On January 1, 2015, the Illinois personal income tax rate dropped to 3.75% from 5% and the corporate income tax rate dropped from 7% to 5.25%. The resulting decrease in the state’s revenues put Illinois on course to almost double the accumulated debt in the General Fund to $6.8 billion in FY2015 and to $12.7 billion by the end of FY2016 if spending remains the same. (See the Center for Tax and Budget Accountability’s “Issue Brief: The Pending FY2016 Fiscal Cliff”).

Governor Rauner, in his budget address on February 18, 2015, did not propose any new revenues but did propose some cuts in spending. He said that pension reform must be a top priority since $1 of every $4 that the state spends from its general fund will go to pay for pension funding. He proposed that all future work by state workers (except for police and fire personnel) and teachers outside of Chicago be moved to the Tier 2 plan, an earlier “pension reform” which is now being challenged before the Illinois Supreme Court. The General Assembly did not include existing workers in Tier 2 because they thought that it would be unconstitutional. So the $2.2 billion in savings that Governor Rauner is counting on to come from his proposed reform will take time to realize, assuming that it passes the General Assembly and is found to be constitutional.

The governor also proposed $1.5 billion in cuts from Medicaid spending including rate reductions for both hospitals and nursing homes. State spending on Medicaid is matched by the federal government so for every dollar cut by the state, the state program also will lose 90 cents in federal aid. The governor said that Illinois would go back to the spending levels set by earlier legislation. Rep. Sara Feigenholtz said in a radio interview that some of the cuts in the earlier legislation had been reinstated by the courts and other cuts had resulted in higher costs to the state.

The governor also proposed cuts of $387 million for higher education, $600 million for cities and towns, and 5% of the state’s payments for public transit. The savings will be used elsewhere, some for early childhood education and K-12 education. The governor also wants lawsuit reform, workers’ compensation reform, tax reform, a property tax freeze and term limits.

The General Assembly has until May 31 to pass legislation with majority votes. After May 31, legislation must pass with a three-fifths vote in order for it to have an effective date before June 1st of the following year. The budget bill must pass before the next fiscal year begins on July 1, 2015. All of the contracts with state workers are set to expire on June 30, 2015 and must be re-negotiated. And money must be found to pay for day care workers and prison guards because the funds budgeted for them is insufficient to last until the end of FY2105. There is much to be done before Illinois has a budget for FY2016.