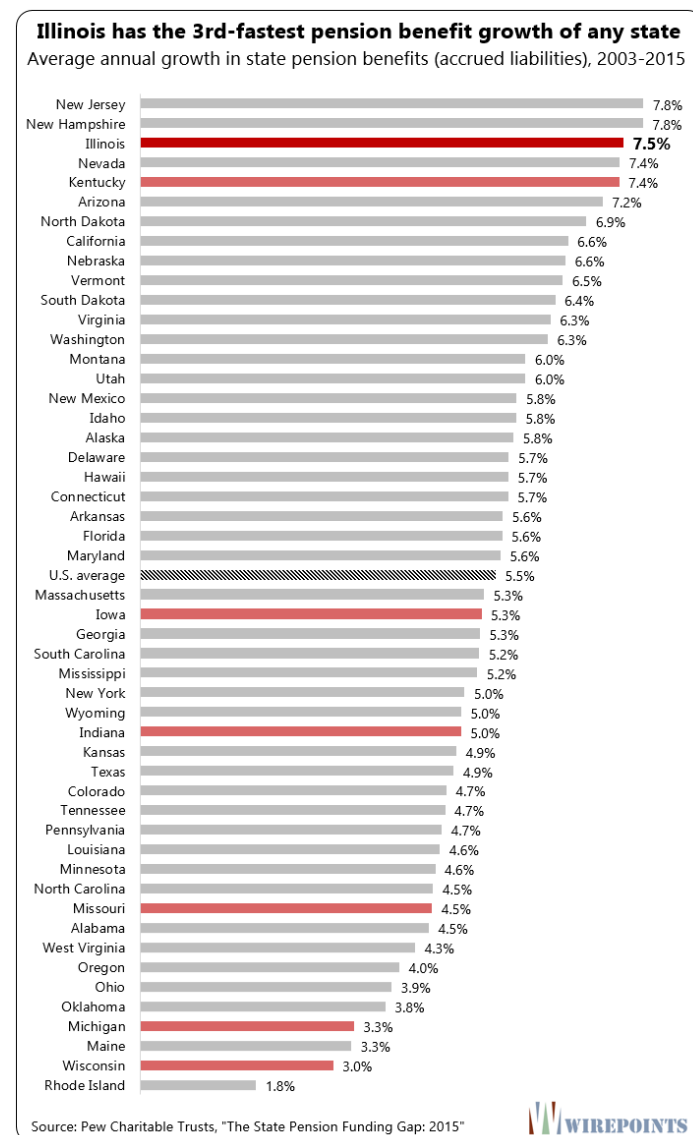
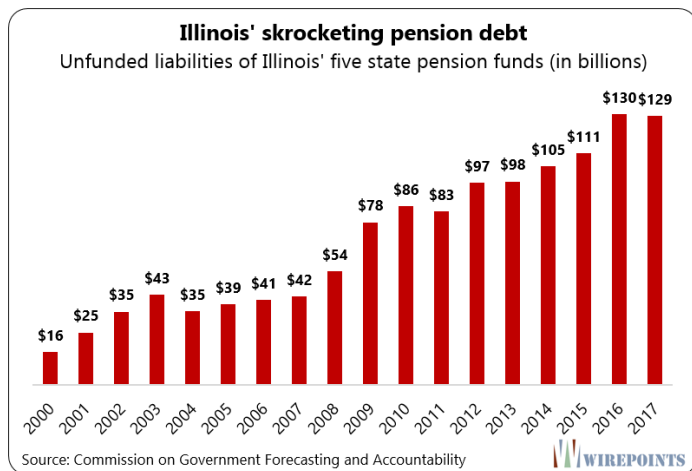
Source: Commission on Government Forecasting and Accountability

Pension crisis

The state's pension debt is another problem that's grown over the years, regardless of the governor in office.

In 2000, the shortfall in the state's pension funds was \$16 billion. By the time Rauner was elected in 2014, it had [already ballooned](#) to \$105 billion.²⁵

Politicians during those years made the crisis worse by not tackling the growth in the promises they made to workers.



Instead, their "fixes" resorted to borrowing – three pension obligation [bond issues](#) in 2003, 2009 and 2010 – and [tax increases](#) (2011-2014).²⁶

That was a mistake. More funding only fueled an increase in [out-of-control pension benefits](#) owed to state workers and retirees.²⁷

Illinois had the 3rd-fastest benefit growth in the nation from 2003-2015, according to a Wirepoints' analysis of Pew pension data. Only New Jersey and New Hampshire grew their pension benefits faster.

In the heat of Illinois' pension crisis, Illinois politicians let benefits grow at an incredible [7.5 percent annual pace](#).²⁸

In contrast, neighboring states like Michigan and Wisconsin grew their pension benefits at more reasonable annual rates of 3.3 percent and 3.0 percent, respectively.

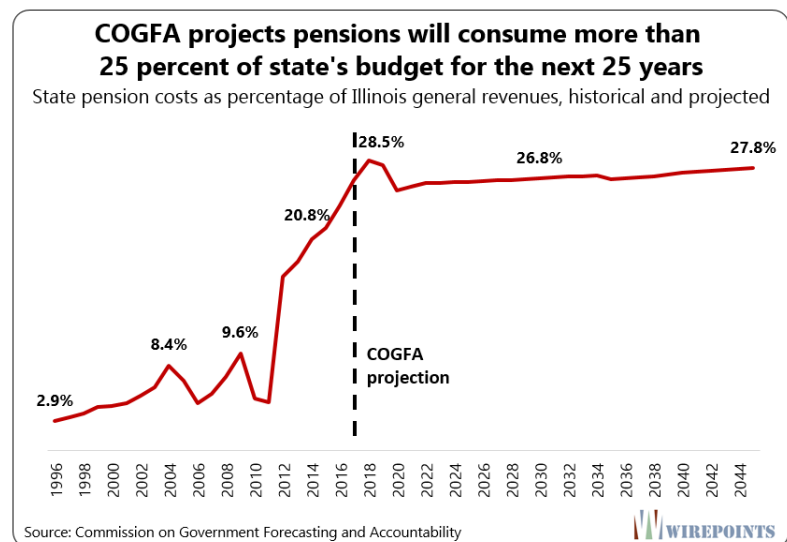
If Illinois benefits had grown at the same pace as Wisconsin's over that time period, Illinois' pension shortfall would be a more manageable \$45 billion today, not \$129 billion.

Madigan and former governors Blagojevich and Quinn handed Rauner a mess. Not only did they ignore pension benefit growth, their funding actions damaged the Illinois economy and sapped taxpayers.

The pension obligation bonds increased Illinois' borrowings by nearly \$25 billion. And the 2011-2014 tax hike [sucked nearly \\$32 billion](#) in new taxes from the economy and Illinois residents.²⁹

Their irresponsible actions left Rauner in an impossible position: about a fourth of his budgets were consumed by pension costs.

And according to the Commission on Government Forecasting and Accountability, that's going to be the case for every budget for [the next 25 years](#) at least.³⁰



With so much money going to retirements rather than services, Illinoisans clearly have a case to demand the boldest pension reforms in the nation from their lawmakers.

Outmigration

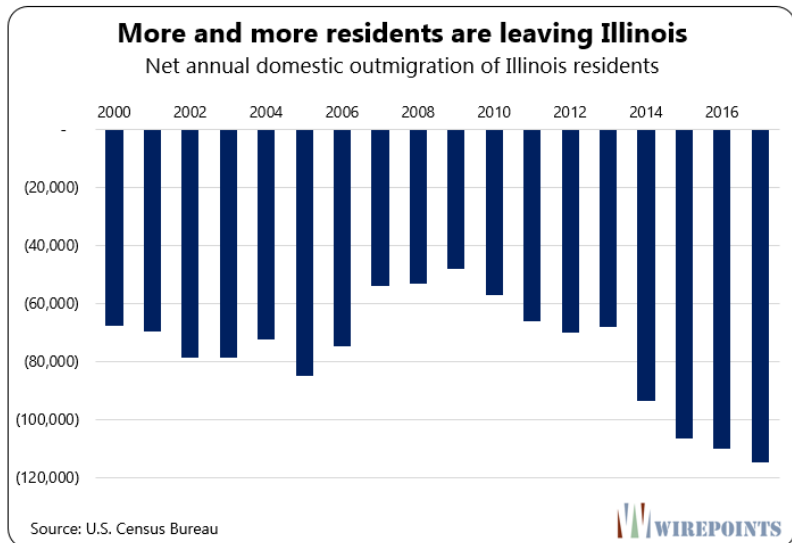
What best captures Illinois' dysfunction is, arguably, the number of people fleeing Illinois.

In 2016 and 2017, [Illinois netted record](#) domestic outmigration losses of 110,000 and 115,000, respectively.³¹

The number of people leaving has reached such a high level that births and international immigration are no longer able to offset those losses. Illinois' total population has actually shrunk [four years in a row](#), a sad distinction shared only with West Virginia.³²

Critics blame the budget impasse and Rauner's drive for reforms for the flight of Illinoisans, but once again, they ignore the fact that people were fleeing Illinois long before Rauner took office.

From 2000-2014, Illinois lost a **net** of more than one million people to other states. That's the equivalent of wiping Aurora, Rockford, Joliet, Naperville, Springfield, Peoria, Elgin and Waukegan off the map.



Illinois lost the equivalent of 8 major cities to outmigration between 2000 and 2014

Total net domestic outmigration, 2000-2014
vs. population of select Illinois cities, 2016

Net outmigration **-1,037,834**

City	Population
Aurora	197,107
Rockford	147,404
Joliet	146,410
Naperville	148,063
Springfield	115,511
Peoria	115,588
Elgin	114,521
Waukegan	84,467
Total	1,069,071

Source: U.S. Census Bureau

Finally changing the status quo

There's no question that Rauner's failure to lead and his abandonment of reforms have left Illinois worse off. But the economic and fiscal declines of his term aren't due to any reform agenda. They're the result of the underlying problem in Illinois: the policies that make up the state's destructive status quo.

This report could include far more indicators of Illinois' long decline. Both Medicaid [enrollment and costs](#) have spiked.³³ Property taxes have grown to the [highest in the nation](#).³⁴ Income growth [is stagnant](#) compared to other states.³⁵ All those additional facts would tell a similar story to what's already included above.

In the end, virtually every fiscal and economic statistic serves as a powerful condemnation of Illinois' status quo.

They should be used as ammunition to repel any [proposed tax hikes](#) and to promote tax relief.³⁶

They prove, in combination with Wirepoints' recent [research](#) on pension benefit growth, that Illinois needs aggressive action to cut the cost of benefits today and to [end pensions going forward](#).³⁷

And the manufacturing jobs numbers speak for themselves. Illinois needs aggressive [workers' comp and labor reforms](#) to stay competitive when compared to its neighbors.³⁸

All these reforms, and more, should be bipartisan. These changes aren't about left or right, Republican or Democrat.

They're about making Illinois livable again for all Illinoisans.

¹ Governor's Office of Management and Budget, "Fiscal Year 2019 Proposed Budget,"

<https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY%202019/Fiscal-Year-2019-Operating-Budget-Book.pdf>.

² John Klingner, "Illinois' manufacturing sector stagnates while neighboring states recover," *Wirepoints* (Dec 29, 2017).

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³ Ted Dabrowski and John Klingner, "US markets up 200 percent, Illinois pensions down 65 percent," *Wirepoints* (Dec 15, 2017).

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⁵ Commission on Government Forecasting and Accountability, "November 2017 Monthly Briefing,"

<http://cgfa.ilga.gov/Upload/1017revenue.pdf>.

⁶ S&P Global Ratings, "Illinois Embarks On A Fiscal High-Wire Act In New Budget Proposal," (Feb 15, 2018).

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- ²³ S&P Global Ratings, "Illinois Embarks On A Fiscal High-Wire Act"; S&P eyeing Illinois for junk status" *Illinois News Network*.
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