Major Impacts in 2013 on the State of Illinois’ fiscal condition.

The Income Tax increase of 2011.

The “temporary” income tax increase continues to bring in needed revenue to the state. The state continues to operate at a deficit, but the deficit is $8.3 billion in 2013 instead of $25.8 billion without the tax increase. The projections for FY 2014 are for a deficit of $8.9 billion instead of $34 billion without the tax increase. The revenue from the tax increase shrinks the deficit amounts that must be carried forward into future years. (Figures are from the Center for Tax and Budget Accountability.)

The tax increase is scheduled to be scaled back in January 2015. The question of whether it should continue will be debated in the 2014 sessions of the Illinois General Assembly and in the campaigns for governor and the General Assembly in the Primary and General Elections of 2014. Should the tax increase be allowed to sunset? Continue? Be replaced by a graduated rate income tax? Voters in Illinois will need to be informed about the issues before they cast their ballots. (See the GRIT report for more information.)

Illinois’ $100 billion unfunded pension liability

More than twenty years of failing to adequately fund the five state pension systems has caused problems so big that they can no longer be ignored. Approximately 18% of the General Fund budget is going to pay for pension contributions and debt service repayment owed to the pensions to cover past borrowings. This is tax revenue that will not be spent on government services and it means less money is available for education, health, social services and public safety. On December 5th Governor Quinn signed into law Public Act 98-0599, the so-called “pension reform” legislation. Key features of this legislation include: raising the retirement age by five years depending on the worker’s age; reducing cost-of-living adjustments; capping pensionable income; allowing some workers to opt out of the pension system to enter a defined contribution system; and reducing employee contributions by one percentage point.

Several lawsuits challenging the constitutionality of the legislation have been filed. The plaintiffs will seek a stay to keep the legislation from taking effect in June 2014 and they will seek a ruling by the Illinois Supreme Court that the legislation is unconstitutional. The center of the challenge is Article XII, Section 5 of the Illinois Constitution which states: “Pension and Retirement Rights. Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.”