

Illinois: Finally, a new budget



David M. Kall | Thursday, July 13, 2017

Last year at this time, we [described](#) the bridge-spending plan that Gov. Bruce Rauner signed to keep the state's lights on, a result that the *Chicago Tribune* disparaged as enabling "politicians [to] avoid the debacle of going back home to campaign despite a feckless inability to get ... anything ... done." The year-long gridlock was not over, but the bipartisan effort did enable certain operations to proceed, like schools, transportation and infrastructure, and social services. At the time, Illinois was the only state to not have a full budget in place on July 1, which is the beginning of the new fiscal year for most states.

This time around, things were not any better for the Prairie State, though it was in good company when July started. Connecticut, Maine, Massachusetts, Michigan, New Jersey, Oregon, Pennsylvania, Rhode Island and Wisconsin also did not have new budgets as of that date, [reported](#) the Tax Foundation.

In a piece titled "[How Illinois became America's most messed up state](#)," CNN Money got right to the point:

Illinois is on the verge of becoming America's first state with a junk credit rating. The financial mess is the inevitable result of spending more on pensions and services than the state could afford -- then covering it up with reckless budget tricks. After decades of historic mismanagement, Illinois is now grappling with \$15 billion of unpaid bills and an unthinkable quarter-trillion dollars owed to public employees when they retire.

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Quoting the president of the Civic Federation, CNN Money asserted that "Illinois got to this financially treacherous place by ignoring the long-term consequences of short-term decision-making." Lottery winners may soon be unable to collect their jackpots, and Gov. Rauner himself **concedes** that the Prairie State has the highest property taxes in the nation. But the biggest problem is what Moody's estimates to be \$251 billion in unfunded pension liabilities. As far back as 1995, Illinois' pension fund was one of the worst funded systems in the country, but now, Moody's and S&P Global Ratings are on the verge of downgrading the state's debt to junk status. This could be catastrophic, as borrowing costs would further rise, exacerbating the situation.

By the end of the July 4 holiday week, lawmakers had passed a legitimate budget, but there remained little hope that it would turn things around for the state. "I don't know that Illinois is going to get its act together in days after literally decades of being irresponsible," an executive at the Illinois Policy Institute told CNN Money.

This year's solution

At issue, budget-wise, were certain provisions in the General Assembly's legislation that, like CNN Money, **Illinois Policy** criticized as containing the "largest permanent tax hike in state history, without structural spending reforms. The budget is set forth in three bills, **SB 6**, **SB 9** and **SB 42**, thereby establishing the \$5 billion tax increase by way of a permanent increase in the personal tax rate, from 3.75 percent to 4.95 percent, and a jump in the corporate tax rate from 5.25 percent to 7 percent. The group underscored this in a **post** containing a calculator to help Illinois residents determine how much the tax increase will cost them.

Initially, Gov. Rauner vetoed the budget, but the Senate and House overrode that veto, thus passing into law the "largest permanent income tax hike in state history," **lamented** the policy group. It also noted that despite the tax increases, which are retroactive to July 1, 2017, Illinois is still likely to become the first junk-rated state.

This is not the first time that lawmakers have imposed tax hikes without the needed reforms, reminded Illinois Policy. In 2011, despite measures that created \$32 billion in new tax revenue, pension debt rose by \$5 billion, and the backlog of unpaid bills sustained but a dent, from \$7.9 billion to \$6.6 billion.

Likewise, bemoaned the **Tax Foundation**, "[t]his time, the tax increases are permanent, but there's not even a pretense that they'll address the state's mountain of bills. Or address the pension crisis. Or do anything else to help get the state's fiscal house in order."

Nor does the budget solution:

- Pay down any of the state's \$14.7 billion in unpaid bills.
- Overhaul the state's costly worker compensation system.
- Identify savings in a government that imposes the fifth highest tax burden in the nation.
- Provide ratings agencies with the confidence they need to avoid downgrading Illinois bonds to "junk" status now or in the near future.

Opined the group: "[s]tructural reform is difficult and often painful. That's why, if there must be tax increases, they should have been paired with reform. Adopting tax increases first, with vague notions of implementing reforms later, makes real structural improvements increasingly unlikely."



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