

Highlighting Need for Fair Income Tax, Gov. Pritzker Delivers Balanced Budget Proposal As First Step to Restore Fiscal Stability

Springfield, Ill. — Highlighting the need to create a fair income tax for Illinois, Governor JB Pritzker is proposing a state budget that takes a balanced and disciplined approach and invests in education, social services and public safety. In his budget address, the governor lays out this proposal as the first step in a multi-year plan to move Illinois forward and to bring back fiscal stability.

GOV. PRITZKER'S FY20 BUDGET ADDRESS EMBARGOED UNTIL DELIVERY

Speaker Madigan, President Cullerton, Leader Durkin, Leader Brady, Lieutenant Governor Stratton, Attorney General Raoul, Secretary White, Comptroller Mendoza, Treasurer Frerichs, Members of the General Assembly, honored guests and citizens, and the extraordinary First Lady of Illinois, my wife MK. Thank you all for your warm welcome.

I ask that we begin today by taking a moment to grieve with our neighbors in Aurora over the grave tragedy that occurred less than a week ago. Five good people killed in an evil act of workplace violence. Five police officers who were injured when they ran into gunfire. As I said Friday when I visited Aurora, may the memory of those that we lost be a blessing; may their memory fuel our work to bring peace to our state; and may G-d bless the brave law enforcement officers who continue to run toward danger.

Please join me in a moment of silence.

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Every one of us who serves in public office becomes a student of history. So few people have held these jobs – we must allow the experiences of those who came before us help shape what lies ahead.

Every year, the Governor of Illinois is required to provide the General Assembly with a proposed budget and an update on the condition of our state. It's a tradition in true keeping with our democracy and a task that requires humble honesty and some bold optimism. Today I offer that proposal and report with an eye toward our shared history and our hopes for the future.

Illinois' 200-year history is a web of recurring challenges, the same themes recycling with each new decade. Indeed, when reviewing past reports to the General Assembly by previous governors, the same problems are raised over and over again: There is not enough money to address social ills, not enough jobs to employ people, not enough resources to adequately maintain and build our infrastructure, and not enough attention to the plight of working families. It may not surprise you to learn that these problems existed in 1819, they existed in 1919 and they exist today in 2019.

History can be a cruel exercise in pessimism if you narrow your gaze. But if you widen your vision just a little bit, you will see that the recurring reports from the past have been occasionally dotted with unapologetic optimists who focused on tackling old problems with new ideas and new vigor, reducing the burden for each generation along the way.

One of those unapologetic optimists was Governor Henry Horner, who took office in 1933. It puts the current day in honest perspective to think about the challenges Horner faced.

The Great Depression had just begun...Nearly half of Illinois' work force was unemployed...Hungry workers were marching on Springfield...Teachers had not received a paycheck in nearly a year...Labor disputes were ending in bloodshed...Banks were shuttering... And to add to it all, floods were sweeping across wide swaths of the state.

Nevertheless, with the daunting nature of the state's condition, Horner approached his job with optimism, with wit and with a dogged work ethic. In a speech soon after he took office, he said:

“We have got to hurdle a few more obstacles before we are on the broad highway of return to normal conditions. However, the road is clearly in sight.”

Today, that is where we find ourselves again.

The road to normal conditions is in sight. However, to get there, we must begin with an honest accounting of the struggles of the last few years and the challenges left behind.

Illinois is faced with a \$3.2 billion budget deficit and a \$15 billion debt from unpaid bills. Last year alone, the state paid out more than \$700 million in late payment penalties. That's enough to cover free four-year university tuition for more than 12,000 students.

We are dealing with a fundamental structural deficit that has existed for quite some time and spanned the administrations of several governors. And it won't be solved until we rethink our spending priorities and some basic revenue issues facing the state.

During a time of unprecedented economic growth across the country, we lost four valuable years because of an ideological battle.

That stops now.

Budgeting will not be done any more by taking the state hostage, or by court orders, consent decrees and continuing appropriations but instead by debate and compromise and a return to regular order. We will work together earnestly to solve the state's

problems. We will disagree at times on important things, but the work we all came here to do will get done.

To that end, the budget I present to you today is an honest proposal – the costs are not hidden, the revenues I propose are not out of reach, the hole we need to fill is not ignored. There's no fantasy line item called "Working together or executive management." Instead this budget proposal reflects some of my most deeply held values – and the hopes of voters who sent us here – but tempered by the knowledge that we must hold the line on spending in the context of the revenue available and the diminished condition of our state government.

Undoubtedly all of you will bring your own priorities, ideas, and concerns to the budget process. I welcome that conversation – that's as it should be. We are all here, Democrats and Republicans, with the common desire to serve the people of our state well. And we do that better when we talk to each other, and more importantly, listen to each other.

I have tried in the weeks leading up to today to get to know each of you, to meet your families, to dance together to Maroon 5 songs, and to have an open door to conversation and collegiality and finding common ground. As it turns out, some of you are pretty good dancers! Some of us, not so much.

All I'm suggesting is I don't think we spend enough time getting to know one another as people before we get to know one another as political opponents.

My first week here, Senator Sue Rezin stopped by the Governor's office to introduce herself. I invited her to sit with me so I could learn about her district and, we talked about how we can attract more business to Northern Illinois.

I found out a little bit more about Sue. She's a mom of four, runs a real estate business with her husband, and started volunteering for the Make-A-Wish foundation 30 years ago when she was first starting her family because it offered her a flexible schedule. I gotta say I'm not sure how a Mom of four finds any flexibility in her schedule but I'm impressed with the tremendous generosity of spirit that she looked for the opportunity to give her time to those in need when she must have barely had any time for herself.

I will not soon forget, even when we inevitably disagree, that Senator Rezin extended a hand in friendship to me on my first few days on the job. Sue makes no bones about being a conservative. And I'm not shy to say I'm a Democrat. But I know we will get more done for Illinois by listening to each other, which we will do with respect and civility.

It is with the knowledge that people with true generosity of spirit occupy both sides of the aisle here in Springfield, that I set out on the task of providing a new direction for our state. This is not the work of just one year. Real fiscal stability requires a long-term commitment to paying down debt, investing in critical infrastructure, and stabilizing our pension system.

It also requires a recognition that to lower costs and increase revenue over the long term we must make investments in education, livable wages, innovative human service programs and job training. We must stop slashing programs that build future prosperity – if we cut skills training and college affordability, we curb near term economic growth, lower our prospects for future revenue, and drive businesses away. If we don't fund inexpensive gun violence prevention programs, we will see more tragedy and higher public safety expenditures. If we don't have strong social service programs that assist families dealing with a loved one's mental health crisis, then we increase a family's suffering and increase the potential future financial burden on the state. In the past it has been the practice of too many politicians to be short sighted about slashing costs and then to bemoan the state of the state when those cuts have long-term consequences on the economy.

So let's not hollow out vital government services any more.

Instead, we must focus on making government more efficient and effective. Let's make sure we are focused on truly managing and measuring the real results of state programs. Taxpayers deserve to know their dollars are being spent wisely. Programs that don't work need to be eliminated. And we need to explore new ways to address old problems.

Efficiently saving tax dollars, though, isn't enough to lift Illinois out of our fiscal mess. We must also grow jobs.

We can do that by fostering a business environment in Illinois that will attract talent and entrepreneurs from all over the country. We need to continue to grow our position as a top-tier startup and technology ecosystem, and we are doing that in this budget with new investments and by re-prioritizing dollars within the departments of our state government.

We are a big state with real infrastructure and transportation options, world class logistics companies and some of the busiest distribution centers in the nation. We must be prepared to make a big investment in our transportation and infrastructure with the passage of a Capital Bill that will be introduced in this legislative session.

We can grow our economy and make it more inclusive by taking advantage of the talent among the diverse people of our state. That's why we must promote the development of sustained wealth in black and brown communities by being purposeful about increasing the number of minority-owned businesses eligible for state procurement opportunities and by attracting private capital to build out new businesses and jobs in Opportunity Zones. And I want downstate Republicans and Democrats to work together with me on a Downstate Revitalization Plan to encourage the creation of new businesses and jobs and foster the growth of existing ones in struggling communities so they can thrive.

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To get to fiscal stability and eliminate our structural deficit, there's no quick fix. It took decades to get us into this mess. It will take at least several years to get us out of it.

We must therefore embrace a multi-year approach with fair principles and smart investments in our people. Our state does well when our people do well.

I want to be clear about this...this Fiscal Year 2020 budget is balanced, but that's not enough. This is only Year One of a multi-year endeavor, and very importantly it is built on the state's current regressive tax structure that I do not favor and that puts the greatest burden on working families. Not only is our tax system unfair, it's also inadequate to solve our long-term financial challenges.

It's time for a change.

Workers deserve an income tax cut and a property tax break. A fair tax system will allow us to eliminate the structural deficit that has plagued our state for nearly two decades.

There is unanimous agreement in this room that if we want to solve our state's fiscal woes we cannot continue on the path we are on. There is a structural deficit today of over \$3 billion per year that if left unaddressed will continue to grow. There is a backlog of unpaid bills and debt associated with it that exceeds \$15 billion. In addition there is a built-in multi-billion-dollar deficit of funding for schools and universities and human services that most families rely upon.

For the sake of argument let's agree that there's at least a need to address the structural deficit with enough to pay off the backlog over several years. We are talking about billions of dollars each year to fill the hole in our future budgets.

There are, in essence, three alternative options for fixing this problem:

First, we could choose only to cut state government spending and raise no revenue. To do that, we have to recognize that out of this year's \$39 billion budget, approximately \$20 billion is required payments on our debt, on our pensions, on our court-ordered obligations or federally protected programs. That leaves approximately \$19 billion dollars. That's the money we spend educating our children, running our colleges and universities, keeping our streets safe, preserving our natural resources, getting people to and from work efficiently and caring for our veterans. We'll call that "discretionary spending." To balance the budget by simply cutting government, we would have to reduce discretionary spending on all these direct services our jobs, our families and our businesses rely on by approximately 15%. That's 15% fewer state police, 15% fewer students going to college, 15% fewer working parents receiving child care assistance, and 15% less money for your local schools – which likely also means your local property taxes will increase. I should point out that this option was tried in the prior administration, and it failed - because nearly no one thinks it's a good idea to force our most talented kids to leave the state by diminishing Illinois colleges and universities, drive families away by defunding local schools, make our communities less safe by reducing public safety, and increase poverty by cutting badly needed human services.

Our second option is to raise revenue with our current regressive flat income tax system and impose more flat taxes which fall disproportionately on the working poor and the middle class. This option could require imposing sales taxes on services, implementing a retirement tax, or raising the income tax overall by around 20%. Or all of the above. For a family earning \$100,000, that means paying almost a thousand dollars more in income taxes, and their property taxes will continue their upward march as they always have.

Our third option is to reject imposing additional income, retirement and sales taxes on the middle class and instead enact a fair income tax. This would lift some of the tax burden off of middle income earners and instead ask the wealthiest to pay a little more. Just for clarity, a fair tax is what three quarters of states with income taxes have. We can accomplish this with a more competitive rate structure than Wisconsin and Iowa, both of which are outpacing Illinois in job creation and economic growth. We can also implement a fair tax system that's lower than our metropolitan competitors on the east and west coasts.

Make no bones about it, I choose to stand up for working families and will lead the charge to finally enact a fair tax system in Illinois.

Ultimately, our chief responsibility to the people of Illinois is to set this state on a path to sustainable growth with an income tax system that is fair. It is not fair that I pay the same tax rate as a teacher, a child care worker, a police officer or a nurse. And efforts to simply increase the income tax rate across the board fuels further income inequality and kicks the can down the road for our children and grandchildren to solve our ongoing budget issues. The state needs a fair tax, and I am going to be relentless in pursuing one over the next two years.

My office intends to immediately begin negotiations over proposed fair tax rates with leaders from the House and Senate. Conversations and debate about rate structures and how much revenue we need to raise are appropriate. I expect different opinions and viewpoints over the best way to achieve an equitable tax system, and I sincerely welcome that conversation. I have already asked a few legislators who oppose the fair tax to offer their best ideas to improve it, and I am confident they will come to the table in good faith.

What is not appropriate is a small collection of the wealthiest people thinking that they should drown out millions of lower and middle income Illinoisans unfairly burdened by the current flat tax system.

Now, I understand that I am an unlikely proponent for this much needed change. But perhaps the fact that the heaviest burdens would fall on taxpayers like myself under a new fair tax system will convince many of you that I am proposing this path forward because I truly believe it's what is best for Illinois.

To fix our state's problems, we need fundamental tax reform. There's no hiding from it. There's no running from it. There's no lying about it. I choose a fair tax system to get us out of this mess.

It will take 18 months to get it done, but it's worth the wait so we can save working families hundreds or thousands of dollars per year.

A fair tax will change the arc of Illinois' finances forever.

Until then, this proposed budget serves as a bridge to a stable fiscal future.

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Which is why I am proposing a fiscal year 2020 budget with re-prioritized and controlled spending that targets increases in three key areas that will help our state thrive and grow: education, health and human services, and public safety – investments in people that I believe will pay dividends down the road. This is a constrained budget – more austere than I would like – but I think it's important that we be disciplined and focused over the next few years to pay down our bill backlog and the debt left over from prior administrations.

The responsible course of action is to embrace some near term reasonable – and realistic – new revenue, which will bring in an estimated \$1.1 billion in total.

Let's begin with this: By legalizing and regulating adult-use cannabis in this legislative session, we will create jobs and bring in \$170 million in licensing and other fees in fiscal year 2020. I have noted many times that I don't view this issue through a purely financial lens. I think we should take this action for our state because of the beneficial criminal and social justice implications and the jobs it will create. And let's be honest, like it or not, cannabis is readily available right now. I would rather the state tax it and regulate it than deny the reality of its use and accessibility.

This budget also includes the legalization and taxation of sports betting. Expansion of gambling is a perennial effort in this state, and often these proposals get bogged down in regional disputes and a Christmas tree approach. But in those instances, we were talking about adding more riverboats or adding into other regions. Sports betting is different – this is a new market created by a recent U.S. Supreme Court decision. Every day we argue about “who's in and who's out” is money that goes to other states and to the black market. I am calling on the legislature to take this up immediately so that Illinois can realize hundreds of millions of dollars, create new jobs, and bring sports betting into a regulated environment that will protect citizens from bad actors. If we do it this year and become the first state in the Midwest to move on this initiative, we can realize more than \$200 million from sports betting fees and taxes in FY 2020.

I am also proposing that Illinois enact a tax on insurance companies, specifically a managed care organization assessment to help cover the costs of the State's Medicaid program – something that Leader Greg Harris has championed for many years and that has been enacted in other states. This would be structured to generate approximately \$390 million in revenue to cover a portion of the state's Medicaid costs. This would be a smart way to increase our federal match.

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Bringing efficiencies to state government in addition to these new revenues is not enough for Illinois to reach firm fiscal footing. We must address our pension liabilities. Throughout my campaign I said that we must pay the pensions that are owed, and the

Supreme Court has ruled that. And therefore that is what we must do. So I am proposing a responsible approach to our pensions that does not crowd out all the other investments we must make so that Illinois is a state that thrives.

Twenty-five years ago, when the pension payment schedule was put in place, the well-intentioned architects of it predicted that in fiscal year 2020 we would spend \$4.9 billion on pensions. Instead, the bill today is \$9.1 billion. Nearly double. This must not continue. We must put the system on a more sustainable path – one that preserves pensions for the retirees that earned them, and at the same time allows us to grow our economy and grow our way out of the pension liability.

And last week, my administration put forward a 5-point program to do just that. We will dedicate a portion of the new fair income tax – in other words, hundreds of millions of dollars – to the pension system, over and above our required pension payments. We will infuse new assets into the system up front. We will manage our debt through a small-scale pension bond used entirely for reducing our liability. We will make the optional retiree buyout program permanent. And we will smooth the pension ramp by modestly extending it.

This approach is not one that can be looked at as a menu from which to pick one and discard the rest. There's no room for that any more. We must attack our pension liability from many angles all at once. And we must be consistent and persistent in this battle.

Some will criticize this approach. There are those who will say that retirees should lose the benefits they earned. The Supreme Court has made it clear that that is illegal. There are others who would raise taxes on middle class families today. I say middle class families have paid enough.

I promised to be honest about our challenges and solutions. This is the most responsible, sustainable and balanced approach to dealing with a problem that was decades in the making and will take years to solve.

Ultimately, the fair tax must be part of the long term solution to our pensions.

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There are many education, healthcare and job creation initiatives that I think are well worth funding and many opportunities for investments across the state that I talked about during my campaign. But state government today can only do so much, and without a commitment to reaching firm fiscal ground, we will soon be able to do even less. My highest priorities are stabilizing state government, growing our economy, and protecting working families.

For our fiscal and economic health, we must start with a sustained effort to restore and improve our education system.

I have been advocating for large investments in early childhood education for decades, long before I became governor. Real focus on the learning that happens from birth to age 5 can determine the entire arc of a person's life. Investing in early childhood is the single most important education policy decision government can make, and it has proven to provide a significant return on investment. That's why I'm proposing funding the Early Childhood Block Grant at \$594 million, an increase of \$100 million from fiscal year 2019. It will allow us to begin the march toward universal preschool so that every child in Illinois will have a real opportunity to succeed.

I have also focused on reversing the damage done to higher education by the budget impasse. College affordability is a paramount investment in near term economic growth for our state. So I've proposed a 5 percent increase for public universities and community colleges, as well as an increase in the Monetary Award Program by \$50 million to help more than 15,000 more low- and moderate-income students attend college next year. We will do more every year to come. I'm also proposing \$35 million for the second-year costs of the AIM HIGH merit scholarship program for high achieving students – so we can keep our best and brightest in Illinois.

On a smaller scale, I am consistently looking to maintain or increase funding for programs that have an outsized benefit to the economy for traditionally neglected communities. Along those lines, this budget includes funding for the Advanced Placement Low-Income Test Fee Waiver. The \$94 it costs to take an AP History exam is a huge burden for a low-income family. We must be ever mindful of how we as a society

inadvertently perpetuate a cycle of poverty and the ways, both large and small, that we can help people find a way out.

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In my inaugural address I said that I would not balance a budget on the backs of the starving, the sick and the suffering, and I keep that promise today by beginning to rebuild health and human services.

We increase the income eligibility threshold in the Child Care Assistance Program which will give quality care to approximately 10,000 more children. We provide funding to open the new 200-bed Chicago Veterans' Home, long delayed by the budget impasse. We will be able to hire an additional 126 direct service staff for DCFS to protect children. We will provide funding to help investigate cases of kids' exposure to lead – this is important, because we have raised our standards to be more aggressive. This budget adds funds for community-based violence interruption, homelessness prevention, behavioral health, mental health, addiction, dementia, and Alzheimer's.

This is less than what I would like to do. But it is what we can afford to do in year one of our recovery.

As another part of my plan to strengthen working families, we are giving 1.4 million Illinoisans a raise.

Our country is engaged in a serious conversation about income inequality right now. I think that's long overdue. There was a time where we operated with a general philosophy that workers should be able to afford the goods and services that they help to produce. That's not some outdated notion. It's fundamentally American.

Many of you asked me why I made passing a \$15 minimum wage an immediate priority given all the challenges our state faces right now.

The current minimum wage is \$8.25 an hour – which means even if you are working full time every week out of the year, you are making \$17,000 a year. You can't send your kids to college on \$17,000 a year. You can't afford a single health emergency, or pay for any of the things that might prevent a health emergency. You can't sustain child care on \$17,000 a year. And you can't save for retirement. A flat tire or a worn car battery is a genuine fiscal emergency that might also threaten your job. And one paycheck is often the only firewall against homelessness.

The current minimum wage is a lifetime sentence to poverty.

Whether you live in Chicago or Cairo, I find that unacceptable, and I worked with the appropriate amount of haste to change it. When your house is burning down, you don't wait for the rain to put out the fire.

I said I would put Springfield back on the side of working families, and I meant it.

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Finally, we will do more to keep our neighbors safe in the state of Illinois. This begins with making sure the Illinois State Police can be rebuilt, with two new cadet classes to replenish their dwindling ranks. We will pay for the gun dealer licensing law that I was proud to sign during my first week in office, to take a reasonable step to end the scourge of gun violence in too many of our neighborhoods. We will take a more rigorous approach to getting guns out of the hands of those who shouldn't have them in the first place. I'm committed to advocating for commonsense gun laws, and I'm committed to making sure that we are implementing the laws we already have on the books more effectively. These investments have taken on an even greater importance since the massacre in Aurora, which serves as a poignant and painful reminder of the work that still remains.

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Every governor deals with their share of trials, tumult and tribulation.

I mentioned at the beginning of this speech that Henry Horner took office in 1933 at the start of the worst decade of economic decline in US history.

Horner was good friends with Carl Sandburg. They shared a love of all things related to President Lincoln. In the later years of his life, Sandburg granted an interview about his friend Governor Horner, in which he said, “Horner was the real goods...he got to high places without selling his soul.”

Indeed, despite all the economic struggles the state faced during the Great Depression, Horner still managed to increase school funding, institute unemployment insurance and pensions for older Illinoisans, create building programs for state institutions and improve public health services.

He understood that prosperity doesn’t trickle down...it trickles up. When we lift up those who have the least, our boats all rise together.

Horner was a fundamentally optimistic man. He approached his job as governor with a hopeful heart, and he never let that hope diminish under the uncommon burdens of being head of state.

He knew what I know...that the state of our state has always been strong because of the values of our people...not the value of our coffers.

Horner once said: “The only way to carry out any great purpose is not on your shoulders, but in your heart. Carry it on your backs and it may wear you down. Carry it in your hearts and it will lift you up. Thus, the heart strengthens the purpose, and the purpose gives poise and inspiration to the will.”

Like you, I carry the burdens of this state in my heart – and despite the heavy load it lifts me up every day. I share my purpose with you so that it may give poise and inspiration

to our collective will – because I know the road ahead is hard, but I think it's about time we all walk it together.

Thank you.

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