

85TH GENERAL ASSEMBLY

REGULAR SESSION

May 4, 1987

PRESIDENT:

The hour of three having arrived, the Senate will please come to order. Will the members be at their desks and will our guests in the gallery please rise. Our prayer this afternoon by the Reverend Hugh Cassidy, Blessed Sacrament Church, Springfield, Illinois. Father.

REVEREND HUGH CASSIDY:

(Prayer given by Reverend Cassidy)

PRESIDENT:

Thank you, Father. Reading of the Journal.

SECRETARY:

Senate Journal of Tuesday, April 28, 1987.

PRESIDENT:

Senator Dunn.

SENATOR TOM DUNN:

Mr...Mr. President, I move the Journal just read by the Secretary be approved unless some other Senator has additions or corrections to offer.

PRESIDENT:

You've heard the motion as placed by Senator Dunn. Is there any discussion? If not, all in favor indicate by saying Aye. All opposed. The Ayes have it. The motion carries and it is so ordered. Senator Dunn.

SENATOR TOM DUNN:

Mr. President, I move that the reading and approval of the Journals of Wednesday, April 29th; Thursday, April 30th and Friday, May 1st, in the year 1987, be postponed pending arrival of the printed Journals.

PRESIDENT:

You've heard the motion as placed by Senator Dunn. Any discussion? If not, all in favor indicate by saying Aye. All opposed. The Ayes have it. The motion carries and it is so ordered. Committee reports, Madam Secretary.

SECRETARY:

Senator Welch, chairman of the Committee on Energy and Environment, reports Senate Bills Noed. 752, 794, 1123, 1125, 1236, 1267, 1268, 1393, 1497, 1498, 1502 and 1517 Do Pass.

And Senate Bills Noed. 27, 172, 422, 442, 1013, 1089 and 1354 Do Pass as Amended.

Senator Collins, chairman of the Committee on Transportation, reports Senate Bills Noed. 496, 812, 855 and 923 Do Pass.

Senate Bills Noed. 831 and 1459 Do Pass as Amended.

And Senate Bills Noed. 595, 859 and 874 Do Not Pass.

PRESIDENT:

Senator Carroll, for what purpose do you arise, sir?

SENATOR CARROLL:

First, Mr. President, to...to ask for the waiver of the posting...the six-day posting requirement on a grouping of bills that we have...provided with...to the Secretary of the Senate, both sides are aware of them. It is merely the technical waiver of the six-day posting on the Committee on License, Pension and Licensed...on Insurance, Pensions and Licensed Activities, all those that are shown on the Calendar to be heard this week. Same is true for the Committee on Judiciary, the same is true for the Committee on Labor and Commerce and likewise for the Committee on Revenue. All those bills as so posted, a copy of which has been given to the Secretary, I would waive, Mr. President,...seek the...waive the Six-day Posting Notice required under our rules.

PRESIDENT:

All right. Senator Carroll has moved to suspend the rules for the purpose of waiving the six-day posting requirements since our deadline is Friday, May the 3th which is rapidly approaching. All in favor of the motion indicate by saying Aye. All opposed. The Ayes have it. The motion carries and it is so ordered. Senator Carroll, for what purpose

do you arise?

SENATOR CARROLL:

Thank you, Mr. President. On a point of personal privilege, if I might.

PRESIDENT:

State your point, sir.

SENATOR CARROLL:

Many of the members have asked why we are truly in Session on this the 4th day of May, have we've been on several other occasions. Some believe it is because Senator Netsch wanted a Committee of the Whole, some believe it is because the Governor wanted the ability to appear before us and explain his tax package, but most of us believe it's because of the presiding officer and certain other public officials in Illinois. President Rock along with Senator Berman have often said they don't like to be alone on their birthday, so once again, they and Attorney General Hartigan have brought us here to Springfield to celebrate with them this momentous occasion in which they are each reaching various unique and old milestones. Let us say further that we notice with such distinguished company as Senators Berman and Rock, Attorney General Hartigan, there must have been a configuration of the heavens with the moon rising and the sun shining and certain stars reaching certain patterns that allowed a certain personality and achievement to come through. For they share this day with such wonderful people as Pia Zadora, but that probably not the motivating factor, some think it's also because it's the birthday of Clem Stone. We believe, however, what really motivate them is it's also the birthday of Charles Swibel. Happy Birthday.

PRESIDENT:

Thank you. It would be hard to find a nicer group of people to be with, but I'm sure if Senator Berman and I worked at it, we might be able to do it. Ladies and

gentlemen, pursuant to our earlier agreement and the hour of three-thirty having arrived, we have a very distinguished guest who is patiently waiting. Let me recommend the following procedures as we've done in the past for the Committee of the Whole. We will shortly recognize Senator Netsch for the purpose of a motion to resolve ourself, then it seems to me we should have witness slips available. I see that the Secretary has them up here. The sergeant-at-arms can make sure that the slips are properly filled out and delivered to the Secretary. I would hope that the witnesses that are providing oral testimony would recognize the time constraints and they are considerable. The only person who has no time constraint, obviously, is the Chief Executive; he can spend as much time with us as he wishes and I would hope that the others would attempt to keep their remarks to a minimum. Witnesses with written testimony should submit a copy of the testimony with their slip in order that their remarks may be made part of the permanent record, and I would suggest that the provisions of our rules governing access to the Floor will apply except...and I'll ask the sergeant-at-arms to keep an eye out, except that those, obviously, who are providing testimony are certainly welcome to...to sit on the Floor and...and await. Television cameras and recording devices with leave of the Body will be allowed through the entire proceeding, and in that respect, I have a request from WCAI-TV and WAND-TV. I got everybody up there? All right. With leave of the Body, leave is granted. Senator Netsch, if you are prepared.

SENATOR NETSCH:

Thank you, Mr. President. I would move that the Senate resolve itself into the Committee of the Whole for the purpose of hearing testimony with respect to the Governor's tax plan and related matters including the Chief Executive himself.

*Committee
of the Whole*

PRESIDENT:

All right, ladies and gentlemen, you have heard the motion as placed by Senator Netsch. Is there any discussion? She has moved that the Senate resolve itself into the Committee of the Whole for the purpose of hearing testimony from the Governor and others. All in favor of the motion indicate by saying Aye. All opposed. The motion carries and it is so ordered. At this point, the Chair will yield to Senator Netsch as chairman of the Senate Revenue Committee to assume the Chair for the purpose of conducting this hearing. Senator Netsch.

SENATOR NETSCH:

Thank you. We...we are now resolved into Committee of the Whole and we will proceed with the agenda as outlined. I might just briefly explain what will be happening here today. For one thing, this is in a sense an extension of the Revenue Committee. As some of you may know, we do not literally have bills representing the Governor's tax agenda before us in committee, and so there was really nothing on which to hold an explicit hearing. But I think beyond that, it made sense for all the members of the Senate rather than just the ten of the Revenue Committee to have an opportunity to hear and address questions with respect to the Governor's tax proposals. And that...that was the reason for the Committee of the Whole. The procedure as suggested by Senator Rock will be that we will first hear from the principal witness who is the Chief Executive, Governor Thompson, and he will take questions from any members of the Senate...only members of the Senate. If he has any other members of this staff who would like to be heard or whom he would like to be heard, they would be available next on the agenda. After that we have asked...the Economic and Fiscal Commission, which is the Legislature's revenue arm, to make a...as brief a presentation as possible on several basic facts having to do with the

revenue base of the State. Thereafter there were at least two members of the Senate including the minority spokesman who had asked to present their perspective, Senators Rigney and Senator Maitland perhaps. A...the next witness in order will be Mr. Thompson, who is chairman of the Bond County board and then as time permits in this order, because they had indicated their desire before that, the Farm Bureau, the State Chamber and AFSCME. Senator Rock has asked us to attempt to complete our business by five o'clock, because there are other committees scheduled tonight. We will do the best we can to come close to that time. For those who do not get to be heard, they will present statements in writing and will indicate that towards the end. So, with that, I would ask our first and principal witness, Governor Thompson, you are recognized, sir.

GOVERNOR THOMPSON:

Madam Chairman, I'll begin by observing that it's easier to work from that level of the Podium as I have for eleven years in convening this Body than it is from this level and you have the gavel.

SENATOR NETSCH:

Yes and I'm usually giving you difficulty when you are presiding, so I thought I would make it easier this time, Governor.

GOVERNOR THOMPSON:

Thank you, Madam Chairman. I appreciate the privilege of the Senate Podium as I have had the privilege of the Senate Floor under your rules and under your even more importantly rules of comradeship for the last eleven years. This marks only the third time in eleven years that I have testified before a Committee of the Whole of the Illinois General Assembly; once in this Body in 1983 on much the same subject and once at an earlier time before a Committee of the Whole of the House of Representatives on the issue of the Equal

Rights Amendment. Ordinarily, my duties to this Body in terms of a formal appearance are satisfied by the State of the State and Budget Messages; and I hope that most of the questions, if not all of the questions that you have about budget detail are answered by this book or through the testimony of Doctor Mandeville. Rather, I wanted to use my time today to speak to some certain imperative principles that I think this Body must consider as you weigh the competing demands of revenue and appropriation for Fiscal 1988 and the impact of the budget you compile this year on our future. In the last several weeks I have been in almost every part of the State of Illinois to discuss this now well-worn book. I have told the people of Illinois that the priorities of this book are five in number; education, welfare reform, economic development, transportation and human services. And I'd like to begin, if I could, with a word about each of the categories of expenditure, because if you do not agree with the priorities that I have set forth in this budget book, there is no need to reach the issue of new taxes. Only if you agree that these five areas will have a substantial impact on the life of the people of Illinois must we go to the next subject of how to make them a reality. As I have traveled around the State of Illinois I have found little or no disagreement with these five priorities of appropriation, budget emphasis. I have found much disagreement on how to make them a reality and so I come back before you this afternoon with at least an interim report though I suspect you could well supplement it with your own experiences in your district. The first priority is education, not just because this budget proposes to spend more than five billion dollars on education in Illinois next year but because certain fundamental principles are I think important to at least be recognized and I hope considered. This General Assembly, this Body, with only two dissenting votes in this Body probably hailed elementary

and secondary education just two short years ago, in 1985, the year of education in Illinois, and at that time along with the education reforms that you mandated for the people of this state, you voted to increase revenues on a small scale to get the program underway. You must consider whether you can with a level funding budget make good on the promise of education reform that you voted just two years ago. School Aid Formula expires this year, it must be reauthorized in some fashion. There are various proposals for reform of the School Aid Formula. They cost out at anywhere from zero new dollars to seven hundred million new dollars for reform of the formula. Thus either our current formula must be extended once again with its inequities or some account must be taken of the price of reform, but for me in discussing elementary and secondary education there is one overriding point. All up and down this land of ours, not just in Illinois but in America, I hear a recurring theme, our economy has been injured not just by recession though we've had our share of that, not just by technological change in basic industries though we've had our share of that, but increasingly by global and foreign competition. The Congress of the United States today is much agitated with the question of trade legislation; tariffs are proposed, protectionism is riding high in the House, no one knows where it'll all come out, but many more people in the United States are angry at the competition we face and the deficit it induces in our trade balances. May I suggest an analogous point? If we are having trouble competing with the rest of the world today and holding on to the jobs of our generation, how in the world will we ever compete with the rest of the world tomorrow? If we do not give our children who will hold the jobs of the next generation a competitive education, how will we do it? As the jobs that the Illinois economy and the American economy will have to offer ten years from now or fifteen years

from now or twenty years from now become more and more linked to a higher skill level than the jobs of today demand, and we're having a tough enough time today matching job seekers and their skills with job requirements, ask the thirty-five, forty, forty-five, fifty-year-old laid-off workers of Illinois who can't grab hold of jobs available in this economy without reeducation or retraining. Today's trade difficulties in today's world competitive difficulties will, I suggest in retrospect, seem minor if we can't give our children the education, the training and the skills that they will need to hold the jobs of the future. Any politician in Illinois or in America who took to the stump five years ago or ten years ago to talk about welfare reform or to denounce the welfare mess would have been speaking essentially about a system which had on the one side recipients who cheated and on the other side providers who cheated, people who didn't belong on the rolls collecting anyway or providers perverting the system to their own personal ends. And I suspect in a system which spends more than three billion dollars a year, we can still find both, but public assistance as a system is much cleaner than it was a decade ago or five years ago or a year ago. Cases of substantial cheating either on the part of the recipient or the...provider are relatively rare. Instead, now when fifty governors and the President of the United States and the leaders of the House and Senate and leaders of Legislatures all across the country talk about the welfare mess, they're talking about the system itself, one which encourages dependency rather than self-reliance, one which erodes our work ethic, one which causes people literally...quite literally to be born onto, live on and die on welfare as a way of life, that great moral and fiscal cost to this state and this nation. Were we to put the issue I think to a simple vote, shall there be welfare reform, shall we reform the system which encourages a life of dependency and

despair, unanimity might well be the result. Not every member of this Body or of the Body across the hall will agree with every specific issue of reform, every legislative or administrative change, some will balk at the short-term cost, but if Illinois misses this opportunity which other states of the nation will not miss, which the Congress will not miss, then we will be the poorer for it. Before I came here this afternoon I had the chance to visit with the new chairman of the Board of Navastar Corporation, formerly International Harvester, an Illinois company with more than a hundred year history; and we talked about the shop floor at the park in Melrose Plant where Navastar is producing a state of the art engine willing to do battle with any competitor, foreign or domestic, with any other country, Japan, Brazil, the combination of Illinois know-how and work, as Caterpillar will with their new farm tractor at Aurora, as the Revere Corporation will in Clinton, Echo in Chicago, Deere in the Quad-Cities, hundreds of other Illinois corporations, large and small, all across this state. They haven't given up on American competitiveness, they haven't given up on Illinois industry. There is a growing urgent need for states to have the ability to stand on their own two feet to encourage economic development as Federal programs decline in number and funding. This book asks for thirty-three million dollars to retrain Illinois taxpaying workers to keep their jobs or to have better ones, the need is even greater. If we level fund economic development in the next fiscal year, we must...turn our back not only on commitments made for jobs gained in our economy all across the state but we in a very real sense will be saying no to your constituents who are looking both to their companies and to us to treat their education as seriously as we treat the education of their children and grandchildren. This book asks for increases in the level of transportation taxes for only the second time in eighteen

years. I know your constituents feel as though those taxes go up all the time, that's the way they express it to me offhandedly, those taxes are always going up, for the second time in eighteen years; and thirty-nine other legislative bodies are considering just such tax changes as well, thirty-nine of the fifty states. Level funding here simply means that the job that each of you has urgently told me in one way or another over the course of the last several years that we have worked together will not get done. It's as simple as that and, again, we will be the poorer for it. Yes, you can stretch out transportation needs unlike human needs, it's a little easier to do that, but if as you have consistently told me that there is a strong correlation between transportation development and economic development, we will be the poorer for it. I don't want to pick up a newspaper and read about a bridge in Illinois. Something must be done to keep the single greatest economic advantage that we possess, our strong and diverse transportation system, strong. And other states have recognized what we all face, transportation revenues which are static or declining because of their nature which have no growth potential unless the base is raised, first it's the higher cost of building highways, bridges, making greater use of airports, encouraging water and rail transportation. And I don't know of a member of this Body who would want to see human services and receivership in this state. It is the obligation of the Executive and Legislative branches of this state to see to it that human services are efficiently and compassionately delivered, not the obligation of a Federal court, though they will take it. We have a reputation in this state for both efficiency and compassionate delivery of human services. I think those are the right priorities for Illinois in 1987 and beyond, education, welfare reform, economic development, transportation and human services. If I am wrong about that,

we need not discuss funding. Other states have moved; Florida, as you know, has recently passed a comprehensive services tax proposal, one which is causing great controversy in that state. The fact that the Florida services tax proposal now law with the signature of Governor Martinez attempts to reach beyond the borders of Florida in a long-arm way, the proposal that I have made is much less sweeping. Last night after a one-day special Session at the end of the regular legislative Session, Indiana passed education reform, two years after we did, financed by more than seven hundred and forty-four million dollars in new taxes including an increase in the Indiana Income Tax from three percent to 3.4 and an increased corporate tax burden as well. Indiana, our conservative neighbor to the east, has understood what it takes to be competitive in the world today and be competitive in the world tomorrow and Indiana is not going to sit still. Of all the states in the midwest, I would count Indiana as our principal job competitor. Time after time when it gets right down to it, if we've got the chance for a new plant, generally the race is between Illinois and Indiana, Illinois and Indiana, Illinois and Indiana. We're a far wealthier state than Indiana is, a far more powerful state than Indiana is with many more resources and advantages and, yet, Indiana has stepped boldly ahead in an attempt to secure their economic future by making their education competitive, by giving the children and the grandchildren of Indiana a chance at the jobs of tomorrow. It would be an astounding bit of irony were the proud State of Illinois to retreat in the face of Indiana's advance and, yet, the proposal that I have made on the income tax side would take us from our position as the next to lowest income taxed state in the nation to a position of the next to lowest income taxed state in the nation, lower than any state which touches our borders, lower than any great lakes or midwest state, lower than any other industrial

state of the nation. There is nothing in the revenue proposal which I have made which would in any degree injure the Illinois business climate nor would I. We have all worked to hard to make it a better one over the course of the last decade. And the services that we need to offer our people are not static and our needs are not static, they are ever changing. Just in the past few weeks in one case as this book was going to the printer, in one case after you had received this budget, the Federal Government by changes in its laws, its authority and its appropriations has impacted on our ability to help ourselves and...need for us to help ourselves with our own resources. The Federal Clean Water Act of 1987 passed over the President's veto post election makes it imperative that we find a way to help literally hundreds of Illinois communities whose waste water treatment facilities are inadequate, who will go on the banned list next July, just a little more than a year away and who have no resources of their own without state help through the waste water treatment proposals that I had made in both grant programs and revolving loan programs through Build Illinois to make it, pure and simple as that. Federal standards diminished Federal funds. And on the Surface Transportation Act passed recently by the Congress over the President's veto after more than six months of delay, Illinois does relatively well in transportation funds as we usually do, it's one area where we do well; otherwise, we're forty-seventh on the list of Federal fund return, but DOT tells me that over the next five years we will receive on the average about a hundred and fifty million dollars a year less from the Federal Government for transportation than we have received in the previous five years. It's called a gap. We're not losing our share of the pie, the pie is shrinking. So here's the cost of new highway construction, here's the cost of maintenance and repair, here's the cost of replacement of bridges, here's the cost of

mass transit, rail, water and air projects going this way. Here's present Illinois resources through the gasoline tax, truck taxes and license plates going level or slightly diminished 'cause people drive more miles on fewer gallons of gas. Here's Federal resources available to us because the Federal Government is doing less not more with the infrastructure. Here's our needs as you have defined them for me, there's the gap. It is your ultimate constitutional responsibility to fill it either by taking down the needs or raising the revenues or both. I can recommend to you, and I have, what I consider to be a soundly based transportation program for this State's need for the next five years, but only you can make it or something like it a reality. When I was at the Annual Legislative Conference of the Illinois State Chamber of Commerce recently, I was asked why we just couldn't restrain spending instead of raising taxes, a fair question. The bottom line answer is that we have in considerable measure. Add up all the tax relief measures that you have passed and I have signed for individuals and for business over the last ten years, they amount to billions of dollars of revenue never taken from the pockets of the people of Illinois, and that could not have been accomplished without restraint of spending. We have restrained spending by billions of dollars, literally billions of dollars of restraint of spending. The real issue this state faces this year is whether we will refuse to invest in ourselves for the future, not restraint of spending, we have had that aplenty. And the other real issue I think is, what spending do you regard as unavoidable. The CHIPS bill passed this Body with what vote? What is the cost of the CHIPS bill, does anybody reliably know? Do you have concerns about that? Are you going to take back your Aye vote for comprehensive health insurance for those who have no other place to turn? Unlikely. Are you going to take back any vote cast in this

Body or across the hall for those tax relief measures of the last decade? Unlikely. Have new spending measures beyond this budget book been introduced in the General Assembly since the day this message was delivered? Yes, they have, here and there. Have further measures of tax relief and tax abolition which is spending turned round from present levels of revenue been introduced in this Body and across the Rotunda? Yes, they have. How are you going to reconcile all of that? Can we on the one hand cut taxes, not raise revenues and spend more? Not in the real world; maybe in the time it takes to come from this Body to my desk but not in the real world, and we are not Washington and I hope would never be. Who else in the state has a plan to move local governments of all kinds from between the rock and the hard place, the rock of the loss of Federal funding and the hard place of increasing resort to the property tax? If there are alternative plans to help local governments throughout this state on both the general operating side and the transportation side, I have not yet heard them and, yet, that question must be answered. And from those who have with a special vigor, some of our constitutional officers, some members of the Assembly, some trade and business associations, from those who say cut spending, I have seen no list of the cuts either in terms of the essential services that State Government must provide within education or human services; I have seen no list of the cuts, merely generic calls for cutting spending. On the transportation side where higher taxes are decried, I have seen no list of roads not to be built, intersections not to be repaired, two-ways not to be widened or which arteries of commerce we should choke off. Granted, most of those who make such calls unlike you and me have no constitutional responsibility for the consequences of their words. We do, we were sent here to provide education and transportation and human services and to make our state

economically competitive. If we don't have the courage of our own resources in our own capacity within this state to move ahead, then we shouldn't spend so much time talking about our economy, telling the people back home, you in your districts and I across the state about the need for more jobs. If we don't have the courage of our neighbor to the east in making ourselves competitive and paying for it with our own resources, then it does no good to constantly wage economic war with Indiana, they'll take the plants, they'll take the jobs. Illinois is the richest, most powerful state in the midwest. We alone have kept our taxes down as against the day when we would need an increase in many instances because of circumstances beyond our control. The recession was not legislated by this Body or signed by me. Foreign competition was not legislated by this Body nor signed by me. Technological change in Illinois basic industries was not legislated by this Body nor signed by me. Continuing recession in agriculture and agribusiness was not legislated by this Body nor signed by me. Monetary policy for the nation is beyond our reach, trade policies for the nation are beyond our reach. Deficit policies of the Federal Government are beyond our reach at least by formal action and yet they have a great deal to do with how well the Illinois economy lives and will live. Others understand that. I wager that in order to compete and to grow stronger, others whose taxes are higher than ours will have to go up yet again in the years ahead, because we start, as the Taxpayers' Federation reported this morning from a modest base. We have a capacity unrivaled in the midwest, perhaps in the nation; that is not an argument for higher taxes. Only the need to invest in ourselves now at this critical point in our history is an argument for higher taxes. We are blessed with low taxes, but the issue is whether we will...we'll be wise enough to prevent that blessing from becoming a curse by failing now to

invest in ourselves. This General Assembly has always had the wisdom in the more than ten years that I have worked with it to respond to the needs of the people of this state as you see them, and I have that faith as I speak to you today. I welcome this opportunity to present my view of the needs of the people of Illinois now and in the next year and into the next century and to explore with you ways of making those priorities a reality. If you have a better way, I think we all need to share it, to discuss it, to adopt it and I'm at your disposal. Thank you, very much.

SENATOR NETSCH:

Thank you, Governor. The Governor has indicated that he will take questions and I'm going to exercise the Chair's prerogative while my colleagues get themselves in order. A presiding officer should preside not really participate, certainly not monopolize, but I have one question that it seems to me many of us are asked most often, a very simple straightforward question. Why so much and so soon? Nothing dramatic has changed on the revenue side, we have the same moderate...fairly sluggish but moderate growth that we've had for several years. There is nothing dramatic that has taken place except the messages tax in escrow for awhile on that side of the ledger, and yet a billion and a half tax increase so quickly. Why so much so soon?

GOVERNOR THOMPSON:

Nothing dramatic has happened, Senator, I agree with you. But this state, its needs have marched on; indeed, even this General Assembly has marched on and the Congress has marched on and with each passing day, each passing week, each passing month the need as defined by this Legislature and by the Congress and by the condition of our state's economy grows it seems to me. For example, if you were simply going to fill the gaps between revenue and current rates of expenditure, the need would be much less, but the revenue proposal that I

have submitted along with the corresponding appropriation speaks to the future as well. If this General Assembly or indeed the people of Illinois do not agree with my vision of the future, then we don't need a billion and a half dollars far less. When I made cuts in the appropriations that you sent to me last July across the board, there were some areas of the budget that I could not reach with my pen. Public aid is one and so those...those areas...escaped unscathed, they now have a structural imbalance in the accounts, that has to be filled, that would take our revenue growth. What you have told me about the future of our state and its needs through your legislative work compels me to look out beyond just this year and to attempt to define what is in reality a three-year spending plan. And every day I see indications that the trends that disturb me in terms of revenue shortfalls are going in the wrong direction, the action of Congress for one, so there is no single dramatic event but rather this fourth-term Governor's view of what this state needs for the future. If you disagree with me on that issue, there is no need as I said at the beginning of my remarks, to address the question of new revenue. I know how to write a tough budget too. I've done my share, so have you. All of us remember 1982, cutting the budget five times, the emergency budget powers you gave me as the Chief Executive were unprecedented in the history of this state. I can exercise them again, the budget will be in balance one way or the other. Our Constitution requires it, but I suspect that if we do not attend to the needs of the people of this state by the first week in July, we will be back here in the fall to repair some very grievous wounds.

SENATOR NETSCH:

That was the answer to the question?

GOVERNOR THOMPSON:

Yes.

SENATOR NETSCH:

Thank you. In this order, Senator Welch.

SENATOR WELCH:

Thank you. Governor, a report last year showed that there was over one billion, perhaps close to two billion dollars owed to the State of Illinois through debts and uncollected fines, fees, taxes and levies. The Federal Government Association investigation this past year showed that two hundred and fifty million dollars was collected by businesses for sales tax from consumers but not turned over to the State of Illinois. A lot of my constituents are asking me why the State of Illinois doesn't just collect the amount that is due them or that has been paid to businesses instead of increasing taxes. I was wondering what your response is to that argument.

GOVERNOR THOMPSON:

Well, Senator, I will be interested in seeing the results of the forthcoming legislative inquiry on that issue. I don't recall at the moment whether it is in this Body or across the Rotunda, but in one of the two Bodies, there will be legislative hearings on that very subject and...and we'll all be the wiser, I am sure, for them. The real answer to your constituents is that we are and we get better at it. Testimony, I think, could be had and I'm sure since he is familiar to this Body, he'd be pleased to come back in another capacity from the new director of revenue as to his current efforts to collect debts owed to the State of Illinois. But sometimes, Senator, when you see stories like that and there are ballpark figures attached, they're simply people's estimates of every penny owed in any way to the government, oftentimes by people with no capacity to pay, so trying to collect people from money...money from people with no money is...is hardly a way to ensure programs like those in education or economic development required by your con-

stituents which must be in place by the 1st of July if we are to meet the beginnings of the fiscal year; and, of course, collecting money costs money, as this Legislature has wisely recognized through the years in beefing up the resources of the Department of...of Revenue and many of the dollars I suspect set by the BGA and by the Auditor General to be owed to the people of the State of Illinois are in litigation or under audit, and so processees are going forward. I would not count...I would not count on any sort of windfall like that to rescue us from hard decisions by the end of the fiscal year...but the House hearing should be revealing. Yes.

SENATOR NETSCH:

Senator Rigney.

SENATOR RIGNEY:

Governor, last year you appointed a task force to look at the problems of rural and small town Illinois, and I've got a copy of that report that came back that Governor Ryan led his troops into about a hundred and nineteen small towns throughout all of Illinois. On page 6, there's reference to what's called the Fair Share Initiative and the idea being that I guess about twenty-five percent of our population is there, so we're going to see to it that twenty-five percent of our expenditures are in this area. My first question is where are we at right now? I've never heard anyone explain what percentage of our budget is being spent in rural and small town Illinois.

GOVERNOR THOMPSON:

Senator, I believe that if you'll read the full text of the recommendation, there was never a pledge to spend dollar for dollar on a population basis but to use that as a goal with which I agree, and if it could not be achieved, to come back and tell this General Assembly why; and I assume that with the passage of the budget, one or the other or both will

be done. That is still a goal of this administration.

SENATOR RIGNEY:

Well, are you willing to admit we are not at the twenty-five percent goal right now?

GOVERNOR THOMPSON:

I wouldn't be surprised at all.

SENATOR RIGNEY:

What are you proposing in this area to kind of level the playing field that's significant in nature?

GOVERNOR THOMPSON:

Well, on the revenue side, I think it fair to say that most of the new revenues required by the budget to be spent for programs which benefit the whole state including our brethren in rural and small town communities would not come from those communities but from the suburbs and from the cities. I think that is fair to note in the beginning, because the budget relies on the combination of an increase in income taxes and the extension of the sales tax to certain business services. Given the condition of our farm economy, I don't think an increase of 2.5 to three percent on the personal income tax side will have the same impact in the rural areas of the state that it will in others. On the expenditure side, I think it critical that we push ahead with our transportation programs, with our education programs, or else rural Illinois which is having a hard enough time now because of recession in the agricultural area and the diminished opportunity for even part-time employment in downstate metrocenters will have an even tougher time. Programs which encourage economic development, for example, the Diamond Star auto assembly plant at Bloomington-Normal while narrowly perceived as to the benefit of those two communities will undoubtedly have a benefit to nearby agricultural areas in offering farm families a chance for secondary or alternative employment while they attempt to ride out the financial storm

that is agriculture in America today. To the extent that our colleges and universities and elementary and secondary schools are assisted to across the State, rural Illinois is assisted too. I think it fair to say that the capacity of rural Illinois to support its local schools through the device of the property taxes is about exhausted. And so if there is level funding in education because of the actions of this General Assembly next year, I...I think rural Illinois will probably suffer along with the City of Chicago more than anybody else.

SENATOR RIGNEY:

Well, then my final question, Governor, and you've graciously brought this up, the problem of the property tax. A lot of folks out our way are wondering what bold, new initiatives you might be willing to accept in the area of the property tax because probably that single area can do more to level the playing field than anything else that we could do. Do you have anything to suggest to us?

GOVERNOR THOMPSON:

Well, I suppose the answer would really be what bold, new income tax initiatives are you willing to suggest in order to get the number of dollars required for a legitimate tax swap? Now I know that...that members of the General Assembly, both from rural areas and from suburban areas, Senator DeAngelis, for example, and...and others have suggested that we in effect swap tax dollars, income tax for property tax, and that is certainly something worth considering. I suspect, you may prove me wrong and I'm sure we'll debate this issue between now and the 1st of July, I suspect that you cannot raise the income tax to the level of magnitude required to give property tax that property taxpayers would consider to be significant...property tax relief, they would consider it to be significant. If you disappointed their expectations on the property tax side while significantly raising their

income tax bill, I do not think they would regard that as reform and they might come looking for us with two ropes rather than one, one for each bill. Now, I don't lightly say that and I don't lightly put aside the notion of exploring the idea of a tax swap. We've tax swapped before and in this area. When you temporarily raised the income tax in 1983, you permanently gave property tax relief by allowing Illinois property taxpayers to deduct their local property taxes from their Illinois income before computing their Illinois Income Tax. That relief persists today though the temporary increase in income tax has vanished. So we have swapped before, not on the magnitude that some now suggest, willing to explore that concept, but if you simply swapped tax dollars and made property owners feel better, even if you could achieve that, you would not be able to afford the priorities of...of this budget, I suspect but I may be wrong.

SENATOR NETSCH:

Senator Kelly.

SENATOR KELLY:

Thank you. Governor Thompson,...

GOVERNOR THOMPSON:

Yes, sir.

SENATOR KELLY:

...I would say as a Democrat during your time as Governor, you've done a very good job.

GOVERNOR THOMPSON:

Thank you.

SENATOR KELLY:

I will say that there has been some weakness particularly demonstrated in the area of mental health, and I am concerned under the budget and the tax requests that there is not enough being diverted to that area, and I want to get Illinois up where we were in 1970 when we were listed amongst the top in...in the United States. And I would ask you to give

more consideration to that and I want to ask you another question afterwards.

GOVERNOR THOMPSON:

May I...may I pause to...to indicate my total and complete agreement with you? Indeed, the task force that I reported told me that in their view there was an urgent need for about a hundred and forty million dollar increase in the mental health budget this year, I have budgeted sixty-two and that over the long haul, their estimate of long-term need was some three to six hundred million higher. Now, I don't suppose there are...are many in State Government who have had the privilege, and I'll call it that because it is, of confronting and talking with and attempting to...to comfort in some fashion the parents and spouses of those afflicted with mental illness and developmental disability than this Governor over the course of more than a decade. And I'd like to do more too and if we level fund mental health this year, we'll run a risk of defunding mental health simply because we won't have the capacity to respond to minimal Federal requirements and then we'll be audited and then penalized and then put into receivership if it went far enough. And where I once naively thought and I suppose most citizens do too that if...if funding for community based treatment goes up then surely funding for state based treatment must go down, but in truth, they both go up at the same time and it's...I guess when you think about it not hard to figure out why and we must respond to both sectors. So I...I have no disagreement with you, Senator, and had I more they would have more.

SENATOR KELLY:

Thank you, very much. I want to also mention this windfall that we hear...have heard about previously, I haven't heard much discussion on that lately. Is that hundred million dollars which we will...or thereabouts enjoy because of the Federal tax revisions, is that included in this and, if

not, how much more do you anticipate that that will bring into the state?

GOVERNOR THOMPSON:

Senator, it is included. I...I suspect the reason you haven't heard much about it lately is there isn't much of a windfall, I mean, comparatively speaking. I don't treat lightly a hundred million dollars and that's the amount, though there are some persistent efforts to make it range as high as four hundred million, and I think pretty much everybody is in agreement that it will be about a hundred million dollars. A hundred million dollars is a lot of money, but it's a small amount of money compared to the windfall being received by other states, and the reason they're getting a larger windfall than we are is that their state taxes are higher than ours and that's what drives it. The windfall in New York was over two billion dollars, but New York's level of taxation even after their tax cuts of this past week or two would be considered unconscionable in Illinois, I suspect, especially for those who are subject to the combined levies of New York State and New York City. And I suppose another answer is we've spent that windfall a couple of times over already, even though we haven't gotten it back yet, and it is figured into the budget, Senator.

SENATOR KELLY:

Thank you.

SENATOR NETSCH:

Senator Poshard.

SENATOR POSHARD:

Thank you, Madam Chairman. Governor, there's much discussion in the state right now about the business climate and the impact of the tax reform package upon that climate, and while we are now considered to be a relatively low tax state, I think, this package will bring us up to near average or maybe a little bit above average, but many economists

recently have pointed out that business and industry when considering a state to locate their plant or their business in, they tend to choose those states where the direction of taxes are going down as opposed to perhaps the actual level of the taxes themselves. Now, it's kind of a perception of what the future holds...the trend for the future. In your judgement, are we making our State less competitive by enacting all of these taxes at one time? I can understand, frankly, the need for the raise in the income tax, but the entire total tax package, is that making us less competitive in view of the fact that many states look at the trend for the future?

GOVERNOR THOMPSON:

In my judgement, no, Senator, for several reasons. In the ten years that I have been Governor and intimately involved in negotiations with members of the American and international business community about the investment of their dollars in plants and businesses in this state, never once have we lost a deal because of our taxes. Since I proposed this budget, no one has told me that they are going to flee the proposals. I think, frankly, and I say this with all deference to some theoretical economists who have...have lectured and written widely on this issue, that the notion that American business locates, relocates or expands based upon a cursory notion of tax trends is bunk. Business people count real dollars in the real world, they have to, especially these days in order to compete and I don't think that the State of Illinois by proposing to raise its taxes by this amount and in this fashion is going to lose jobs to a state whose actual taxes are at a much higher level. If you were to judge by performance of the economy, that is, the...the rate of unemployment, or to put it another way, employment and personal income, two of the best business climates in America today are in New Jersey and Massachusetts, both of

whom have significantly higher taxes than Illinois and would have significantly higher taxes than I propose going to. They are not currently considering raising their taxes, that's because they've steadily raised their taxes over the last decade while we have not. To see the State of Indiana to whom we lose most of our contested economic opportunities in the sense of any single individual state...I don't mean to say we lose the battle to Indiana, we wage a very spirited battle with Indiana and we're...we're...we're winners as often as we're losers, but they are our nearest competitor. Their income tax has always been higher than ours and going up as recently as last night to pay for something that they think is more important, better education, more competitive education. I hear more complaints from Illinois business people about the quality of our public schools and what we're turning out to take their jobs than I do about their tax burden, frankly. More and more CEO's are listening to their personnel managers than to their tax attorneys these days. Now I get complaints about the cost of workers' comp., I get complaints about the cost of unemployment comp. and those costs are on the table over in the Mansion and we're attempting to put something together, business and labor and I, for your consideration at this Session and we've lost deals there, no question about it, we've not lost deals because of state imposed taxes for state services. Most of the business people I talk to soon find some way of telling me how we could be more competitive if we just did more as a state; in fact, some of you have brought constituents into my office since this book was published to ask me for more, and I have agreed that you were right and I've simply said to you help me achieve it. So my...my judgement is that...that business people understand the difference between a state whose income tax was at eight percent and has gone to seven and made a lot of noise about it, and a state whose income tax is at two and

a half percent proposes to go to three and I know their accountants understand the difference.

SENATOR NETSCH:

I might just point out that I now have seven names on the list and so I guess I would admonish both the questioners and the responder to be as brief as humanly possible. We have only a little over thirty minutes left on our allotted time to try to...and we do have some other witnesses who as a matter of courtesy should be allowed to be heard. Although, Governor, this is primarily your hearing and we do not intend to cut you off, certainly.

GOVERNOR THOMPSON:

Thank you.

SENATOR NETSCH:

Senator Berman.

END OF REEL

REEL #2

SENATOR BERMAN:

Thank you, Madam Chairman. Governor, I...I'd like to make two comments and I'd like your response to them. First on the revenue side of your proposal. I was here in 1969 when we passed the original income tax under Governor Oglivie. It was represented at that time that the ratio of personal income tax to corporate income tax would be approximately seventy to thirty. I am informed that today the ratio of personal income tax to corporate income tax is eighty-four to sixteen, roughly half of what was then projected, which means that the personal income tax is generating a lot larger percentage of our revenue and business a lot less than what was represented when that tax was first passed. I also noticed that you've commented that some portions of the proposal for broadening the...the service tax...the sales tax probably won't work and I agree with you, I don't think it will either. I'd like your comments on why we shouldn't try to increase from sixteen percent that proportion that is generated by business. That's question one. Question two, in your proposed budget you project a net of eight hundred and ninety-three million dollars from the billion one that you're proposing, and you're suggesting that education receive...elementary and secondary education receive two hundred million...a hundred and ninety-five million dollars of that. Surveys have indicated that the major reason that the people back home will support an increase in taxes is for elementary and secondary education. And I would suggest to you that allocating only twenty percent of that increase to elementary and secondary education doesn't pay the horse that you're riding to get the taxes passed. And I would urge that a substantially higher net amount be generated to elementary

and secondary education. I'd appreciate your comments on both those points.

GOVERNOR THOMPSON:

Your latter comment reminds me somewhat analogously of a question asked me by Senator Vadalabene the last time I availed myself of this Podium four years ago on where the money would go if the taxes were passed. I told him that depended more on your action than on mine. Senator, I would give more to elementary and secondary education if I thought we could afford it. This Body will never precisely agree with my spending priorities, you never have in ten years, I...I don't expect this year to be any different. You'll send me a budget different than the one I sent you, that's...that's fine, that's all right. It is ultimately your duty, you have the last word on allocation. I can veto down but I can't veto up and I can't sustain a veto against the will of this Assembly. And I believe we ought to be doing more in elementary and secondary education. I'll raise one note of caution though that I consistently hear repeated throughout the community of Illinois and that is that the people of Illinois are getting impatient for results from public education. They think we're spending big dollars, they're right. We've always been an impatient people, we've always wanted results overnight; education reform is only two years old but I'll tell you there is a great deal of dissatisfaction with the product that we're turning out especially in...in places like Chicago. And...and people are saying it openly and plainly, parents, business people, teachers and we must find some way around that, we must find some way to attach greater accountability for greater dollars or they're not going to pass or they won't work. As to the first comment, I'm not sure that the Legislature in 1969 could have predicted the economy of the 80's in which so many corporations are...are...are not paying corporate income

taxes because they're carrying forward huge losses from two back-to-back recessions, that's...that's one answer, Senator. I suppose for me the bottom line answer is that...that in the end people pay taxes not corporations. I think you could raise the corporate income tax of Illinois in the same ratio as I have proposed raising the individual income tax without doing any great harm to the business climate of this state. And I've had members of the business community suggest to me that they would be willing to accept such an increase especially if they could...could do some tax swaps of their own in terms of getting some relief from taxes which they now find... Manufacturers for example, find...the tax on...on the electricity, the utility tax and the electricity used in the manufacturing of a product. We gave them tax relief on...on the sales tax for manufacturing equipment some years ago and they see an analogous situation there and there's some discussions going on about tax swaps which would raise revenue but help the business climate or a segment of it. So I'm not saying that that is an impossible objective nor even an unreasonable objective; nor would I say, for example, if this General Assembly were to say, Thompson, you're trying to take this too far with the service tax, Illinois is not yet ready, we're not Florida, let's work on the income tax side, I don't regard that as an unreasonable suggestion or an unreasonable alternative if it gets the job done. I'll simply note that in my judgment Illinois will one day sooner or later have a service tax of some magnitude, because we are becoming increasingly a service economy and you can't have your tax system and your economy at odds or it will be neither productive nor fair.

SENATOR NETSCH:

Senator Jacobs.

SENATOR JACOBS:

Thank you, Madam Chairman. Governor, I...it's a little

bit along the same lines as Senator Berman but I guess I look at your opening remarks where you say you're either with me or your against me on the five items that if we agree, then we should proceed; if we don't agree, we shouldn't. I think we all agree that the items...in reference are...are all important to all of us, but I take it back I guess as to whether we can...have to agree with all the priorities and in particular in your reference to our good neighbor to the east who has shown the courage, as you put it, to...to put seven hundred million dollars into their education reform and we're only putting forty-seven percent as much of that into our...our education reform, does that mean that we only have forty-seven percent as much commitment in reform as what Indiana does?

GOVERNOR THOMPSON:

No, Senator, it means that we started two years earlier than they did and we're already half a billion dollars ahead of them.

SENATOR NETSCH:

Senator...Senator Fawell, is your light out now? Okay, fine. Senator Marovitz.

SENATOR MAROVITZ:

Governor, in regards to the proposed sales tax on services, is that list which you disseminated at the original introduction of the proposal a wish list...is...is it a list that you would be willing to...to see the...the General Assembly work on and pare down? And are you willing to...pare down the amount of the sales tax on those new services?

GOVERNOR THOMPSON:

Senator, I try not to submit wish lists in the traditional sense. My budget books reflect the real sense of real needs as do your appropriation bills as I have seen them over the course of the time that we have served together. I don't

recall your ever asking for anything that was in the sky but meant to respond to need as you perceived it. Yes, you can adjust the revenues down if you adjust appropriations down and keep them in balance, certainly. Yes, you can restrict the reach of the proposed services tax. I submitted what is referred to in the trade as a medium list, contrasted, for example, with Florida's extraordinary service tax enacted just a few days...ago, contrasted with some lesser service taxes to be found around the nation. And am I willing to compromise? Senator, the Constitution requires me to compromise, absolutely requires me to compromise. The...the Constitution requires that you and I be in accord on how much we spend and how much we take in and...and we have been by one means or another over the course of the last decade. If...if others who would spend more, your colleague, Senator Berman, for example, or your colleague, Senator Kelly, for example, would spend less, we could tax less; but, you see, they have deeply felt beliefs about what we need, Kelly in mental health and Art Berman in...in education, and I suspect that each member of this Body has some deeply held belief about some area of importance in the state budget and we have to try and accommodate all of those, but I am entirely willing to compromise on any portion that makes sense as a taxing matter. I mean, I won't approve any ill-conceived tax plan even if it raises revenues that I think are important. And...and as long as the appropriations and revenues are in balance, we'll be in business as we always have.

SENATOR MAROVITZ:

It's difficult to speak for anybody in the General Assembly, but as we speak in caucuses and committees, generally we hear the theme of education resounding through the halls of these bodies as...as the number one priority or a major priority of all legislators.

GOVERNOR THOMPSON:

Senator, you're my Senator, I want you to ensure that my child is educated so that she can hold a job in the future. And the education that...that the revenues provided by this Legislature help give me and you, not good enough for children her age.

SENATOR MAROVITZ:

Well, let me ask you this. I think that I certainly agree with the question that Senator Berman asked in his innuendo that more than seventeen to twenty percent of the new revenues...generated by your proposed tax increases should go to education. I would be willing to probably vote for almost any tax increase if...if a larger percentage of funds went to education. Your concern for better quality and more bang for the buck I think is shared by an awful lot of us, particularly those of us from Chicago. Do you or any of your task forces or department heads have any specific suggestions of what this General Assembly can enact in order to, in fact, get more bang for the buck over and above the educational reform package that we passed two years ago?

GOVERNOR THOMPSON:

Senator, that's probably the most difficult question in Illinois government today because in the end it really depends on more than your ability to mandate programs. It depends on the willingness of teachers to abandon some long held beliefs or more specifically their...their representatives. It depends on the willingness of the parents to involve themselves. There's an extraordinary difference between the culture of Japan, for example, and the culture of the United States in terms of parent involvement with elementary and secondary education that all the money in the world and all the laws in the world are not going to make up. If we recognize that it's going to take assistance on several levels, I'll go back and ask my education folks about whether there is more that we can do because nobody...nobody would

like to see greater accountability in education today than me, because I sense this...this attitude out there in the public of...of growing impatience with what we're getting for our dollars and, yet, I don't want to give up on it.

SENATOR HAROVITZ:

I think if there's any unanimity in this Body it would be our willingness to work with you and your experts to get more bang for the buck.

GOVERNOR THOMPSON:

Fine, we'd be glad to.

SENATOR NETSCH:

Senator O'Daniel.

SENATOR O'DANIEL:

Governor Thompson,...

GOVERNOR THOMPSON:

Yes, sir.

SENATOR O'DANIEL:

...you make a very...very convincing presentation, and I...I tend to agree with part of the things that...that you say. But I represent twelve counties down in southeastern Illinois and...and we have an unemployment rate now that's hovering around twenty percent of unemployment, and I don't see how in...in good conscience I can ask my constituency to share more of a tax burden at this time with that...that sort of an unemployment rate. We depend on three industries very largely in southern Illinois, agriculture, oil and...and coal, and all of them are experiencing, you know, very...very difficult times. In the three years that I've served here in the Senate just in my district alone we've lost more than a thousand jobs; an oil refinery in...in Lawrenceville, three hundred and some jobs; General Radiator in Mt. Vernon, three hundred and some jobs; a garment factory in Fairfield, one in Wayne City. So, it's...It's a very difficult time, and...and I'm not saying that the things you asked for aren't needed.

But then I pick up the paper and...and I see where your staff is...will be receiving substantial salary increases, and I'm not saying that that isn't deserving; see where your director of...of corrections wants a new aircraft. Well, this doesn't sell very good down in...in rural Illinois where the people are all out of work and..and I think, you know,...in...in my position it's going to be very hard for me to ask my people to...to support a lot of these programs.

GOVERNOR THOMPSON:

Senator, I acknowledge those concerns and let me try to address them, briefly. With regard to the Department of Corrections airplane, I doubt that there's a corrections' director in the United States who travels more miles to make sure that the system runs well than Mike Lane in Illinois. If he doesn't travel those miles, I suspect the system wouldn't run as well, that'll have to be a judgment that you make. One way or another that man has got to keep control of his institutions, and he doesn't know from day to day or week to week how many times he'll have to go back to Joliet or Pontiac or Menard or visit the new institutions as well. And we'll never know how often those visits oftentimes at great personal cost to himself in terms of time for himself and his family have prevented a riot or a death or an injury, you'll have to make that ultimate judgment. It looks funny, I know, to be talking about a new airplane at a time when we're talking about laying off prison guards, but if you analyze the budget monies that lie behind each request, they don't have anything to do with each other. He...he probably has the toughest job in State Government, only you can decide how well he does it and in what fashion he does it. What the stories regarding the salaries of my staff in many instances fail to point out was that some of them I'd considered grossly underpaid for many years and was trying to make up to, I think that's a human enough motivation especially when

I require high standards and hard work. The staff of the Governor is on call as the Governor is twenty-four hours a day, three hundred and sixty-five days a year, it's not a part-time job. They work a lot of nights and weekends, we don't recompense them for that. And in many instances those were not pay increases but salaries attached to new positions of responsibility, different positions of responsibility, they went with the job not with the individual. Only rarely is...person take a pay cut when they're promoted, although sometimes they do. And they took account also of the fact that in the...the bill which raised the salaries of the General Assembly and the constitutional officers, the cabinet officers were raised as well and there needs to be some parity between senior staff for a Governor and...and the cabinet, so they took account of all of those factors; and while I can understand how they look in the headlines to an unemployed person, I can also how they...understand how the person who's holding down that job and working whenever he's required to work feels too about the need to be fairly reimbursed. And, Senator, I guess the bottom line answer is that everything that I've proposed in this book really literally is aimed at helping raise the economic circumstances of parts of the state that really hurt, really hurt. We're not going to be able to legislate away hurt in agriculture and mining and oil, though we can go a...a long way towards that. I would say to you, I would say to Senator Jacobs who represents a distressed area of the state, distressed in part because that area has for too long relied upon one industry, let alone the three that are the reliance of your area of the state, that we need to do more to diversify economic activity but we'll never get there without competitive education or without the ability of DCCA to compete with other states, you see, or without the ability to help agriculture diversify its crops in the uses of its traditional crops. So, I guess I

would also have to recognize that what you say about the unwillingness of your area to pay more because it's poorer, I suppose Senator Fawell could...could tell me about the unwillingness of her area of the state to redistribute too much of its income to your area of the state, there are those feelings too. People of DuPage County, for example, have been extraordinarily generous with the people of the other one hundred and one counties of this state because DuPage is dead last in what it gets back from the state. I wouldn't want to be Senator Fawell explaining that every weekend in the district, though I'm sure she does it very well because DuPage is growing and glad to contribute to the overall prosperity of this state. But you see there are countervailing feelings in the Body, I suspect, Senator.

SENATOR NETSCH:

Senator Newhouse.

SENATOR NEWHOUSE:

Thank you, Madam Chair. Governor, good afternoon.

GOVERNOR THOMPSON:

Good afternoon, Senator.

SENATOR NEWHOUSE:

Governor, you outlined five areas that I'm sure most of us agree with you almost without reservation as needing the attention of the General Assembly. It seems to me though that the common denominator in each one of those areas is economic development and that means jobs.

GOVERNOR THOMPSON:

Yes, sir.

SENATOR NEWHOUSE:

My concern then is basic. When we talk about education, for example, I suspect you know as well as I that in cities like Chicago we're not losing our kids as high school dropouts, we're losing them at seven years old. There is an absence of hope that must be overcome if we ever expect to

have any kind of economic development and to address ourselves to the other social issues that you outlined. My concern is this, Governor, if I can spell it out to you. In the City of Chicago, for example, where there is deteriorating housing, you know what those neighborhoods are like.

GOVERNOR THOMPSON:

Yes, sir.

SENATOR NEWHOUSE:

You know that if...between the pool of unemployed labor, and here I'm talking about the youngsters who have graduated from high school and who are doing nothing or who have not graduated who are simply on the streets, a labor pool that is very large, a potential labor pool. If somehow we could bring together that labor pool with the construction that needs to be done in Chicago, some of the problems that we speak about could be resolved. You also know that there is a great deal of construction going on in Chicago. What you may not know is Chicago children are not doing that building, they are not doing that building. You shake your head yes, I'm glad, because...because they're not, they don't have access to the training to do it. My concern is this, would you and your administration be willing to help us here in the Legislature put through legislation with all the political pitfalls that it represents, because there are powerful forces who simply don't want this to happen, you know it and I know it. However, we're talking now about a major resource and a major source of a resolution of many of these problems. My question is, would you and your administration encourage colleagues here on the Floor to support legislation that would begin to reverse this kind of...of obscene stricture on people becoming productive and to start the productive mechanism working so that we can roll back all the problems that were outlined in these five issues, have our seven-year-olds walk into a classroom with some hope in their eyes, some

expectation that there is a tomorrow and some expectation that perhaps one of them may one day stand on that Podium where you now stand as a constructive citizen who can take...this state into the twenty-first century. Could we, Governor, get your help on such legislation? Could we get your help morally to help overcome the forces that will not see this happen but for some strong action by this Legislature?

GOVERNOR THOMPSON:

Senator, I would be glad to work with you and members of your staff on any legislation that would help promote both economic development and employment opportunities in the state. Without seeing the specific legislation, I wouldn't want to go beyond that, but I'd be glad to work with you. But I think we also have to recognize that there are other players in the drama. I heard the mayor of the City of Chicago today, as did you, say in his inaugural address in...in Grant Park that the cities must be partners in this endeavor as well and that cities must do for themselves, I believe he said repeatedly throughout his speech in addition to requesting help from the state and the...and the Federal Government. And I couldn't agree with you more strongly that we need to start addressing the issue of preventive services for children at risk and this budget does so substantially, especially the children zero to five. I said as early as my inaugural address that if we lose the child chances are that we lose the adult at great moral and fiscal cost. And so I want to see the state budget start going the other way and preventing the dropouts to the welfare rolls and the penitentiaries and to death and poverty and ignorance.

SENATOR NEWHOUSE:

Governor, I shall visit you on the second floor.

GOVERNOR THOMPSON:

Thank you.

SENATOR NETSCH:

We have two left on the list. Senator Lechowicz.

SENATOR LECHOWICZ:

Thank you, Madam Chairman, Governor Thompson. I'm sure everybody in this Chamber and then probably in the state probably concurs with your assessment as far as the five program areas that you're specializing in as far as trying to increase the taxes to provide necessary money for the areas. My question is dealing in the five problem areas. You mention in...two years ago we...we passed the Education Reform Act which this General Assembly under the leadership of Phil Rock and Art Berman put together a comprehensive educational program in conjunction with the minority spokesman as well which was adopted and you signed into law. In the Conference Committee report the funding mechanism, the recommendation was to pay for it, came out of the Used Car Tax. There was some concern on this side of the aisle whether that would really generate enough money. Then there was a question as far as the constitutionality of the...of the tax on the telephones. But the other portion of the budget was funded out of general revenue funds. At that time we made it quite clear that we didn't think there was enough money to fund the educational portion of the budget, just to...take care of Indiana. We also mentioned the fact that there was a consolidation bill as far as school districts and when that...when that hit the rest of the State of Illinois there was a lot of animosity toward...towards that portion of the educational reform package and probably rightfully so, we just didn't know the impact. But that's exactly what happened with educational reform. We did provide a substantial amount of money with your assistance, but there is a lot of concern not only in Chicago but the rest of the state as far as the drop-out rate statewide. And to my colleagues in...from Chicago, when you see the drop-out rate of the

Board of Education at forty-five percent of all students dropping out of high school, all barriers are down because when you see that type of a rate, welfare is increased, social services are increased. That is one segment, Governor, that I think that your educational task force should really address itself to. We passed a resolution two years ago on drop-out rates, and at that time I stated that it's not only a Chicago problem, it's a statewide problem. I don't know the magnitude in the rest of the state...

GOVERNOR THOMPSON:

One out of four, Senator.

SENATOR LECHOWICZ:

...but I think it's...

GOVERNOR THOMPSON:

Statewide.

SENATOR LECHOWICZ:

...much too high.

GOVERNOR THOMPSON:

Much too high.

SENATOR LECHOWICZ:

And I think whatever money that is tied to educational funding, it should be tied with the understanding that we should finally get to the bottom and find...resolve the problem of why the students of the public educational system are dropping out of school. It's one of the shames that we're all exposed to and we should try to correct.

GOVERNOR THOMPSON:

Senator, I agree with you.

SENATOR LECHOWICZ:

Out of the new money that is being proposed, how much money will be spent in this area to correct this problem?

GOVERNOR THOMPSON:

I can't quantify it offhand, Senator, but what I can tell you is that if...if the public schools are not offering the

kind of education that would lead a high school graduate to believe that it was going to make a difference in their lives, they're going to drop out. I can tell you that if we don't continue our efforts, which some are trying to suppress, preventing teen pregnancies, many are going to drop out and right to the welfare rolls. I'd be glad to go back and look at the education recommendations of this budget both to focus on the issue of dropouts to see whether we can do more within the budget on the drop-out issue, because I think frankly the...the rate of high school dropouts in this state is the scandal of education in Illinois.

SENATOR LECHOWICZ:

Number two, transportation, and I don't know why anyone hasn't touched on it yet, but when you take a look at the cost of your increase as far as your gas tax, then you add your local taxes, both city and...and county, to the state tax, in many areas of this state we'll be the highest in the nation. And I don't...when I fill up my car some gentleman comes up to me and asks me to sign a form in protest or he's got a button as far as "No Motor Fuel Tax Increase," or I talk to the people that come to my office and they're concerned as far as the dramatic proposed increase in license fees of a seventeen dollar increase and they're...they're asking me if everybody else is going to be imposed the same type of an increase, there are a lot of people on fixed income who really can't understand the magnitude and the necessity of these types of increases.

GOVERNOR THOMPSON:

First, Senator, on the gasoline tax side, it is a phased-in five-year program. Much of the accounts you would read in the media with their...necessarily shorthand references to the tax increase would lead you to believe that nine and a half cents was going on tomorrow and that, of course, is not so. What is also not said is that there are signifi-

cant costs for driving automobiles in other states whose...whose surface costs appear lower. For example, in our neighboring state of Indiana on the average it costs the motorists about a hundred dollars a year more to drive a car simply to pay state fees and taxes than it does in Illinois in like circumstances because they have the equivalent of a personal property tax on the car. After cutting taxes in New York by four billion the other day, Governor Cuomo announced a request for a billion dollar tax increase for transportation and talked about folding license plate fees and other fees in that state into a new personal property tax on...on vehicles. So other states may appear to require less than Illinois requires in terms of the gasoline tax or license plate fees but most of them make it up in other ways. In the many of the states with whom we are compared do not have the geographical demands nor the metropolitan demands that we have in Illinois and cannot avoid.

SENATOR NETSCH:

Senator Lechowicz, there was a reason why the Governor did not get into the gasoline tax particularly. There are bills pending in the House that deal with that and so we will have an opportunity to deal with legislation on that subject before the end of the Session.

SENATOR LECHOWICZ:

Yeah, but thank you, Madam Chairman, but I thought this forum today was to discuss the entire gamut as far as the Governor's proposed tax increase in the state. And I believe the gas tax and the license fees are included in that 1.6 billion dollar increase. Is that correct, Governor?

GOVERNOR THOMPSON:

No, sir, they are in addition.

SENATOR LECHOWICZ:

They're in addition.

GOVERNOR THOMPSON:

Yes, sir.

SENATOR LECHOWICZ:

So the 1.6 billion...

GOVERNOR THOMPSON:

Well the 1.6 is...is the Fiscal '89 number, Senator.

SENATOR LECHOWICZ:

Right.

GOVERNOR THOMPSON:

But they are in addition.

SENATOR LECHOWICZ:

Okay. Now the 1.6 billion...according to my perusal of the budget it was twenty-two billion for '88 or approximately an eight percent increase over last year's which brings it about a one and a half billion dollar increase. If that's the case, where is your long-term growth projection? Is that through the normal attrition as far as the growth of...in proposed taxes?

GOVERNOR THOMPSON:

Well...we first have to correct some structural imbalances before we can talk about growth. No matter what we do the budget has to be brought into the real world. Secondly, while we can be fairly confident about growth for Fiscal '89 and, of course, the...the full impact of the proposed service taxes would kick in in Fiscal '89, I'm much less sanguine about Fiscal '90. I think it begins to get very difficult to talk with any confidence about the projected revenues and expenditures three years out. And you with your long service in this body, particularly with regard to fiscal matters, I think would...would understand that, it's just a very risky proposition. So many of the things that would impact that are beyond our control that we see decent growth...but, heck, one of the answers to your question about where do the revenues go from what we passed for education two years ago is that I think every one of us was

counting on stronger revenue growth two years ago than we got in the real world.

SENATOR LECHOWICZ:

Just want to bring it into the record. Thank you.

GOVERNOR THOMPSON:

Thank you.

SENATOR NETSCH:

Senator Vadalabene.

SENATOR VADALABENE:

Thank you, Madam Chairman, Governor Thompson. First of all, let me say publicly during my serious illness the way you kept track of my hospital stay and my stay at home, and your staff, I want to let you know I appreciate that.

GOVERNOR THOMPSON:

Thank you.

SENATOR VADALABENE:

And the gifts that you'd sent my family and to me. When you mentioned my name a while ago it dawned on me that it was on May 5th, 1983, and I sent for the transcript, and I think what I would like to do is almost ask you the same question and not the entire transcript. And what I asked you at that time was, Governor, let me ask you one more time, make...and I'm having very difficulty reading, incidentally; my eyes have went extremely bad also, so bear with me...make one more statement in regard to the votes in the State Income Tax or any tax proposals that come before this Body. My question to you, Governor, is, you know, I've done a lot of training with my bird dog and when he did something right, I rewarded him. Now there is going to be members in this Body who are not going to vote for your tax program, and there are members in this Body who are going to vote for this program. Are you going to use the...use the reward system in your proposal...and I might add before I finish my question, Senator...Senator Netsch said, Senator Sam, you're going to get

your reward in heaven and I almost did, Senator Netsch. But I like it now and I would like your comments, Senator...or Governor Thompson.

GOVERNOR THOMPSON:

Senator Sam, four years ago when you asked me that question I took a long time to answer it but I ultimately came to the right answer, so I won't take so much time this time. This budget proposes to fairly divide the revenues of the state over all parts of the State of Illinois to the benefit of every one of the eleven and a half million people of this state in one measure or another depending upon their need. But I have generally found that in the area of discretionary expenditures over which the Governor has some control, generally the sounder proposals come from members of the Body who are prepared to understand that they must be paid for in some fashion. How have we done for the last four years, Sam?

SENATOR VADALABENE:

Extremely well, and I'm...

GOVERNOR THOMPSON:

Fine. Thank you, Sam.

SENATOR VADALABENE:

...looking forward...

GOVERNOR THOMPSON:

Madam Chairman...

SENATOR NETSCH:

Actually...Sam, what I meant to say four years ago was that I would get my reward in heaven because I haven't seen it around here.

GOVERNOR THOMPSON:

Madam Chairman, before I leave the Podium, may I please correct an answer that I made to Senator Lechowicz. My able assistants, who are, I think, paid appropriately, have handed me a note. Now they are...which says that the 1.6 billion dollars in Fiscal 1989 does include the gas tax, Senator, I'm

sorry. I misspoke.

SENATOR NETSCH:

The final light, Senator Carroll.

SENATOR CARROLL:

Thank you, Governor. Thank you, Madam Chairman, as well. Governor, because of the lateness of the hour, I will keep the questions a little bit short but will ask you to have certain responses to us if you can. I appreciate the fact that you identified the flexibility of your approach, especially in your discussion with Senator Berman as to the ability to compromise and how, in fact, the taxes will be ultimately proposed to us should it come to us in some form of bill or Conference Committee report or whatever. A couple of things I find interesting, however, Senator Berman mentioned the ratio and I think you've accommodated that question well in indicating that probably in a ratio...a ratio can be established. I think that's one of the questions we have heard most often from those who have opposed the proposal is to say that they've...opposed the idea of where the burden will come from. In addition to that, while we've talked about the sales tax extension, you have indicated yourself that the sales tax is the most regressive tax in Illinois and a tax that we have to adjust and adjust downward and attempt to get rid of, if at all possible; in fact, within your proposal, there is the ability to adjust it down. If we're adjusting it down, why are we extending it so far? Aren't we saying to the same people, you'll be paying more, you'll just be paying it differently. Will not the barber, the shoemaker, people like that, to whom today a sales tax is not imposed in fact now be paying it either out of existing revenues themselves or passing it on to individuals? You know, corporations don't get haircuts, corporations don't get shoes fixed. So when you're adding that extension, you're really expanding the tax that these people are paying at the same

time we are allegedly saying to them, we're going to take ten percent of that tax off. I have some others as well.

GOVERNOR THOMPSON:

I would say, Senator, except for the fact that I think the greater part of the revenues come from business services and not from personal services that you are correct.

SENATOR CARROLL:

Thank you. Additionally now, in the area of the way that you have posed the budget. Last year we recognize was a tight economic year, the year we're in now.

GOVERNOR THOMPSON:

Yes.

SENATOR CARROLL:

Other than the add-backs through the supplemental appropriation process, which at this point are probably close to half of the cuts that you did correctly, in my opinion, make in the first two weeks of July, we see an operating budget that's going up over ten percent this year, Fiscal '88, as compared to under two percent in Fiscal '87. Why is it necessary to have ten times the growth in actual dollars in operations of government, not grants, not services to the people, the operating side of government...throwing up some two hundred and sixteen million compared to twenty million last year, why is it necessary to add two thousand five hundred eighty-four jobs? Cannot ninety-four thousand eight hundred eighty-three people do the work the people of Illinois are paying the taxes for?

GOVERNOR THOMPSON:

No, they can't, is the answer to the question. Senator, I've...I've discussed this question with a group of Chicago businesspeople this morning who raised the same issue, why are we increasing the number of state employees. I think, Senator, if you...if you look at where those employees are coming, you will find that the overwhelming majority of them

are coming in response to unavoidable service demands. These are not so-called bureaucrats, whoever they may be, but if you build new prisons, you must staff them with prison guards and other workers, that is unavoidable. If the Federal Government is cutting back on its former Federal support of economic development employees, for example, to keep the economic development services and programs, we must add our own resources. If this Legislature is asking us to do...do more in mental health and children's services, for example, we need more caseworkers. In mental health in the budget cuts last year, I took away the regions; I don't know exactly where to turn in mental health anymore, Senator, and still deliver the kind of services that staff patient ratios and...and the Federal Government will require in order to keep them paying their Federal share.

SENATOR CARROLL:

Well, I think we agreed specifically in mental health. In fact, the General Assembly took the approach, to which you signed and agreed, that in fact more money had to be allocated to mental...

GOVERNOR THOMPSON:

Yes.

SENATOR CARROLL:

...mental health last year as there will be areas this year...

GOVERNOR THOMPSON:

Yes.

SENATOR CARROLL:

...where we will reallocate as you identified it is our priority, our ability under the Constitution to do so and we will exercise once again that constitutional responsibility. Let me say though that you talk, for example, and I know the bills are not here, about what has to be done on a road program. I know the Secretary is present in the Chamber. The

law requires an April 1st road program, this is now May 4th, once again we have yet to see a road program, one has not been delivered to the General Assembly.

GOVERNOR THOMPSON:

It will be delivered this week, Senator.

SENATOR CARROLL:

...we would hope so, so that we would be capable of dealing with it.

GOVERNOR THOMPSON:

Right.

SENATOR CARROLL:

And we recognize the lateness of that program. In that light...

GOVERNOR THOMPSON:

Well, it's...it's...it may be a...it may be a month late but it's millions of dollars smaller because it saves new revenues.

SENATOR CARROLL:

Okay. We should see it both ways, in fact.

GOVERNOR THOMPSON:

Right.

SENATOR CARROLL:

Additionally, rather than go through the questions, we had submitted to your staff on March 19th a list of some twenty-seven questions we would like responded to in the appropriation sense, most of which have not been addressed here at this hearing,...

GOVERNOR THOMPSON:

My...

SENATOR CARROLL:

...and I would hope that we could have...rather than go through the twenty-seven now...

GOVERNOR THOMPSON:

Yes.

SENATOR CARROLL:

...and ask for answers, Governor, we would appreciate a response before we have to act on this legislation. I recognize that your high paid director of legislative coordination...right, Jack,...received this on the nineteenth and maybe he didn't get it to you yet.

GOVERNOR THOMPSON:

Well, I think, Senator, there are two answers to it; one, the request for the answers to the twenty-seven questions came in a suggestion that my staff would come before this Body and testify in favor of a lower budget. They have since reconsidered and sent me to testify in favor of a higher budget but they are willing to answer the questions nonetheless and have almost all the answers prepared.

SENATOR CARROLL:

Thank you, very much.

GOVERNOR THOMPSON:

Thank you.

SENATOR NETSCH:

Thank you, Governor.

GOVERNOR THOMPSON:

Thank you.

SENATOR NETSCH:

That...concludes the questioners. Have you a final...comment, final statement, a sort of like summation?

GOVERNOR THOMPSON:

I trust this General Assembly to do what is required in the best interest of the people of Illinois because every year for the last ten years you have.

SENATOR NETSCH:

Thank you, very much. We appreciate your being with us, Governor. Now, if I might...what we are going to do now...there were other plans but we are way over our allotted time and Senator Rock has pointed out that the two committees

that are awaiting hearing also have witnesses. So we are going to take only two more witnesses, one is Mr. Frank Thompson, who is chairman of the Bond County Board and who is, coincidentally, a proponent of the tax increase, and William Stowe of the State Chamber, who is an opponent. And in both cases I had made a commitment that they would have an opportunity to be heard today. My...my apologies to all others. Several...the Farm Bureau, AFSCME and others have indicated that they will submit written statements which we will see are distributed to all members of the General Assembly and at some point we will find a way for the Economic and Fiscal Commission staff to review its very important findings with all of you, hopefully orally, and in any event we will see that some very, very important and interesting memos are distributed to all members of the General Assembly. And to those few others who had asked to testify, we will find some way to accommodate you but not today. Mr. Frank Thompson.

MR. FRANK THOMPSON:

Madam Chairman, the Honorable Senator Netsch, and the Honorable members of this Body, this is the fourth time that members of the Bond County Board have sought to speak on this subject; twice in hearings out in the state and then Senator Degnan in December appointed Senator Zito to have a smaller subcommittee of the Local Government Committee for us to testify about the problems of the small counties. And now I'm here before this Body, we're a group of people who...who have decided that we're not going to...allow our circumstances to get beyond us without saying something about...we're not going to gripe, we're going to try to be a part of the answer. And so I consider it a high honor to be in front of this tribunal and I have only one higher tribunal which I address every day that I can think of, but I'm glad to be here. This last October when we were working on the Bond County budget and the request came in from the various

officeholders, I sent the budgets back asking for a twenty percent cut in every departmental budget. When those cuts came in and we finally ended up with the...with the budget, we had cut two hundred thirty-four thousand dollars out of our Bond County budget, we had ceased our support of a number of local services and we had requested officeholders to terminate five and a half positions in the...in the courthouse. So we lost a third of the people in our courthouse in terms of the support staff. Bond County is one of those small, rural counties, sixteen thousand population. When I...I've been on the board ten years and our property tax assessed valuation has gone from ninety-four million down to seventy-three million dollars. We've lost a hundred thousand dollars in Federal revenue sharing and we...we've worked with a number of circumstances that were simply beyond our control. We are paying twenty-five thousand dollars a year more to officeholders in Bond County simply because the Legislature has told us what their salaries shall be. Our...our sheriff's salary has gone up from twenty-four thousand to thirty-one thousand dollars, our highway superintendent has gone from twenty-six thousand to thirty-two thousand five hundred, and we're just simply...we feel like we're standing on the tracks and the train keeps running over us, and we have no way of paying for these salaries except with money that comes right out of our own budget. We're not...I testified before a number of committees of this Legislature a number of years ago with regard to the Mandates Act and that Mandates Act was passed but it has been honored in the breach many times and people have simply excused a particular bill from the provisions of the Mandates Act, and while in large counties this may not be a...a very difficult thing to handle, in a county like Bond County it simply means that we are asked...at the very same time that we are levying against the property tax at the maximum, we're asked to pay more in

terms of salaries, in terms of costs that are...simply mandated and we have no choice but to do that. You have before you a...a set of exhibits that we've just put together since Friday afternoon, a...a cover...note that our...my county treasurer was going to talk to you about dealing with a number of Acts that the Legislature in...in the last few years that simply mean that we are working today...and if you'll look at the second sheet of your exhibit,...you see...across the top the effect of the...of...of Senate Bill 415 reducing the assessed valuation against farm property. In our county some of our townships were...were simply cut fifty percent in their assessed valuation. And you...then across the next line you have a number of Acts, both administrative and legislative, that have simply meant that we are now working with two hundred three thousand dollars a year less in revenue than we would have. For example, the State Police are no longer patrolling our highways as they were in the numbers they were, and we've gone from over three thousand tickets a year on Highway 70 down to about nine hundred a year. We're working with seventy-three thousand dollars a year less revenue on that score, and so we are simply presenting to you a number of items, some of which are caused by the Legislature...by actions of the Legislature which seem to be right and proper in the large sense but which adversely affect the small counties. When the consolidation of...of...of tax rates was passed by the Legislature, one of the trade-offs was that there would be a quarter-cent sales tax permitted in the local counties. In Bond County which has no shopping centers, which has no major...discount stores, which has lost its three implement dealers, which has lost a number of stores and a number of sources of revenue from sales tax, the quarter-cent sales tax just barely replaces the loss in revenue sharing. And you'll notice also in the exhibits we've given you that there is a...a page

which talks about the county...the budget as far as the county highways is concerned, and across about ten lines down there is a...a line which talks about the total amount of money available to our highway superintendent; in 1985, it was four hundred and sixty thousand dollars; in 1988, it will be two hundred and forty-one thousand dollars. This is because of loss of MFT, this is because we've had to withdraw half of the sales tax which we were giving to the county...highway program, this is because we used to pay the county highway superintendent out of the General Fund but are no longer able to do it. And so we come before you as a Legislature and simply say that in the smaller counties we have circumstances in terms of limitations, of...of the ability to raise revenue. We are working with mandates from the Legislature which simply mean that we are now in a crisis situation. And I guess what I'm here today for is just to let you know this, just to help sensitize you to a very real problem. We don't have the...the...the political clout. We have sixteen thousand population in Bond County, nine thousand voters, over half of those voters are over sixty years of age. We have some unique circumstances that are very, very difficult to deal with in our county. And we don't have the...the political clout, but I guess the greatest asset we have is the...the asset I talked to Senator Zito about. He asked, why aren't more counties coming up and talking to us in the Legislature? And my answer is, they're discouraged, they feel that there's no hope, that they've been told things and things don't work out for them. And...I said, well, I've heard that in the northern part of the state decisions are made which adversely affect us, but you people love your families, you love God, you go to church, you're...you're decent human beings. He said, that's right, it's a matter of communication. So I'm just here to say to you today that our greatest asset in the small counties when we talk about the

mandates...we're...we're in favor of...of having a Constitutional Amendment mandating that the Mandates Act be observed. We have written a letter from the Bond County Board supporting the...the modest increase in...in income tax and asking that the pressure be taken off of the property tax. We have supported the increased fees on...on gas and on vehicles, we have not supported the other proposal. We think that that's too much. But we're here because we think that if people want services they have to pay for them. And the greatest asset we have is your good sense, your good will, your sense of fair play and your willingness to pay attention to some of the needs of some of the smaller counties, and I'm here to speak for them and I thank you very much for the opportunity.

SENATOR NETSCH:

Thank you. Mr. Thompson, I wonder if I might just ask you one question for clarification. As I understand it, you have signed in as a proponent of the Governor's tax package generally, and your reason is that some of those increases, for example, in the income tax would...automatically increase the amount of money coming to the counties. Is that a fair...explanation?

MR. FRANK THOMPSON:

Yes, the Governor's budget gives us an increase in the income tax and we are asking for a maximum proportion of allotment. We understand there's one bill here that would give us back an eighth and we're asking for that. And the Governor...the highway program has targeted Bond County as one of the counties that would receive some extra help to compensate for some of the loss in revenues, and we simply say that we have come here,...some of the people of my county don't feel very good about tax increases but most of the times when they've talked to me...my mailman talked to me today, postman and some other people have talked to me, there's a kind of a wistful feeling, we'd like to be able to

avoid sales tax and other kinds of increases...or income tax and gas tax but there's a sense of inevitability, they...they know that this has got to happen. So, I'm here as a proponent. We stand to gain from some of the actions but we also ask that when revenue bills are passed or when...people come asking for increased salaries, when you mandate costs to us, we simply ask that you find out what the effect will be. If you ask us to come up and testify, I tell you, we will be here. We were asked Friday to come up, I'm here today, dismissed one of my classes this afternoon, assigned a student in charge of it, and I'm just here today to tell you that...that we will give you information and we will let you know the influence that some of the actions that you have...have on us...some of the Acts that you've passed. But we are here as proponents of at least two-thirds of the Governor's proposal. We have written a letter to him to that effect, we've written to some of our Representatives, and I'm here to...to make that very clear.

SENATOR NETSCH:

Thank you, very much. We appreciate your being here, Mr. Thompson. Any questions of the witness? Besides my own? Right. Thank you. The final witness, William Stowe, tax manager of the Illinois State Chamber of Commerce, an opponent.

MR. WILLIAM STOWE:

Thank you, Madam Chairman, Ladies and Gentlemen of the Senate. Should I persuade you of anything, it won't be a function of the time we spend together. I've heard enough, quite frankly. But there are several points that have not been made that I think are quite important for you to have in mind as you consider a very large tax increase. The Governor described his program very well, as he always does. There are some things that he left out. And I want to address those for our...hopefully our mutual...mutual benefit. There

are some side issues that are involved in any large tax increase that seem to fall by the wayside, and the first one of those is the hundred and twenty million dollars of corporate income tax increase that we are sure to have...if we have a...an individual income tax increase, I don't think anyone believes that there will not be a corporate income tax increase as well. At the three percent individual rate the corporate income tax will produce an additional hundred and twenty-million dollars. That will, of course, be passed on to...consumers or...if it's...if we are unable to do that, if a corporation is unable to pass it on, they will be forced to provide perhaps fewer job opportunities than they did in the past or the third alternative would be that return on investment would be...would be reduced. Another side issue is the fact that the Governor's program, the Build Illinois Program which distributes a very substantial sum to local governments requires in many cases some matching funds, and that matching amount is about a hundred and twenty million dollars. So there is built in to the Governor's program a hundred and twenty million dollars of...property tax increases as well. And then there is the proposal that has been made by his Revenue Review Committee, they call it sales tax reform, I prefer to think of it as a sales tax increase. It will, in fact, add another hundred and thirty million dollars to the sales tax by making a variety of changes, again not a part of the Governor's program but a side issue that is in front of this General Assembly now in...in bill form. There was some attention paid in the Governor's remarks to the so-called windfall, the increase in tax...in income taxes that comes about because the...the base has been broadened by the Federal Government, and the linkage that we have with the Federal Government then provides an income tax increase without a rate increase, not a windfall, it's...it's a increased income tax amount that will be with us every year, but oddly

no mention has been made of the increased corporate amount that will be paid as a result of this linkage to the Federal system. The Economic and Fiscal Commission has quantified the individual amount at about a hundred million dollars. The Council of State Chambers has quantified the corporate amount and that will be another hundred million dollars in 1988 which will grow slightly...on out to 1990 to the tune of about a hundred and thirty million dollars. That's a study done by the Council of State Chambers of Commerce with...with the cooperation of the Exxon Corporation. Well, one thing that the Governor spent quite a lot of time on was Federal policy and its effect on the economy. One thing he left out, and I wonder if you do realize this, that corporations in Illinois in 1987, starting now, are going to be paying an additional one billion, one billion dollars a year each and every year, at least a billion dollars, in additional Federal income taxes as a result of of Federal tax reform. Now these several things that I've reeled off here as side issues aggregate about 1.5 billion dollars. So in addition to a 1.6 billion dollar tax program that the Governor has...has proposed, there are also about 1.5 billion dollars of side issues that you have to be knowledgeable about, have to be aware of what is happening with those things as well when you think about increasing taxes. Do tax changes make any difference? Is...is this an important matter? The Governor says it's not, he reiterated that again today that the relationship between the tax burden and the economy is...is bunk. What he said in March with...at his Budget Message was this, he said, "The time has come to lay to rest the great myth which is currently being put forward by opponents of tax increases," and that's the Illinois State Chamber of Commerce and others as well, but I'm the only one that has an opportunity to speak today, "by opponents of tax increases that it will stifle jobs and income," and that's the end of the

quotation. The reference to the State Chamber was not a part of the quote. Well, Illinois is a low growth state, that's been established. Our economic growth is one of the lowest in the United States. There is a relationship between taxes and growth which has been established by nineteen studies in the last eleven years which say in a variety of ways that there is a relationship between the rate of growth and the level of taxation and that as taxes go up growth tends to go down. So here in Illinois where we do have low growth, any change in the tax structure is bound to have a high degree of importance. Our own research on this subject in 1985 told us that we had a very stable tax structure and that we should not...that it was about at an average level overall, and that we shouldn't impose any selective and discriminatory taxes and get it out of whack. At about the time that report was issued we passed the interstate telephone calls...tax, the Telecommunications Excise Tax that had an interstate aspect to it. A couple of months later that tax got to the courts, it's been there ever since, it hasn't produced a nickel for the general fund yet, and it...and it may never. I mention that only because the Governor has in his package another untested and untried tax which is the idea that we ought to tax a hundred and fifty services, the laundry list of services that was referred to. And another question is raised by the tax on services because there's another portion to that opportunity and that is that he says that we should reduce the sales tax rate in 1989. Well, it has kind of a seductive appeal, doesn't it? He says if you will give me seven hundred million dollars of new taxes on services, I'll give you a...a reduced sales tax rate in a couple of years. Two reasons why we shouldn't do that, there are probably more than two but I'll only...suggest two to you. Two reasons to say no to the taxation of services; one is an economic reason and let's just take the taxation of advertising as an

illustration. If, for example, the advertising dollar suddenly becomes ninety-four cents because we have...spend ninety-four cents for advertising and six cents for sales tax, there will be a reduced amount of money spent for advertising...advertising budgets. The Warton School of Finance at the University of Pennsylvania has established in their economic model of the United States a direct relationship between the ad dollar and consumer spending, consumer spending being one of the most important components that drives economic progress. And if consumer spending goes down, we'll have a recession. I don't...I don't need to remind you of...1983 and what we had to do at that time in order to recover from the...recession. We had less sales taxes collected, we had less income taxes collected and the...the solution at that time, of course, was a temporary...temporary tax increase. It won't work this time because we're not in a recession, we're in a normal growth period, and reduced consumer spending which will be the result of reduced advertising dollars will mean lower profits and lower taxes as well. Second aspect of that question is whether or not we should reduce the sales tax rate in 1989, and I'm disappointed that the Economic and Fiscal Commission didn't have an opportunity to testify today because they have produced some projections which show that in 1989, under the Governor's program, the rate of growth in revenues between '89 and '90 will be 1.9 percent, far less than the presumed economic growth of four or five percent, and the reason is because, of course, the sales tax rate reduction which has been promised at that time. So I can tell you that the promised sales tax rate reduction is not going to occur unless you're willing to enact in 1989, just two years from now, another...another tax increase which seems to me to reaffirm the wisdom of spending what only the present system will...will support. Well, just a couple of comments on...on other taxes; the Corporate

Income Tax, I've...I have mentioned. If the Governor's program reaches fruition the Corporate Income Tax is very likely to go from...6.5 to 7.3. It's not the highest rate in the country but it's getting up there, it's pretty...it's quite a substantial jump from the middle range where we find ourselves right at this time. The gas tax, if it goes all the way, will go to twenty-two and a half cents, the highest gas tax in the country; though I hasten to add, if you combine the gas tax with the license fees, I know that it is not the highest in the country, but you have a hard time impressing a gas station operator on the border between Illinois and Missouri...of that being a significant point if he's going to go out of business simply because people will drive a few miles to save a nickel or a dime a gallon on a gallon of gas. And the other point regarding the gas tax is that we're one of only ten states that applies the sales tax to motor fuel purchases. In conclusion, I...I would hope that the Committee of the Whole would agree that before you enact any tax increase, you'll confront squarely the proposition that the budget ought to be cut. Don't forget, it's not your budget until you approve the expenditures; and before you approve those expenditures, it seems to me that you might want to question whether or not the Governor has six years of priorities crammed in to a three-year program. And you might want to question department heads by saying to them, if we're going to give you in July, Fiscal '88, the same amount of money that we gave you in June, Fiscal '87, where will you have to cut? And the response to that question may reveal to us that there are many places that the budget can be cut. I...I suggest to you that that's important because I believe we're on the threshold of reversing our low growth-no growth problem in Illinois if we can control spending, increase our productivity for both government and business and create a more responsive process for tax administration and maintain

our stable tax structure. I thank you sincerely for your interest and attention.

SENATOR NETSCH:

Thank you, Mr. Stowe. You have inspired...several flashing lights and with...if Senator Rock is listening, with his permission we will try to allow time for just a few of the questions. The first one, Senator Fawell.

SENATOR FAWELL:

Thank you, very much, Madam Chairman. As you know, my constituency, of course, is...is always...has always looked upon the Chamber as...as a guiding light...and that basically has been the way I think you will check...is the way I have voted. However, I...I have a couple of questions that I wanted to ask you. You mentioned that...that when we have an increase in taxes quite frequently it will slow down the growth of...of rate as far as corporations are concerned. Now, is the reverse true? We have, since I have been in this Assembly, taken off a number of those taxes, such as sales tax on machinery, inheritance tax, sales tax, et cetera. Have we conversely noticed a...a jump in...in corporate sales or corporate profits?

MR. WILLIAM STOWE:

Well, I think we have stayed even, we haven't lost any ground. We have maintained our competitive position with other states. We were...we were years behind when it came to, for example, the machinery and equipment exemption for manufacturing, that...we were a long time coming to that and we can look any great lakes state and, in fact, any industrial state right in the eye now and compete to...with them head to head as far as that exemption is concerned.

SENATOR FAWELL:

All right. Thank you. Second question. And...and the 1987 tax laws...I used to be on a board of directors but I no longer am so I will have to confess my ignorance. Can the

corporations now take that deduction off in their Federal Income Tax. So, in other words, if we raised...if we raised the corporate tax, would that be a...a debit as far as the...credit rather, as far as the Federal Income Tax is concerned? Can...will...is that still available?

MR. WILLIAM STOWE:

Your question is whether or not state income taxes...

SENATOR FAWELL:

State Income Tax can be...

MR. WILLIAM STOWE:

...are deductible on the Federal Income Tax return.

SENATOR FAWELL:

...on the Federal Income Tax.

MR. WILLIAM STOWE:

I think...is that it?

SENATOR FAWELL:

I don't know the new tax laws and I thought possibly you might.

MR. WILLIAM STOWE:

Yes. Yes. They are a deductible...they are deductible.

SENATOR FAWELL:

It will...it will still...it will still be deductible. Okay. And...and...and the last question. Could we...would...how would business feel if we could make some kind of a tradeoff with the Workmen's Comp. and the Unemployment Insurance, which is what I hear in my district, which is basically composed of...of entrepreneurs or...or small businessmen? They may...mostly complain about the Unemployment Insurance and the Workmen's Comp. costs rather than the tax. I, frankly, have heard very little about, obviously I hear about the raising of the tax but in the past I've...I've really not heard from them about the present structure of tax as far as State Income Tax is concerned, but I am constantly hearing about the cost of the Workmen's Comp. and the Unem-

ployment Insurance. If we could some way or another make some kind of a tradeoff, would that help with this whole package?

MR. WILLIAM STOWE:

I expect that it might.

SENATOR NETSCH:

Senator Schuneman.

SENATOR SCHUNEMAN:

Thank...thank you, Madam Chairman. Mr. Stowe, you made a couple of remarks that prompted some questions for me. First of all, you referred to the corporate tax windfall that might be coming to the State of Illinois as a result of the new Federal tax law, and I think you indicated that the...the personal tax windfall would be something in the range of a hundred million dollars, and there seems to be general agreement about that, but you mentioned another hundred million dollars, I believe, as the corporate tax windfall. Now, I believe there's some disagreement among the parties, is there not, as to just what that figure really is?

MR. WILLIAM STOWE:

Well, I don't know that there's any disagreement. I, quite frankly, have never...found anyone who had done any research in that area until the...the Council of State Chambers had just completed...I got their revised report just this...this last week. And so it's...it's been passed over, as a matter of fact; the Economic and Fiscal Commission, I...I believe it's fair to say, did not do any analysis of the corporate increase. The Council of State Chambers did and they are saying...and I think that probably I should submit that report for the examination of the Senate, they are saying that there is, in fact, an additional hundred million dollars of corporate revenues to be generated, approximately the same amount, in fact a little more according to their numbers.

SENATOR SCHUNEMAN:

I'm...I'm told that the...that Economic and Fiscal apparently has done some work on it and possibly you should get your report to them and...and see if you can come to some kind of an agreed number, because apparently there's a difference of opinion there. One other question had to do...you mentioned the increased burden on Illinois business from the Federal tax law and I think you said something in the range of a billion dollars additional taxes. What...can you describe which taxes are being paid now to the Federal Government by corporations whose tax rates were reduced that would result in a billion dollar additional burden on the Federal Income Tax?

MR. WILLIAM STOWE:

Yes, I can. You are quite right, the rate was reduced and the main beneficiaries of that rate reduction are those businesses in...for example, retailers, service businesses, businesses of that nature. The...the people that are paying a penalty are those businesses which are so prevalent in Illinois, the capital intensive kind of businesses, manufacturers who lost the investment credit, for example, is about forty percent of the Federal tax reduction is...or the Federal tax increase, I should say...the Federal tax increase is about forty percent investment credit, very substantial loss in Illinois but it's the capital intensive industries that were the big losers.

SENATOR NETSCH:

The...thank you. The final question from Senator Hudson.

END OF REEL

REEL #3

SENATOR HUDSON:

Thank you, very much, Madam Chairman, I'll try to make this short. Mr. Stowe, would you summarize for me as clearly as you can the position that the State Chamber is taking or has taken relevant to these taxes. Is it one of compromise? I think I know where you stand as to the service tax. It seems to me that you have come out flatly in opposition to that. Relevant to the other taxes, is your position one of compromise, is it one of...well,...reduce them a little or not at all or what is your position across the board, let's say?

MR. WILLIAM STOWE:

Across the board, the State Chamber's position set by the board of directors of the State Chamber is in opposition to any tax increase.

SENATOR HUDSON:

Thank you.

SENATOR NETSCH:

Senator Rigney. The final question.

SENATOR RIGNEY:

The Governor says the...the problem with those who oppose his tax increase is...you've never told me where you're going to take that eight hundred million out of the budget. Are you going to be prepared in the near future to show us where you're going to piece by piece take out that eight hundred million dollars?

MR. WILLIAM STOWE:

No, sir, Senator, I don't believe that we can do that. I think that that's the constitutional responsibility of this Body and there isn't any way that an organization like ours, viewing it from afar, can stand back and say, chop here and

chop there. I think that there are ways that you can go at that that will produce...produce the result that...that is needed, and I did...I did mention those. I think that you have to suggest to the department heads that what's going to happen if you get in July only what you got in June, that's...that's level funding. And when you get an answer to that question, you'll know whether or not that department can live within last year's budget plus normal growth. There is...

SENATOR RIGNEY:

Well, we understand...

MR. WILLIAM STOWE:

...there is...there is four or five percent normal growth taking place.

SENATOR RIGNEY:

We understand it's our constitutional responsibility to do this, but I thought maybe you wanted a little input into it.

MR. WILLIAM STOWE:

We...we'd be pleased to try to prepare some suggestions for you.

SENATOR NETSCH:

Thank...thank you, very much, Mr. Stowe. And I think it would be helpful if you would make available that one study to us so that we could take a look at it. All right, Senator...thank you. That...that is the last witness for which we have time. Senator del Valle moves that the Committee of the Whole do arise, seconded by Senator Smith. All those in favor say Aye. Opposed No. The Committee of the Whole now arises.

PRESIDENT:

Senator Netsch has moved that the Committee of the Whole arise. All in favor of that motion indicate by saying Aye. All opposed. The Ayes have it. The motion carries and it is

so ordered. Further business, further announcements? Senator Jones.

SENATOR JONES:

Yes, thank you, Mr. President. To all those who are in...in ear shot, the Insurance, License and Pension Committee will meet in Room 400 at exactly six-ten. We will only hear the pension bills this...this evening, so I suggest that the membership be there and all those persons who have bills to...want to appear before committee be there at six-ten, Room 400.

PRESIDENT:

All right.

SENATOR JONES:

Pension bills only.

PRESIDENT:

Insurance, Pensions and Licensed Activities for the pension bills in Room 400 at six-ten. Senator Carroll has indicated that the Committee on Appropriations I will meet in Room 212 very shortly, quickly, immediately. No further business to come before the Senate, Senator Smith...Senator Hall will move that the Senate stand adjourned until Tuesday, May 5, tomorrow, at the hour of one o'clock...one o'clock tomorrow afternoon.

05/12/87
12:52

STATE OF ILLINOIS
85TH GENERAL ASSEMBLY
SENATE
DAILY TRANSCRIPTION OF DEBATE INDEX

PAGE 1

MAY 04, 1987

NO BILLS FOUND FOR GIVEN DATE

SUBJECT MATTER

SENATE TO ORDER - PRESIDENT ROCK	PAGE	1
PRAYER - REVEREND HUGH CASSIDY	PAGE	1
JOURNALS - APPROVED	PAGE	1
JOURNALS - POSTPONED	PAGE	1
COMMITTEE REPORTS	PAGE	1
COMMITTEE OF THE WHOLE - SEN. NETSCH PRESIDING	PAGE	4
SPEAKER - GOVERNOR THOMPSON	PAGE	6
SPEAKER - MR. FRANK THOMPSON	PAGE	53
SPEAKER - MR. WILLIAM STOWE	PAGE	58
PRESIDENT PRESIDING	PAGE	69
ADJOURNMENT	PAGE	70