

## Illinois lawmakers glimpse hope for a budget agreement

By Gunjan Banerji

29 April, 2016

Illinois stakeholders and onlookers finally see some signs of movement regarding a budget agreement, said Representative Ron Sandack (R) and Senator Daniel Biss (D).

Recently, Illinois lawmakers passed emergency appropriations for higher education after months of straining the institutions. The emergency appropriation, alongside some other proposals, could be a harbinger for bipartisan agreement, the two legislators said.

Biss called the emergency appropriation for higher education a “small, but very important piece of good news,” which allowed universities to stay open.

“There’s a good amount of conversation to find some common ground,” agreed Sandack.

He added that there are “rumblings of good progress” regarding the budget, but that many uncertainties remain. For example, the exact nature of any budget agreement—whether it would be for an FY16 budget, an FY17 budget, or both combined--remains unclear. Sandack stated that it would likely be a two-year plan.

If there were some sort of “grand bargain” regarding tax rates, when those taxes would apply is up in the air. Market participants have indicated that an increased income tax rate would be a credit positive for the state, as reported. The state has enacted retroactive tax increases previously, but whether or not the increased rate would apply as of 1 January, 2016 or 1 January, 2017, or even 1 July, 2016 is unknown, Biss said.

An income tax and expansion of sales tax are being discussed, the representative noted. But Sandack pointed out that revenue options would be palatable if they came with structural reforms, and some progress has been made on that front.

The only state without a budget continues to operate on various appropriation bills, consent decrees, and court orders. In November, the comptroller decided to skip a pension payment due to cash flow issues.

### Other whispers of compromise

Governor Bruce Rauner (R) has made redistricting reform a priority in his so-called Turnaround Agenda. A Democratic state representative recently introduced a redistricting proposal.

“If it were to pass and then get moved into the Senate through committee, that would be a pretty significant achievement on the Rauner agenda and on the Republican agenda,” Biss said, adding that he would support the legislation. This would have to pass both houses by 7 May in order to get put on a ballot to pass a constitutional amendment, Biss said.

A follow-up appropriation bill that funds human services will be “an important indicator of the nature of cooperation and collaboration that exists behind the scenes,” the senator added.

The comptroller recently decided to delay lawmaker salaries. Against the backdrop of other legislative talks is the threat of the Illinois attorney general ceasing all employee pay, akin to a government shutdown. This may be “one of the few remaining, major pressure points” for the legislature, said Clark Hill’s John Schomberg.

“That would potentially force the issue with angry, unpaid, and freaked-out state employees and people unable to get common state services,” Schomberg said.

A 24 March decision by the Illinois State Supreme Court stated that collective bargaining agreements are subject to appropriation, but did not change the status of the consent decrees that are mandating much of state pay, Schomberg noted.

### **Long-term damages**

Illinois' fiscal condition has dramatically deteriorated, said the University of Illinois' David Merriman. “It’s catching up to the state every day.”

While there are signs of optimism, Illinois’ gridlock has had both tangible and intangible consequences. Financially, the state is spending more than it brings in and racked up a USD 6.4bn backlog of bills, according to the comptroller’s website.

Meanwhile, colleges and human services providers have had to lay people off, impacting income tax receipts, Biss said.

“The biggest impediment to economic growth and business development has now for some time been the extraordinary fiscal uncertainty and the impression that business leaders have that the state is lurking from crisis to crisis,” the senator said. “We have significantly worsened that impression.”

While they’ve received funding, municipalities throughout Illinois have still struggled to make ends meet. The most extreme example is **Chicago Board of Education**, which started FY16 hoping for USD 500m from Illinois. But even **Peoria County, Illinois** officials stated that they were anticipating cuts in local government sharing, as reported.

“The fundamental thing is that the revenue that is coming in is not really sufficient to support spending—either spending that’s going on or, more importantly, spending that essentially everyone in the state can agree should go on,” Merriman said.

Moody’s rates the state Baa1 while Standard & Poor’s rates it A-/negative. Fitch rates it BBB+/stable.

The governor's office did not respond to a request for comment.