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MEMORANDUM

To: Brian Lawlor
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From: Terry Steczo
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Re: Legislative Report

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Seeing A Light In The Tunnel

After eighteen months of extreme nothingness things may be finally starting to break loose on the budget fracas and there are signs that by the end of next week there may be a budget in place along with revenues enough to support it. Even though the new Illinois fiscal year has begun with no budget in place there are enough signs that point to a potentially positive result that some people are actually taking their first breaths in months.

So what happened that caused serious negotiation to actually begin? A number of things actually. The prospect of bond houses being on the verge of classifying Illinois bond as "junk" certainly helped. So did the prospect of no stopgap budget meaning schools not opening and some government shutdown actually occurring. Some pressure from constituents also was a contributor, as was the prospect of the federal court mandating payments to Medicaid providers totaling \$300 million per month (and the mandate came to pass and became effective Friday). But there were to other more major occurrences in addition to these that were the actual catalysts that revved up the negotiations. First, Comptroller Susana Mendoza's report last week that the money well will run dry in August certainly got people's attention. The state has avoided Armageddon for the last eighteen months but the day of reckoning was on its way and approaching fast.

Second, was the release early last week of the Republican "Capitol Compromise" that for the first time publically stated their positions on budget and revenue issues, plus some guarantee that they would provide the votes to pass them. Democrats have always been skeptical of Republican pronouncements to balance the budget without any acknowledgement that there would need to be revenue increases to make the books balance. Republicans are fully aware that you can't cut your way out of the budget hole but refuse to publically concede that point. Nor have they been

willing until now to even think about raising taxes let alone actually discussing to possibility. The "Capitol Compromise" included a budget that hit the same mark of \$37.3 billion in spending that the Governor requested in his February budget message. It was also the same level that the Senate Democrats hit when they passed their budget during the last week in May. Having the Republicans get out front of the budget and tax issue gave House and Senate Democrats the sense for the first time that there was bipartisan interest in resolving the impasse. Over the next few days that impasse could, in fact, be history. But, before anything final occurs there are a whole host of issues that must be resolved before the final gavel sounds.

- Budget - The House Democratic version of the budget contains a 5% across the board cut and spends at a level of \$36.5 billion, \$800 million less than the Senate, "Capitol Compromise" and Governor levels. The probability is that the House Democratic level will be the final level approved.
- Income Tax - The income tax is increased from 3.0% to 4.95%. The Senate version had the tax retroactive to January 1. The House Democratic version was not retroactive and the "Capitol Compromise" stipulated the Senate version without retroactivity and with a four year sunset. The House Democratic version also deletes any service tax expansion.
- Property Tax Freeze - The Governor wants at least a four year freeze with bond payments being the only exception. Democrats want an exemption for pension payments as well but the Governor objects to that. There has been some talk about phasing in the pension exemption. Democrats also have argued that a four year or longer freeze was excessive.
- School Funding Reform - Senate Bill 1 is the focus of the Democratic wish list. It was approved by the legislature in May. Republicans are of the opinion that it helps Chicago schools too much so they are looking for tweaks that diminish City assistance. Also in the mix are proposals to have the state pick up the cost for Chicago public school teacher pensions as it does for every other school district in Illinois.
- Pension Reform - There are a number of proposals that address the idea of "consideration", basically trading one benefit for another less expensive one, that would save the state billions of dollars over the next 30 years and help the pension systems achieve 90% to 100% funding and shoring up the unfunded liability. The last attempt at reforming the system was ruled unconstitutional but proponents of this method have alluded to sections of that opinion that would seemingly allow a "consideration" model. The bad part is that it will take up to two years, the amount of time it would take a lawsuit to be decided by the Illinois Supreme Court, to find out. So counting any savings from this area are speculative.
- Local Government Consolidation - The legislature approved Senate Bill 3, an omnibus local government consolidation bill but the Governor and GOP legislators wanted more. House Bill 171 was passed by the House this week and sits on 3rd Reading in the Senate. It provides a tidbit of what the Governor and GOP wanted and they weren't please with it. If there is a budget resolution with some agreements beyond Senate Bill 3, House Bill 171 will be the vehicle. It will be amended and passed with whatever additional language is agreed upon.

So now it's up to the negotiators to take all of these issues, plus probably a few more, and get to a place of comfort in the spirit of compromise. If things go as they might the Fourth of July may be cause for added celebration in the state of Illinois. Let's hope, anyway.

"Thelma and Louise" May Arrive In August

Since the Illinois budget fracas began thirty months ago there has been much conversation about the ability of the state to have maintained some degree of "solvency" without hitting the fiscal cliff. That, of course, has been due to some creativity from the Governor's Office of Management and Budget, resourcefulness from the Comptroller's Office, and backlogging over \$15 billion in bills. But, according to Comptroller Susanna Mendoza, the end is near.

Last week Mendoza issued a sobering report that unless there is a budget adopted by August the state checkbook will run dry and she'll not have the funds to meet state "core" expenditures. Since the start of the impasse, with the exception of the stopgap budget that was enacted last year, continuing appropriations have paid for pensions, debt service, etc., while court orders and other administration decisions (i.e. paying state employees) have allowed payments to be made to the applicable parties. These are considered "core" payments. Mendoza has projected that her office will fall approximately \$185 million short in August if there is no action taken to resolve the budget stalemate.

There is also a very real possibility that the "cliff" could arrive sooner. A federal lawsuit regarding the state's inability to pay Medicaid providers on time was on hold until Friday when the judge ruled that \$578 million per month would have to be paid to settle the outstanding bills. The federal government will reimburse 50% leaving the state with an additional \$290 million monthly outflow that is another budget buster. The judge had been giving the Governor and legislature time to resolve the crisis before issuing a final ruling. Adding a new pay mandate to the fiscal mix moves the projected "doomsday" date into July.

Many Illinoisans have expressed some surprise at the lack of "outrage" during the long budget impasse. Hurling over the fiscal cliff in July and no provision to provide funds for schools to open in August just might do it. The question is whether the Governor and the General Assembly can find some true common ground that would allow both sides to find an element of victory before the doomsday clock reaches midnight.

Millionaires Versus Billionaires

The 2014 election season brought something to Illinois in addition to the three years of travail, angst and fiscal uncertainty that we have seen. It also brought the era big major political campaign and post-campaign spending that, prior 2016, was unheard of here. What's happened since is also a first for Illinois and that's been the pretty much year round political or policy driven "dialogue" that evidences itself by way of television and radio ad spots as well as a social media presence.

In 2014, when Governor Rauner announced his candidacy for Governor he made the decision to self fund his campaign and was able to reach into his pocket and contributed over \$27 million to his cause. Another \$7 million was contributed by individuals of means and, all told, the Rauner campaign was able to spend over \$65 million that dwarfed the \$32 million that his opponent, incumbent Pat Quinn, had available to spend. For Rauner, with a net worth in excess of \$500

million and an annual income of over \$150 million spending \$27 million was almost like spending pocket change. And, since taking office in 2015 the Governor the Governor has taken the old political adage of "define your opponent before he defines you" to heart by contributing millions of dollars to the Illinois GOP and other organizations to get his message out. Two other wealthy donors, Ken Griffin and Richard Uihlien, were also heavy contributors. In fact, these three individuals contributed over \$109 million to candidates from 2013-2016. They have been able to maintain a steady stream of ads and other messaging not only supporting the Governor's actions, activities or proposals, but have also made sure that Illinoisans knew that the majority party in the legislature, particularly the Speaker of the House, were the villains who has brought the state to the brink of collapse. It's been a brilliant strategy for the Governor and his supporters. It caught Democrats flat-footed and they've been trying to unsuccessfully compete with the Governor's messaging strategy for over two years without a great degree of success. And even though Governor Rauner's approval rating is hovering in the mid 30% range, not good by any means, the Speaker's approval rating is much worse.

So, since January 2015 the Governor has had the capacity and the wherewithal to wage a pretty one-sided message war. But that situation has been changing. Enter J.B. Pritzker, an announced Democratic candidate for Governor who has a net worth of \$7 *billion* and is apparently not afraid to spend it. For the first time the Governor finds himself the target of an ad and social media campaign chiding him to "do your job" and placing the blame for the state's fiscal woes on him. Both sides have been spending so much on negative messaging that it's fairly common to see a television ad produced by the Pro-Rauner forces attacking Speaker Madigan, who Rauner has pegged as the main culprit and his main nemesis, followed right behind with a contrasting ad from Pritzker bashing Governor Rauner. And all this a full seventeen months before the November, 2018 elections. The deep pockets on both sides reach, rhetorically, almost to China so there may not be a letup even with a budget resolution.

Whether or not Pritzker will be the Democratic candidate for Governor won't be known until after the March, 2018 primary elections but many Democratic-affiliated organizations have endorsed him so it appears that he will have an edge going into election season. It's not known, but one can guess, whether the enthusiasm in Democratic quarters comes from Pritzker's capabilities or his pocketbook but he's wasting no time engaging the Governor in what looks to be another 18 months of electronically slugging it out with each other.

Legislative Transition

Rep. Emily McAsey (D-Romeoville) has resigned and has been replaced by Rep. John Connor (D-Romeoville).

Sen. Republican Leader Christine Radogno (R-Lemont) has resigned. Her leadership role will be assumed by Sen. Bill Brady (R-Bloomington). No replacement has yet been named.

Session Schedule/Deadline Dates

Here are relevant dates for the 2017 legislative session:

- July 1+ - Sessions will resume at the call of the Speaker and Senate President plus daily Special Sessions called by the Governor.