Illinois Can No Longer Afford to Be a Donor State

Illinois Ranks 46th in Federal Funding

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Executive Summary: Illinois Has a Lobbying Problem No One Is Talking About

Illinois can no longer afford to be a "donor state." The state faces a $6.2 billion budget deficit and over $100 billion in cumulative debt. While their state government annually struggles to balance its budget, Illinois residents have been subsidizing the budgets of 45 other states.

Compared to the national average, Illinois residents:

- add 6.4 percent *more* in GDP per capita (+$3,365 per person),
- contribute 19.2 percent *more* in federal income and FICA taxes (+$1,168 per person),
- get back 32.2 percent *less* in federal funds to their state government per dollar of federal income tax paid (-8.6 cents per tax-dollar),
- receive 14.5 percent *less* in federal road funds per vehicle registration (-$24 per driver).

Compared to the "right-to-work" state average, Illinois residents:

- add 16.4 percent *more* in GDP per capita (+$7,863 per person),
- contribute 28.3 percent *more* in federal income and FICA taxes (+$1,431 per person),
- get back 40.7 percent *less* in federal funds to their state government per dollar of federal income tax paid (-12.4 cents per tax-dollar),
- receive 17.5 percent *less* in federal road funds per vehicle registration (-$30 per driver).

If federal funding to Illinois matched the national average, the state government would have **between $2.6 billion and $8.0 billion more annual revenue**. If federal subsidies matched the "right-to-work" state average, the state budget would have between $5.2 billion and $11.5 billion in additional annual revenue. Thus, Illinois' $6.2 billion deficit would actually be a *budget surplus* of $1.8 billion to $5.3 billion if the state received its fair share of federal funding. Revenues for road construction projects would also be $172.4 million to $416.9 million higher if Illinois received its fair share.

Figure A: Illinois Compared to Other States, by Economic or Federal Tax Metric

Economic or Federal Tax Metric	Value	Rank
Gross Domestic Product (GDP) Per Capita	$55,945	15
IRS Individual Income and FICA Taxes Per Capita	$7,265	10
Federal Revenue Per $1 of Federal Taxes	$0.181	46
Federal Road Revenues Per Vehicle Registration	$141	41
If Illinois' State Government Received a Fair Share:	+$5.3 billion to +$11.6 billion	

There is significant room for improvement in the amount of federal revenues provided to Illinois. The state budget problem would be solved if Illinois received federal government transfers at a rate proportional to the national average. Without action from the federal government, the Governor and General Assembly will have to increase taxes and/or cut important state services.

The federal government should increase funding to donor states. It makes little sense for state governments to risk declaring bankruptcy (and subsequently require federal funds) while they have been bailing out other states for years. High-road states like Illinois can no longer afford to subsidize low-wage states, especially given the current fiscal situation in Illinois. The current federal system rewards states for bad public policies that lower worker incomes by disproportionately subsidizing their state budgets. This comes at the expense of reducing revenues for "high-road" states, which indirectly forces them to increase state and local taxes.

Introduction

The State of Illinois is experiencing a budget crisis. As of June 2015, the State of Illinois had a $6.2 billion deficit (*Bloomberg*, 2015). The Governor and the General Assembly are at an impasse, leaving the state government without a Fiscal Year 2016 operating budget since the close of the legislative session in May. Standard & Poor's Rating Services already assigns Illinois the lowest credit rating among all 50 states (an A-minus), citing nearly $100 billion in unfunded pension liability (*Chicago Tribune*, 2013). Illinois could be at risk of an additional downgrade without signification action. While the state government has recently experienced budget surpluses of $996 million in Fiscal Year 2013 and $57 million in Fiscal Year 2014 (*Illinois State Budget*, FY2016), decreases in the state's personal and corporate income tax rates have left a significant fiscal hole.

Despite facing considerable budgetary challenges at the state level, Illinois remains a "donor state." Illinois is a high-wage state where household incomes exceed the national average. Since many residents earn a middle-class or upper-class living, residents in the state contribute more in federal tax revenues than their counterparts in other states. However, Illinois residents get back less money from the federal government because average earnings are high. This system harms low-income Illinois residents, decreases available tax revenues, and shifts the burden from federal payments onto the state– which often results in state and local government tax increases to make up the difference.

A 2007 report by the Tax Foundation, a conservative-leaning nonprofit research institute, found that Illinois only receives 75 cents in federal spending for every dollar contributed by residents in federal taxes. This placed Illinois 45th in a ranking of all 50 states. A total of 32 states received more in federal spending than they contributed per dollar, including Kentucky ($1.51), Missouri ($1.32), Iowa ($1.10), and Indiana ($1.05). Wisconsin, the remaining state that borders Illinois, received 86 cents in federal spending per dollar contributed in federal taxes (Tax Foundation, 2007). Further analysis reveals that states with "right-to-work" laws receive $1.15 in federal spending per dollar of federal income taxes contributed compared to 95 cents per dollar among collective-bargaining states, indicating that Illinois and other collective-bargaining states are subsidizing right-to-work states (Manzo & Bruno, 2014).

This Illinois Economic Policy Institute (ILEPI) Policy Brief investigates how Illinois' status as a "donor state" impacts the state budget. While the Tax Foundation's study provides broad estimates of total federal government spending, this Policy Brief uses updated data to focus specifically on federal government transfers paid directly to support state budgets. The Policy Brief contains seven sections. First is a brief discussion of datasets used in this analysis. Then, state-by-state information on economic output is provided, followed by summaries of federal income and employment taxes paid by the residents of each state. A comparative evaluation of federal government support to state budgets ensues, with the conclusion that Illinois residents are unquestionably subsidizing the budgets of other state governments. As a specific illustration, state road construction revenues are examined next. Finally, estimates are presented to demonstrate how much more revenue the state government would receive if it were to receive federal government transfers in amounts proportional to both the national average and the "right-to-work" state average before a concluding section discusses implications and offers recommendations.

Data Used

This ILEPI Policy Brief utilizes information from four datasets. The primary source used is the 2013 *Annual Survey of State Government Finances*, conducted by the U.S. Census Bureau every year since 1951. The data contain details on revenue by source, expenditures by function, indebtedness by term, and assets by purpose. This is a voluntary survey, but all 50 state governments participated in 2013. A second but equally important dataset used in this report is the *Internal Revenue Service Data Book, 2013*, an evaluation of the $2.9 trillion collected over 240 million tax returns in 2013. The Internal Revenue Service (IRS) report comprises aggregated collection amounts by state, including total revenue from "individual income tax withheld and FICA tax" for every state. In a case study of highway expenditures, information is presented from the *Highway Statistics Series: State Statistical Abstracts 2012* from the Federal Highway Administration (FHWA) of the U.S. Department of Transportation. This series is a state-by-state census on motor fuel use, driver licensing, vehicle registrations, vehicle miles traveled, land area, population, and financing by federal, state, and local governments. Finally, economic output data for 2013 is obtained from the *Regional Economic Accounts* by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. This resource estimates Gross Domestic Product (GDP) by state, or "value added" per state, every year based on national economic accounts.

Economic Output by State

Figure 1 presents data on gross domestic product (GDP) per capita. GDP per capita is simply total economic activity in a state divided by state population for 2013, so the measure includes unemployed persons, retired individuals, and children. GDP per capita is different from, and larger than, income per capita. GDP is the sum of all finished goods and services produced within a regional border. Thus, GDP includes income earned by workers *as well as* the value of capital– such as corporate profits, machinery and equipment, and the state's infrastructure network– and government taxes. Generally, if a state has high GDP per capita but has a relatively lower level of worker income, the indication is that capital "captures" a larger share of the economy. Nevertheless, GDP per capita provides a measure for the total economic activity and the productivity of workers in each state.

Illinois is a high-wage state. The typical Illinois household earns more money than the national average because workers in the state are more productive. In comparison to the 49 other states, Illinois ranks 15th by gross domestic product (GDP) per capita. At $55,945 per capita, Illinois residents contribute $3,365 more to the U.S. economy per year than the national average ($52,580). Illinois residents also generate more economic activity per year than every border state. Iowa, which contributes $53,639 per capita to the economy and ranks 21st, is the next-closest state. In the region, only Minnesota's $57,575 per capita (13th) ranks higher than Illinois' GDP per capita.

Economic output is dependent upon many factors, but there are common characteristics among the highest-ranked states that separate them from the lowest-ranked states. States with the highest values of GDP per capita tend to geographically be located in the northeast and along the Pacific coast (e.g., Connecticut, New York, and California), or benefit from the presence and extraction of natural resources (e.g., Alaska, North Dakota, and Texas). The poorest states by GDP per capita tend to be located in the southern part of the country and have "right-to-work" (RTW) laws.[1]

[1] During the period of analysis, there were 24 "right-to-work" states, including Michigan and Indiana. Estimates for "right-to-work" states in this Policy Brief exclude Wisconsin, which did not have a RTW law in 2013 but has since enacted the legislation.

While the national average for GDP per capita is $52,580, the aggregated figure for RTW states is $48,082 per capita. GDP per capita is $56,407, or 17.3 percent higher, in states with collective bargaining (CB) laws. Illinois generates $7,863 more per person (16.4 percent more) than the comparable figure for all RTW states.

Figure 1: Ranking of States by Gross Domestic Product (GDP) Per Capita

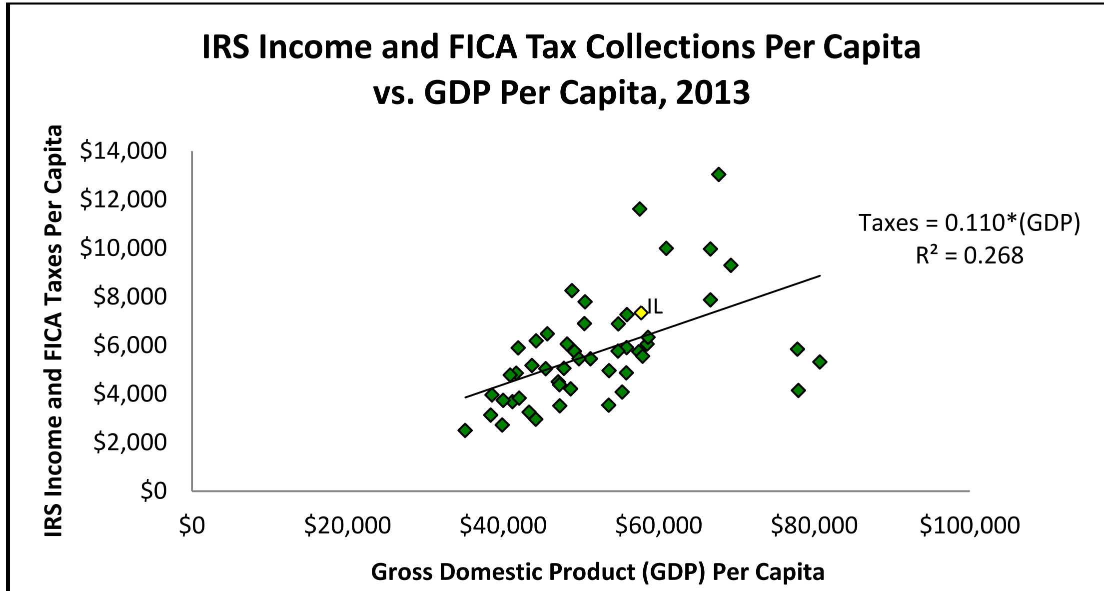
Rank	State	Gross Domestic Product (GDP) Per Capita, 2013
1	Alaska	$80,741
2	Wyoming	$77,974
3	North Dakota	$77,868
4	Connecticut	$69,312
5	Delaware	$67,732
6	New York	$66,699
7	Massachusetts	$66,687
8	New Jersey	$61,024
9	Nebraska	$58,664
10	Washington	$58,532
11	Texas	$57,948
12	Maryland	$57,749
13	Minnesota	$57,575
14	California	$57,462
15	**Illinois**	**$55,945**
16	Colorado	$55,889
17	Oregon	$55,874
18	South Dakota	$55,312
19	Louisiana	$54,822
20	Virginia	$54,790
21	Iowa	$53,639
22	Hawaii	$53,584
23	New Hampshire	$51,266
24	Rhode Island	$50,579
25	Pennsylvania	$50,487
26	Kansas	$49,780
27	Wisconsin	$49,190
28	Ohio	$48,853
29	Utah	$48,689
30	Indiana	$48,259
31	North Carolina	$47,864
32	Nevada	$47,318
33	Oklahoma	$47,288
34	Vermont	$47,092
35	Missouri	$45,721
36	Georgia	$45,489
37	Tennessee	$44,279
38	New Mexico	$44,236
39	Michigan	$43,714
40	Montana	$43,382
41	Arizona	$42,107
42	Arkansas	$41,974
43	Kentucky	$41,720
44	Maine	$41,222
45	Florida	$40,940
46	Alabama	$40,045
47	West Virginia	$39,891
48	Idaho	$38,612
49	South Carolina	$38,443
50	Mississippi	$35,157
USA	**United States**	**$52,580**
CB	Collective-Bargaining	$56,407
RTW	Right-to-Work	$48,082

Source(s): Bureau of Economic Analysis. Regional Economic Accounts: 2013.

Federal Income and Employment Tax Collections by State

Figures 2 and 3 present information on per capita IRS income tax collections, including Federal Insurance Contributions Act (FICA) taxes, by state. Federal government revenue from personal income and employment taxes is a function of residents having jobs and how much they earn, given the progressivity of federal income tax brackets. Thus, states with high employment (or low unemployment) and high wages disproportionately contribute more into the federal income tax pool. Similarly, in states where labor "captures" a larger share of the economic pie compared to capital, IRS income tax collections are higher. IRS income tax collections are lower, on the other hand, if items such as machinery, energy and infrastructure, financial instruments, and corporate profits account for a larger share. Figure 2 illustrates that federal income and FICA tax contributions per person tend to increase as GDP per capita also increases, as expected.

Figure 2: State IRS Individual Income and FICA Tax Collections Per Capita and State GDP Per Capita, 2013



Source(s): Bureau of Economic Analysis. Regional Economic Accounts: 2013; Internal Revenue Service. Data Book: 2013.

Figure 3: Ranking of States by IRS Individual Income and FICA Tax Collections Per Capita, 2013

Rank	State	IRS Income Tax Collections Per Capita
1	Delaware	$13,036
2	Minnesota	$11,613
3	New Jersey	$9,988
4	Massachusetts	$9,971
5	Connecticut	$9,288
6	Ohio	$8,253
7	New York	$7,872
8	Rhode Island	$7,793
9	Maryland	$7,342
10	**Illinois**	**$7,265**
11	Pennsylvania	$6,890
12	Louisiana	$6,876
13	Missouri	$6,479
14	Nebraska	$6,323
15	Tennessee	$6,185
16	Indiana	$6,051
17	Washington	$6,048
18	Colorado	$5,904
19	Arkansas	$5,888
20	North Dakota	$5,845
21	Virginia	$5,764
22	Wisconsin	$5,752
23	California	$5,736
24	Texas	$5,555
25	New Hampshire	$5,447
26	Kansas	$5,446
27	Alaska	$5,307

Rank	State	IRS Income Tax Collections Per Capita
28	Michigan	$5,166
29	North Carolina	$5,045
30	Georgia	$5,035
31	Iowa	$4,955
32	Oregon	$4,863
33	Kentucky	$4,859
34	Florida	$4,775
35	Vermont	$4,492
36	Oklahoma	$4,375
37	Utah	$4,203
38	Wyoming	$4,140
39	South Dakota	$4,075
40	Idaho	$3,961
41	Arizona	$3,818
42	Alabama	$3,731
43	Maine	$3,686
44	Hawaii	$3,536
45	Nevada	$3,508
46	Montana	$3,238
47	South Carolina	$3,129
48	New Mexico	$2,951
49	West Virginia	$2,724
50	Mississippi	$2,494
USA	**United States**	**$6,098**
CB	Collective-Bargaining	$6,991
RTW	Right-to-Work	$5,048

Source(s): Internal Revenue Service. Data Book: 2013.

While Illinois produces the 15th-highest value of economic activity per capita, the state contributed the 10th-highest amount of individual income and FICA taxes per capita (Figure 3). Illinois residents pay $7,265 per person to the IRS in income and FICA taxes. The national average is $6,098 contributed per person, meaning that Illinois residents pay $1,168 more (or 19.2 percent more) to the federal government than their counterparts across the country. This is because Illinois workers earn higher wages and the federal income tax system has progressive marginal tax rates that rise as income increases. Put differently, Illinois residents contribute 13.0 percent of GDP per capita in income and FICA taxes while individuals across the nation contribute an average of just 11.0 percent.

On federal income and FICA taxes contributed, Illinois ranks higher than both all our border states and "right-to-work" states (Figure 3). Missouri is the next-highest border state, ranking 13th with $6,479 contributed per person. In the region, Minnesota ($11,613 per capita) and Ohio ($8,253 per capita) both contribute more than Illinois. It is worth noting that the top 11 states by federal income and FICA tax contributions are all collective-bargaining states. Unionization rates, income from wages and salaries, and labor's share of state economies are all higher in CB states than in RTW states (Manzo & Bruno, 2014; Stevans, 2009). Accordingly, aggregate federal income tax contributions are $6,991 per capita in CB states and $5,048 per capita in RTW states. Thus, while GDP per capita is 17.3 percent higher in CB states than in RTW states, the residents of CB states disproportionately contribute *38.5 percent more* per person in federal income and FICA taxes. Illinois residents pay $1,431 more (28.3 percent more) in federal income and FICA taxes than their counterparts in "right-to-work" states.

An Illinois Revenue Problem: The Federal Government

In 2013, Illinois' state government collected $84.5 billion in total revenue from all sources, including sales tax revenue ($8.2 billion), state income tax revenue[2] ($16.5 billion), and revenue from other taxes, fees, and licenses. Of the $84.5 billion in total state revenue in Illinois, transfers from the federal government accounted for $17.0 billion of the combined state budget. This means that the federal government funded 20.1 percent of Illinois state government operations (Figure 4).

While Illinois ranks 10th in per capita *contributions* into the federal income tax system, Illinois ranks 41st in the federal government *receipts* as a share of the state budget (Figure 4). By contrast, Indiana ranks 7th in federal government receipts with the federal government subsidizing 29.3 percent of the total state budget. The federal government disproportionately supports Mississippi, which contributes the least in income and FICA taxes per capita but ranks highest in subsidies, with the federal government accounting for 34.3 percent of total state revenues.

By this metric, Illinois receives less in federal assistance than both the national average and "right-to-work" states (Figure 4). While the federal share of the state budget is 20.1 percent in Illinois, the comparable subsidy is 23.2 percent across the country. The federal government also accounts for 21.3 percent of the state budgets of CB states but a larger 26.3 percent share of the state budgets of RTW states. By putting more revenue into the federal tax base but receiving less revenue from the federal government, Illinois residents are subsidizing the budgets of other state governments.

[2] In 2013, the personal income tax rate was 5.00 percent in Illinois. This year, the income tax rate is 3.75 percent.

Figure 4: State Ranking of Federal Government Transfers as a Share of Total State Budget, 2013

Rank	State	Federal Government Revenue	Total State Revenue: All Sources	Federal Share of State Budget
1	Mississippi	$7,509,589,000	$21,865,219,000	34.3%
2	Louisiana	$10,592,657,000	$31,238,181,000	33.9%
3	Tennessee	$10,819,977,000	$32,356,348,000	33.4%
4	Vermont	$1,869,831,000	$6,295,755,000	29.7%
5	Maine	$2,821,145,000	$9,571,311,000	29.5%
6	New Mexico	$5,228,141,000	$17,808,300,000	29.4%
7	Indiana	$11,192,452,000	$38,141,709,000	29.3%
8	West Virginia	$4,230,663,000	$14,581,453,000	29.0%
9	Alabama	$8,226,967,000	$29,092,950,000	28.3%
10	Kentucky	$8,047,093,000	$28,637,166,000	28.1%
11	Wyoming	$2,085,931,000	$7,574,100,000	27.5%
12	Arizona	$10,166,478,000	$36,947,686,000	27.5%
13	Nebraska	$3,154,670,000	$11,484,492,000	27.5%
14	South Dakota	$1,575,212,000	$5,759,268,000	27.4%
15	Missouri	$10,188,272,000	$37,529,136,000	27.1%
16	Montana	$2,158,227,000	$7,982,053,000	27.0%
17	Texas	$36,844,736,000	$136,486,968,000	27.0%
18	Idaho	$2,522,766,000	$9,391,142,000	26.9%
19	Rhode Island	$2,331,473,000	$8,681,540,000	26.9%
20	Michigan	$17,829,882,000	$66,400,989,000	26.9%
21	Georgia	$14,323,163,000	$53,486,765,000	26.8%
22	Oklahoma	$7,028,733,000	$26,344,587,000	26.7%
23	Arkansas	$5,689,390,000	$21,541,707,000	26.4%
24	North Carolina	$15,470,808,000	$60,004,493,000	25.8%
25	Iowa	$5,915,221,000	$23,102,534,000	25.6%
26	Florida	$23,506,254,000	$95,693,798,000	24.6%
27	Oregon	$7,987,139,000	$32,914,634,000	24.3%
28	Pennsylvania	$21,219,116,000	$87,910,876,000	24.1%
29	Massachusetts	$13,233,244,000	$55,437,787,000	23.9%
30	Maryland	$9,952,960,000	$41,802,233,000	23.8%
31	Utah	$4,298,917,000	$18,442,207,000	23.3%
32	Ohio	$20,482,575,000	$90,343,990,000	22.7%
33	South Carolina	$6,698,952,000	$29,638,637,000	22.6%
34	New York	$46,272,851,000	$212,858,793,000	21.7%
35	Delaware	$1,929,185,000	$8,908,038,000	21.7%
36	Kansas	$3,788,962,000	$18,013,265,000	21.0%
37	Colorado	$6,427,852,000	$30,986,766,000	20.7%
38	Washington	$9,737,429,000	$47,862,480,000	20.3%
39	New Hampshire	$1,659,853,000	$8,163,713,000	20.3%
40	New Jersey	$13,755,548,000	$67,918,016,000	20.3%
41	**Illinois**	**$16,973,577,000**	**$84,493,376,000**	**20.1%**
42	Minnesota	$9,141,995,000	$45,593,764,000	20.1%
43	Alaska	$2,747,308,000	$14,018,474,000	19.6%
44	Wisconsin	$8,952,020,000	$45,891,806,000	19.5%
45	Connecticut	$5,949,159,000	$31,851,296,000	18.7%
46	Virginia	$9,412,343,000	$50,851,769,000	18.5%
47	Hawaii	$2,326,602,000	$12,944,952,000	18.0%
48	California	$54,827,525,000	$315,358,675,000	17.4%
49	North Dakota	$1,529,135,000	$8,830,465,000	17.3%
50	Nevada	$2,844,973,000	$17,040,569,000	16.7%
USA	**United States**	**$513,478,951,000**	**$2,216,076,231,000**	**23.2%**
CB	Collective-Bargaining	$290,450,783,000	$1,366,346,383,000	21.3%
RTW	Right-to-Work	$223,028,168,000	$849,729,848,000	26.3%

Source(s): Census Bureau. Annual Survey of State Government Finances: 2013; Internal Revenue Service. Data Book: 2013.

It could be the case that Illinois and similar collective-bargaining states have relatively larger state budgets with more government spending. The federal government share of a CB state's budget may be lower simply because the denominator (i.e., total state revenues) is a higher dollar value. Figure 5 addresses this concern by investigating another metric that is independent of total state revenues: the federal subsidy received by each state per dollar of federal income and FICA tax contributed by the state. This calculation provides a "bang for the buck" estimate of how much a state's residents get back for every dollar they put into the system. Note that the amount received per capita only accounts for transfers to state government agencies and general funds and *does not include* federal government revenues for such items as Social Security, federal military and space expenditures, or cash assistance provided directly to individuals (such as Earned Income Tax Credit benefits or welfare payments). These excluded types of federal government spending do, however, disproportionately go to right-to-work states (Manzo & Bruno, 2014).

Illinois residents *contribute* $7,265 per capita into the federal income and FICA tax collection pot, but *receive* just $1,318 per capita back in revenue for state government expenditures. The Illinois state government thus receives a federal subsidy of 18.1 cents for every $1.00 contributed by workers to the federal system. By this metric, Illinois fares even worse, ranking 46th out of all 50 states. Only four states – Connecticut, Delaware, New Jersey and Minnesota– get back less than 18.1 cents per dollar paid in federal income and FICA taxes. Illinois residents are subsidizing the state government budgets of 45 other states.

Compared to the Illinois return of 18.1 cents per dollar contributed in federal income and FICA taxes, the national average is 26.7 cents per dollar. This means that Illinois residents get back 32.2 percent less than the national average. Decomposed into "right-to-work" and collective-bargaining states, residents in RTW states get back 30.5 cents per dollar for state government functions (Illinois is 40.7 percent less than the RTW average). The state government of Mississippi, at the extreme, receives $2,511 per capita from the federal coffers while its residents only contribute $2,494 per capita in federal income taxes, for a subsidy of $1.01 per dollar contributed. Iowa and Indiana, as bordering RTW states, respectively get back 38.6 cents per dollar and 28.2 cents per dollar, significantly higher than the Illinois rate. Only one state ranked in the bottom 10 is a RTW state (Virginia).

The takeaway from Figures 3, 4, and 5 is that Illinois is a donor state. It is a priority of the federal government to invest in poorer communities, cities, and states so that their residents do not fall behind. However, this principle of social justice actually (in part) rewards states for bad public policies that statistically lower wages. "Right-to-work" laws, for example, have been found to reduce unionization and to lower worker incomes by about 3.0 percent on average (Gould & Kimball, 2015; Gould & Shierholz, 2011; Stevans, 2009). RTW laws statistically redistribute income from employees to owners, from labor to capital, and from taxpayers to the very wealthy (Stevans, 2009). By lowering wages of middle-class families, the indirect impacts of a RTW law are an increase in the poverty rate of *workers*, an increased reliance on public assistance, and reductions in income and consumption tax revenues (Manzo & Bruno, 2014). Figures 3, 4, and 5 provide additional evidence on how workers in CB states, particularly Illinois, contribute more in personal income and employment taxes but receive less from the federal government. Thus, workers in CB states are subsidizing the state budgets of RTW states.

Given the significant levels of debt faced by Illinois agencies, budget impasses that frequently occur from year to year, and a relative unwillingness to raise taxes further, the State of Illinois can no longer afford to be a donor state.

Figure 5: State Ranking of Federal Subsidy Per Dollar of Federal Income and FICA Tax Contributed, 2013

Rank	State	Federal Government Revenue Per Capita	IRS Income Tax & FICA Collections Per Capita	Federal Subsidy Per $1 of Federal Income Tax Contributed
1	Mississippi	$2,511	$2,494	$1.007
2	Wyoming	$3,580	$4,140	$0.865
3	New Mexico	$2,507	$2,951	$0.850
4	West Virginia	$2,282	$2,724	$0.838
5	Alaska	$3,737	$5,307	$0.704
6	Vermont	$2,984	$4,492	$0.664
7	Montana	$2,126	$3,238	$0.657
8	Maine	$2,124	$3,686	$0.576
9	Hawaii	$1,657	$3,536	$0.469
10	South Dakota	$1,864	$4,075	$0.458
11	Alabama	$1,702	$3,731	$0.456
12	South Carolina	$1,403	$3,129	$0.448
13	Oregon	$2,032	$4,863	$0.418
14	Oklahoma	$1,825	$4,375	$0.417
15	Arizona	$1,534	$3,818	$0.402
16	Idaho	$1,565	$3,961	$0.395
17	Iowa	$1,914	$4,955	$0.386
18	Kentucky	$1,831	$4,859	$0.377
19	North Dakota	$2,114	$5,845	$0.362
20	Utah	$1,482	$4,203	$0.353
21	Michigan	$1,802	$5,166	$0.349
22	Louisiana	$2,290	$6,876	$0.333
23	Arkansas	$1,923	$5,888	$0.327
24	North Carolina	$1,571	$5,045	$0.311
25	New York	$2,355	$7,872	$0.299
26	Nevada	$1,020	$3,508	$0.291
27	Georgia	$1,433	$5,035	$0.285
28	Rhode Island	$2,217	$7,793	$0.285
29	Indiana	$1,703	$6,051	$0.282
30	Wisconsin	$1,559	$5,752	$0.271
31	Tennessee	$1,666	$6,185	$0.269
32	Nebraska	$1,688	$6,323	$0.267
33	Missouri	$1,686	$6,479	$0.260
34	Florida	$1,202	$4,775	$0.252
35	Texas	$1,393	$5,555	$0.251
36	California	$1,430	$5,736	$0.249
37	Pennsylvania	$1,661	$6,890	$0.241
38	Kansas	$1,309	$5,446	$0.240
39	Washington	$1,397	$6,048	$0.231
40	New Hampshire	$1,254	$5,447	$0.230
41	Maryland	$1,679	$7,342	$0.229
42	Ohio	$1,770	$8,253	$0.215
43	Colorado	$1,220	$5,904	$0.207
44	Massachusetts	$1,977	$9,971	$0.198
45	Virginia	$1,139	$5,767	$0.198
46	**Illinois**	**$1,318**	**$7,265**	**$0.181**
47	Connecticut	$1,654	$9,288	$0.178
48	Delaware	$2,084	$13,036	$0.160
49	New Jersey	$1,546	$9,988	$0.155
50	Minnesota	$1,687	$11,613	$0.145
USA	**United States**	**$1,628**	**$6,098**	**$0.267**
CB	Collective-Bargaining	$1,704	$6,991	$0.244
RTW	Right-to-Work	$1,538	$5,049	$0.305

Source(s): Census Bureau. Annual Survey of State Government Finances: 2013; Internal Revenue Service. Data Book: 2013.

A Case in Point: State Road Construction Revenues

By receiving a federal subsidy of 18.1 cents per dollar contributed in federal income and FICA tax revenues (8.6 cents below the national average), the State of Illinois has relatively fewer monetary resources with which to provide public services. Compared to almost every other state, Illinois has less federal revenue to spend on public services ranging from university education to poverty reduction programs to correctional facilities. Accordingly, the disparity between Illinois and the rest of the nation puts pressure on the state to increase other taxes and fees (e.g., property taxes, tuition fees, etc.) to higher levels than would be the case if the state received more federal funding.

This Policy Brief explores one area in which fewer federal resources negatively impact Illinois residents: state road construction revenues. In Illinois, the state government owns, operates, and maintains the non-tolled highway system, indicated by numerical "routes" (e.g., Route 1, Route 53, Route 184, etc.). Statistics from the Federal Highway Administration report that there are 144,337 miles of public road and 10,131,883 total vehicle registrations in Illinois (FHWA, 2014). Total state revenues used for roads amounted to $6.02 billion in 2012.

Of the $6.02 billion expended by the state, approximately $1.43 billion were from federal payments (Figure 6). As a percentage of total expenditures, the federal government subsidized 23.7 percent of the state's road construction budget, which places Illinois 37th out of all 50 states and below all border states. The next-closest border state is Wisconsin, with a rank of 30th from a federal subsidy of 27.1 percent. Half of the 50 states received subsidies of 30.0 percent or higher, including bordering Missouri (42.7 percent), Indiana (40.0 percent), and Kentucky (30.0 percent).

Once again, Illinois receives less in federal government support than the national average and significantly less than the aggregate for "right-to-work" states. While 23.7 percent of Illinois' road construction budget was subsidized via federal payments, the comparable rate for the nation was 26.5 percent. This national share of federal subsidies is driven down by CB states, which experienced a subsidy of 23.5 percent, but increased by the 30.6 percent subsidy for the road construction budgets of RTW states. The largest subsidy, 61.3 percent, was received by a RTW state (South Dakota) while the smallest, 8.7 percent, was received by a CB state (New Jersey).

As in the previous section, one might argue that government spending is likely to be higher in CB states. Figure 7 presents a "per capita" metric to investigate federal support for road construction spending that is independent of total state expenditures. The data depicted represent federal government road revenues to a state per vehicle registration in that state. Federal road revenues per vehicle registration measures the benefit to people who *actually* use public roads and bridges, because residents without vehicle registrations are more likely to use other modes of transportation.

Illinois receives $141 in federal road revenues per vehicle registration (Figure 7). This ranks 41st out of all 50 states and once again falls below every border state. Kentucky, Missouri, and Indiana all receive over $180 in federal road revenues per registration. Nationwide, the average federal subsidy of road revenues amounts to $165 per vehicle registration. Accordingly, the Illinois equivalent is 14.5 percent less than the national average. Furthermore, RTW states receive $171 to spend on road construction from the federal government per vehicle registration while CB states get just $159 per registration. That means that a CB state receives 7.0 percent less in federal subsidies on average than a RTW state. Illinois receives 17.5 percent less than RTW states. The data show that road construction spending is one example of how Illinois residents subsidize other state governments. Despite contributing significantly more in federal taxes, Illinois motorists get back much less from the federal government.

Figure 6: State Ranking of Federal Government Share of Road Construction Revenues, 2012-2013

Rank	State	Federal Road Revenues	Total State Revenues Used for Roads	Federal Share of Road Revenues
1	South Dakota	$366,218,000	$597,366,000	61.3%
2	Montana	$515,707,000	$852,494,000	60.5%
3	Wyoming	$344,543,000	$590,066,000	58.4%
4	Alaska	$433,350,000	$801,550,000	54.1%
5	North Dakota	$521,797,000	$1,037,783,000	50.3%
6	Vermont	$349,807,000	$705,322,000	49.6%
7	South Carolina	$832,047,000	$1,680,840,000	49.5%
8	Mississippi	$623,366,000	$1,296,301,000	48.1%
9	Tennessee	$1,010,947,000	$2,105,789,000	48.0%
10	New Mexico	$474,667,000	$1,003,671,000	47.3%
11	Arkansas	$596,289,000	$1,299,001,000	45.9%
12	Rhode Island	$280,558,000	$616,282,000	45.5%
13	Alabama	$809,185,000	$1,864,244,000	43.4%
14	Missouri	$1,024,692,000	$2,400,227,000	42.7%
15	Nevada	$467,422,000	$1,116,794,000	41.9%
16	Georgia	$1,325,767,000	$3,200,987,000	41.4%
17	Indiana	$1,082,679,000	$2,708,663,000	40.0%
18	Idaho	$303,746,000	$760,648,000	39.9%
19	West Virginia	$496,983,000	$1,314,543,000	37.8%
20	Connecticut	$553,671,000	$1,591,827,000	34.8%
21	Ohio	$1,587,369,000	$4,705,805,000	33.7%
22	Louisiana	$983,924,000	$3,040,212,000	32.4%
23	Michigan	$932,900,000	$3,068,512,000	30.4%
24	Hawaii	$165,359,000	$548,114,000	30.2%
25	Kentucky	$755,697,000	$2,520,696,000	30.0%
26	Oregon	$556,768,000	$1,910,703,000	29.1%
27	Oklahoma	$727,263,000	$2,497,041,000	29.1%
28	Iowa	$567,363,000	$1,982,378,000	28.6%
29	Arizona	$880,933,000	$3,219,437,000	27.4%
30	Wisconsin	$841,799,000	$3,101,063,000	27.1%
31	Maine	$180,747,000	$672,511,000	26.9%
32	Pennsylvania	$1,680,616,000	$6,490,151,000	25.9%
33	North Carolina	$1,224,772,000	$4,738,652,000	25.8%
34	Colorado	$473,423,000	$1,965,074,000	24.1%
35	New Hampshire	$225,228,000	$942,900,000	23.9%
36	Maryland	$616,040,000	$2,592,389,000	23.8%
37	**Illinois**	**$1,425,225,000**	**$6,019,988,000**	**23.7%**
38	Utah	$518,545,000	$2,207,690,000	23.5%
39	Texas	$2,774,838,000	$11,881,851,000	23.4%
40	Florida	$1,710,882,000	$7,522,075,000	22.7%
41	Virginia	$1,131,168,000	$4,984,949,000	22.7%
42	Minnesota	$657,825,000	$3,041,659,000	21.6%
43	Kansas	$440,042,000	$2,061,533,000	21.3%
44	Nebraska	$301,409,000	$1,458,144,000	20.7%
45	California	$3,840,763,000	$19,102,508,000	20.1%
46	New York	$1,829,474,000	$9,753,378,000	18.8%
47	Massachusetts	$530,545,000	$3,290,892,000	16.1%
48	Washington	$976,594,000	$6,346,056,000	15.4%
49	Delaware	$206,928,000	$1,789,810,000	11.6%
50	New Jersey	$532,058,000	$6,089,251,000	8.7%
USA	**United States**	**$41,689,938,000**	**$157,089,820,000**	**26.5%**
CB	Collective-Bargaining	$21,211,893,000	$90,168,864,000	23.5%
RTW	Right-to-Work	$20,478,045,000	$66,920,956,000	30.6%

Source(s): Federal Highway Administration. Highway Statistics Series: 2012.

Figure 7: State Ranking of Federal Payments to Road Revenues Per Vehicle Registration, 2012-2013

Rank	State	Federal Road Revenues Per Vehicle Registration
1	North Dakota	$644
2	Vermont	$576
3	Alaska	$559
4	Wyoming	$431
5	South Dakota	$365
6	Montana	$346
7	West Virginia	$341
8	Rhode Island	$328
9	Mississippi	$304
10	New Mexico	$263
11	Utah	$262
12	Louisiana	$253
13	Arkansas	$240
14	Nevada	$219
15	Delaware	$219
16	South Carolina	$214
17	Oklahoma	$211
18	Kentucky	$206
19	Connecticut	$205
20	Tennessee	$187
21	Idaho	$185
22	Indiana	$180
23	Missouri	$180
24	Kansas	$180
25	New York	$175
26	Georgia	$173
27	New Hampshire	$173
28	Arizona	$171
29	Alabama	$167
30	Washington	$167
31	Iowa	$162
32	Wisconsin	$161
33	Pennsylvania	$161
34	Nebraska	$160
35	Virginia	$159
36	Oregon	$158
37	North Carolina	$157
38	Ohio	$157
39	Maryland	$154
40	Maine	$153
41	**Illinois**	**$141**
42	California	$139
43	Texas	$137
44	Hawaii	$134
45	Minnesota	$129
46	Michigan	$120
47	Florida	$109
48	Massachusetts	$107
49	Colorado	$104
50	New Jersey	$67
USA	**United States**	**$165**
CB	Collective-Bargaining	$159
RTW	Right-to-Work	$171

Source(s): Federal Highway Administration. Highway Statistics Series: 2012.

From Subsidy to Proportionality: How Illinois' Budget Would Be Fixed

Illinois can no longer afford to be a donor state. The state presently faces a $6.2 billion budget deficit in FY2016 and over $100 billion in cumulative debt. This is despite Illinois' status as a productive, high-wage state. Compared to the national average, Illinois residents add 6.4 percent more in GDP per capita, contribute 19.2 percent more in federal income and FICA taxes, get back 32.2 percent less in federal subsidies to state agencies per federal income tax dollar contributed, and receive 14.5 percent less in federal road revenues per vehicle registration. While our state government annually struggles to balance its budget, Illinois residents have been subsidizing the budgets of nearly every other state.

The primary recipients of subsidies from Illinois residents are the government agencies of "right-to-work" states. Compared to the RTW average, Illinois residents add 16.4 percent more in GDP per capita, contribute 28.3 percent more in federal income and FICA taxes, get back 40.7 percent less in federal subsidies to state agencies per federal income tax dollar contributed, and receive 17.5 percent less in federal road revenues per vehicle registration.

Significant redistribution of federal resources from rich states to poor states is not necessarily an unacceptable policy goal. In fact, Americans should support investments in education, infrastructure, poverty alleviation, and economic

development so that no state falls behind. However, to the extent that RTW laws reduce worker incomes and increase working poverty, this redistribution is inefficient. States should not be rewarded for enacting bad public policies. Unfortunately, the current system of federal funding to states does just that.

Figure 8 demonstrates how much more the Illinois state government would receive if the federal government subsidized Illinois at rates equivalent to the national average and to the "right-to-work" average. For a conservative range of estimates, both metrics from Figures 4 and 5 are utilized. If federal government transfers to Illinois matched the national average, the additional revenues would boost the state budget by **between $2.6 billion and $8.0 billion**. The former estimate is derived by increasing the federal share of the total state budget from the 20.1 percent value in Illinois to the 23.2 percent national average. The latter is the result of increasing the federal subsidy to state government function from 18.1 cents to 26.7 cents per federal income tax dollar.

The state budget would be improved by even more if Illinois received large subsidies equivalent to those given to "right-to-work" states (Figure 8). If federal government transfers to Illinois matched the RTW average, the additional revenues would increase the state budget by **between $5.2 billion and $11.5 billion**. The former estimate is derived by increasing the federal share of the total state budget from the 20.1 percent value in Illinois to the 26.3 percent RTW average. The latter is the result of increasing the federal subsidy to state government functions from 18.1 cents to 30.5 cents per federal income tax dollar.

Figure 8: Difference in Total State Government Revenues if Illinois Received Proportional Funds, 2013

Metric	Illinois vs. the National Average		Illinois vs. Right-to-Work States	
	Federal Share of State Budget	Federal Subsidy Per $1 Contributed	Federal Share of State Budget	Federal Subsidy Per $1 Contributed
Illinois Federal Revenues	$16,973,577,000	$16,973,577,000	$16,973,577,000	$16,973,577,000
Illinois Value	20.1%	$0.181	20.1%	$0.181
National/RTW Average	23.2%	$0.267	26.3%	$0.305
If Illinois Received Average	$19,577,652,000	$24,982,131,000	$16,973,577,000	$28,512,604,000
Difference in Revenues	**+$2,604,075,000**	**+$8,008,554,000**	**+$5,203,357,000**	**+$11,539,027,000**

Source(s): Author's analysis of Census Bureau. Annual Survey of State Government Finances: 2013; Internal Revenue Service. Data Book: 2013.

If Illinois converted from a donor state to a proportional recipient, the state's budget deficit would turn into a surplus. By simply moving to the national average per tax dollar contributed, the $6.2 billion budget deficit would turn into a *$1.8 billion budget surplus*, allowing the state to start paying down its outstanding debt obligations without raising additional taxes. By receiving the right-to-work level, the deficit would turn into an even larger $5.3 billion surplus. Changes must be made at the federal level to address this disparity and instill fairness for Illinois residents.

For completion, Figure 9 presents similar calculations for road construction spending if Illinois was subsidized by the federal government at rates equivalent to the national average and to the "right-to-work" average. Once again, both metrics from Figures 6 and 7 are utilized for a conservative range of estimates. If federal payments for road construction in Illinois proportionally matched those received in the average state, there would be between $172.4 million and $242.2 million more in revenues available to improve the state's deteriorating infrastructure. On the other hand, if Illinois suddenly received the subsidies that are provided to RTW states, there would be between $309.0 million and $416.9 million in additional funds for road and bridge construction. These additional funds would allow the state to invest in major capital projects. As an example, over ten years, the additional revenue would cover

construction costs of the proposed Illiana Expressway and the extended Route 53 and Route 120 tollway in the Chicago metropolitan region (CMAP, 2014).

Figure 9: Difference in State Road Construction Revenues if Illinois Received Proportional Funds, 2012-2013

Metric	Illinois vs. the National Average		Illinois vs. Right-to-Work States	
	Federal Share of Road Revenues	Federal Subsidy Per Vehicle Registration	Federal Share of Road Revenues	Federal Subsidy Per Vehicle Registration
Illinois Federal Revenues	$1,425,225,000	$1,425,225,000	$1,425,225,000	$1,425,225,000
Illinois Value	23.7%	$141	23.7%	$141
National/RTW Average	26.5%	$165	30.6%	$171
If Illinois Received Average	$1,597,640,000	$1,667,466,000	$1,842,137,000	$1,734,215,000
Difference in Revenues	**+$172,415,000**	**+$242,241,000**	**+$416,912,000**	**+$308,990,000**

Source(s): Author's analysis of Federal Highway Administration. Highway Statistics Series: 2012.

Implications and Recommendations

Illinois can no longer afford to be a donor state. The state faces a $6.2 billion budget deficit and over $100 billion in cumulative debt. This is despite Illinois' status as a productive, high-wage state. Illinois residents have been subsidizing the budgets of nearly every other state while their state government annually struggles to balance its budget.

- Compared to the 50 states, Illinois residents add 6.4 percent *more* in GDP per capita, contribute 19.2 percent *more* in federal income and FICA taxes, get back 32.2 percent *less* in federal funding to state government operations per dollar of federal income taxes paid, and receive 14.5 percent *less* in federal road revenues per vehicle registration.
- Compared to the "right-to-work" state average, Illinois residents add 16.4 percent *more* in GDP per capita, contribute 28.3 percent *more* in federal income and FICA taxes, get back 40.7 percent *less* in federal funding to state government operations dollar of per federal income taxes paid, and receive 17.5 percent *less* in federal road revenues per vehicle registration.

If federal government funding to Illinois matched the national average, the state government would have between $2.6 billion and $8.0 billion in additional revenues. If federal subsidies matched the "right-to-work" average, the state budget would have between $5.2 billion and $11.5 billion in additional revenues. Thus, the deficit would be *a $1.8 billion to $5.3 billion surplus* if Illinois received its fair share. Revenues for road construction projects would also be $172.4 million to $416.9 million higher if Illinois was a proportional recipient.

Despite these findings, the federal government is not the primary culprit to blame for Illinois' fiscal woes. State government officials in Illinois should be operating responsible, self-sufficient budgets within the state's financial means – with or without additional resources from the federal government. The point is that there is significant room for improvement in the amount of federal revenues provided to Illinois. In the absence of proportional support from the federal government, Illinois has had to increase state tax revenues and fees. The budget problem would essentially be solved if Illinois received transfers at the average rate. Without action from the federal government, the Governor and General Assembly will have to increase taxes and/or cut important state services.

The solution to this problem is difficult, however. No Illinois policymaker, legislator, or citizen should advocate for reducing worker incomes or shrinking GDP in order to increase subsidies from the federal government. The answer is also not to completely eliminate redistribution at the federal level, which would harm low-income families across the country. Processes for determining levels of redistribution, however, may need to be re-evaluated.

The federal government should increase funding to donor states. It makes little sense for state governments to risk declaring bankruptcy (and subsequently require federal funds) while they have been bailing out other states for years. The discussion should focus on *how much* donor states can afford to be subsidizing low-wage states, especially given the budget shortfalls many donor states currently face. To an extent, the best solution is to educate Congressmen, Congresswomen, Senators, and federal agencies about how the current system rewards states for bad public policies that reduce worker incomes by disproportionately subsidizing their state budgets. This comes at the expense reducing revenues for "high-road" states, which indirectly forces them to increase state and local taxes.

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