

Legislators pass devastating austerity budget in Illinois

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10 July 2017

On Thursday, July 6, the Illinois House of Representatives voted to override Republican Governor Bruce Rauner's veto of its budget bill. The passage of the state budget ends a record two-year period in which Illinois operated with no formal budget or appropriations legislation.

During this time, much of state government had been operating on the basis of a series of stop-gap measures and consent decrees which kept state spending at the level of the last budget, for fiscal year (FY) 2015. State spending on social services and higher education, however, have been sharply reduced. Many social service providers have ceased operation while universities and community colleges have slashed budgets and laid off workers.

As the Illinois Senate had already voted to override the governor's veto on July 4, the state legislature's budget will become law, enshrining massive across-the-board cuts of 5 percent to most state government agencies and 10 percent to higher education. This will lead to further layoffs of state workers and cuts in services to vulnerable populations, which have already been hit hard by previous state cuts as well as the lengthy impasse.

The Democratic Party majority in the House was joined by 15 Republicans who voted for the budget bill and 10 who voted for the final override. Many of the Republicans who voted for the budget and override represent districts with community colleges and universities, or large numbers of state workers. Others were worried by the threats issued by the credit rating agencies that Illinois would have its bond rating reduced to junk status.

The new FY 2018 budget sets spending at \$36.1 billion, around \$3 billion less than the state was previously spending, representing a cut of more than 7 percent. In fact, the budget bill cuts spending by \$1 billion more than Rauner's own budget proposal.

A \$500 million portion of the savings anticipated by the

budget comes out of worker pensions. Part of this will come through the creation of a new "hybrid" pension option for new hires which would incorporate both a standard pension as well as a 401(k)-style portion.

The biggest difference between this plan and existing state pensions is that "local" employers, such as school or community college districts and universities, would be required to pay most of the employer contribution, rather than the state itself. This downward shift in the burden of state pension costs will no doubt lead to reduced services and further job cuts.

The new budget also incorporates legislation previously vetoed by Rauner which makes changes to the Chicago municipal worker and laborer pension funds. Claiming to require the city to make required pension payments to shore up drastic shortfalls, the main effect will be to sharply increase employee contributions for new hires from 8.5 percent of income to 11.5 percent.

Perhaps the most widely reported aspect of the new budget is the increase in the state income tax, which will rise from 3.75 percent to 4.95 percent for individuals and from 5.25 percent to 7 percent for corporations. As the Illinois income tax is a flat tax, this increase will add further strain to workers' household budgets.

Despite the higher percentage number on the corporate income tax, the vast majority of increased revenue will come from the individual income tax. The latter is expected to bring in \$4.3 billion in additional tax revenue, while the corporate income tax increase will bring in only \$460 million. Legislators abandoned a plan which would have made the tax increase retroactive to January of this year, meaning that workers' paychecks would have seen even larger deductions.

Even after the passage of the budget and the addition of the new tax revenue, Illinois still has \$15 billion in unpaid bills to state agencies, higher education and social service providers. Much of this shortfall was built up by the

expiration in January 2015 of an income tax increase passed in 2011, which had raised the personal income tax rate to 5 percent and the corporate rate to 7 percent.

Then-incoming Governor Rauner had demanded that legislators allow the income tax increase to expire, to which the Democratic majority in the state legislature acquiesced. This set the stage for the budget impasse as Rauner demanded passage of a wish list of right-wing measures and attacks on workers in exchange for agreeing to not veto a reinstatement of the tax increase.

With no budget and no stop-gap measures in place, the state's financial situation has been rapidly deteriorating, with school districts around the state warning that without appropriations they might not be able to open in the fall. Several state universities were in similar positions, and the United Way predicted that by the end of the year, 36 percent of social service providers would be defunct.

The passage of the budget by the Democratic majority in the General Assembly will not be the end of the attacks on workers. Democratic leaders Michael Madigan and John Cullerton, not to mention Chicago Mayor Rahm Emanuel, and their allies are continuing to negotiate behind the scenes with Rauner to enact portions of his "Turnaround Agenda," as well as continue the attacks on pensions they were carrying out prior to his arrival.

In addition, the budget appropriation for K-12 education is contingent on passage of a bill that would change the formula for apportioning state money to school districts, in order to divert more school funding to Chicago Public Schools. By setting up school districts as hostages in the negotiation, the Democrats are essentially luring Rauner back to the table in the hope of setting up a more stable working relationship.



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