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## Illinois Governor Signs 'Balanced but Imperfect' FY 2019 Budget.

CHICAGO, June 4 (Reuters) – Illinois Governor Bruce Rauner signed into law on Monday a $38.5 billion, fiscal 2019 budget that he called balanced but not perfect.

The spending plan for the fiscal year that begins July 1 breezed through the state legislature last week with strong bipartisan support in marked contrast to previous years. It was the first full-year budget approved by Rauner since he took office in 2015.

An impasse between the Republican governor and Democrats who control the legislature left Illinois without complete budgets for an unprecedented two straight fiscal years. The stalemate finally ended when lawmakers enacted a fiscal 2018 budget and hiked income tax rates over Rauner's vetoes last July.

Revenue from the tax increase is incorporated in the new budget. Rauner, who is running for reelection in November, has vowed to roll back the tax increase.

"This budget is a compromise. It's not perfect," Rauner told reporters. He complained that the spending plan does not go as far as he would like to cut unfunded pension liablities, and does little to address the state's unpaid bill backlog that stood at $7 billion on Monday.

The budget adds $350 million to a new K-12 school funding formula enacted last year, increases higher education spending by 2 percent, reduces cuts in state aid to local governments, and appropriates $1.3 billion to pay previously incurred expenses. About $270 million from the sale of the state's main office building in Chicago is once again counted on in the budget even though a transaction remains unrealized.

The spending plan relies on a voluntary, bond-financed buyout of certain pension benefits that could save the state about $423 million.

Illinois, which is struggling with a $129 billion unfunded liability, has been unable to reduce retirement benefits for workers in its five pension funds due to a constitutional prohibition enforced by state courts.

The on-time budget was welcome news for the U.S. municipal bond market, where Illinois general obligation bonds fetch higher yields than any state.

Illinois' credit spread over Municipal Market Data's benchmark triple-A yield scale for 10-year bonds dropped 24 basis points to 165 basis points late last week.

The enacted budget faces scrutiny by credit rating agencies, which rate Illinois a notch or two above the junk level.

"Our focus is on the state's ability to maintain budgetary balance over multiple years, and whether

this budget makes progress in the state’s long-term fiscal sustainability,” Fitch Ratings analyst Eric Kim said on Friday.

(Reporting By Karen Pierog; Editing by David Gregorio)

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