

Issue Brief

Illinois State Budget



What's the issue

- The state of Illinois was without a full-year budget from June 2015 to July 2017.
- In the absence of a budget, the state had to continue spending due to court orders and federal consent decrees that mandated spending on items such as Medicaid, state employee salaries and other items. This led the state to spend more than it was taking in in revenue. The net result is a \$15 billion backlog of past due bills.
- Shortly before Governor Rauner was sworn into office in 2015, the legislature let a temporary income tax increase that brought the rate up to 5% expire. The income tax rate then reverted to 3.75% and costing the state billions of dollars in revenue.
- Any organization that was not protected by a court order such as universities, social service providers and others dependent on state funding were at risk as they continued to provide services without any payment.
- The year's regular session ended on May 31, 2017 with only the Senate passing a budget, new revenues and reforms with only Democratic votes. With no action on the House side, Illinois started its third year without a budget.
- Credit ratings agencies threatened to lower Illinois's bond rating to junk status and state universities were cautioned that they could lose their accreditation without a budget.
- Governor Rauner called for a Special Session for the last 10 days of June before the new fiscal year started on July 1, however budget negotiations continued past that deadline.
- The House finally passed a package including a budget, borrowing authority and supporting revenue on July 2 with approval by the Senate following on July 4.
- Governor Rauner immediately vetoed the budget package because he wanted additional government reforms to be a part of the package.
- The Senate overrode the Governor's vetoes on July 4 and the House followed on July 6, ending the budget impasse and implementing a full-year budget.
- Key items in the budget package include:
 - Increases the individual income tax rate to 4.95% (from 3.75%) and corporate income tax rate to 7% (from 5.25%), effective July 1, 2017. (\$5 billion in new revenues).
 - Reduced General Fund spending from \$39 to \$36 billion, with 5% across-the-board cuts to most current operations lines.
 - No cuts to Medicaid and fully funds state employee group health insurance.
 - Provides the mechanisms to fund sweep and borrow to pay down \$8 billion in old bills.
 - Authorizes \$750 million in payments from the Drug Rebate Fund for payments to MCOs.
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Why does it matter?

- Illinois' budget stalemate was the longest any state has gone without passing a budget since the Great Depression.
- Without a budget and additional revenue, the Illinois Comptroller's office would have run out of money to pay for core priorities such as payments to public schools, for debt and pension payments, and for state employee salaries by August. This would have threatened the ability of public schools across the state to open on time in fall 2017.
- Health care providers and managed care organizations were owed more than \$3 billion and any Medicaid payments from the state were so late that a judge ruled that the state was not complying with a federal order.
- On Friday, June 30 a judge ordered the state to make \$586 million in monthly payments to Medicaid providers for current bills and pay down \$2 billion of the Medicaid backlog by the end of the fiscal year.
- Illinois already has the lowest credit rating of any U.S. state, and was on the verge of becoming America's first state with a junk credit rating. This would have dramatically increased borrowing costs for years to come and prevented many mutual funds from buying Illinois's securities.
- If Illinois universities had lost accreditation they would no longer be eligible to receive federal and state financial aid, and some universities would have been forced to close. Many students, especially those who rely on financial aid, would have had to transfer schools and possibly leave the state.

What is the Presence Health perspective?

- **Presence Health has been directly impacted from the budget stalemate.** Presence Health hospitals have been negatively impacted by delayed payments from the state and Medicaid managed care providers, as well as the complete lack of payment of state employee group health insurance claims. Both of these very important issues will be addressed over some time because of the new state budget.
- **Illinois was in an unsustainable fiscal condition.** Voting for the budget and supporting revenue was not only the morally correct thing to do for the vulnerable members of our communities, it was also the most fiscally correct thing to do for the future of our state. The budget package contains responsible cuts and adequate revenue to balance the current budget, as well as a plan to start paying off the enormous amount of debt the state has accrued over the last two years without a budget.
- **The state budget will help Illinois re-stabilize.** The state senators and representatives who voted in favor of this budget package voted to provide stability for the state and certainty for the health care providers, schools, universities businesses and community organizations that have suffered under the past two years without a budget..