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MEMORANDUM

To: Goldie Belk
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From: Terry Steczo
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Re: Legislative Report

Date: September 30, 2017

Balanced or Not Balanced? That Is The Question

When the curtain finally came down on the budget impasse in July there has been some assumption that the Illinois fiscal crisis had been resolved and that the budget approved by the legislature was adequate and balanced. There certainly has been lots of discussion and dispute as to whether that is or is not true. And, if not, then the extent of the deficit. Since in addition to the ordinary and contingent expenses of the state there are \$16 billion in backlogged bills (according to the Comptroller's Office last week) and only \$6 billion in bonding approved to pay them, the term "balanced" is certainly in the eyes of the beholder. And since the budget was enacted there have been a number of sources that have pointed out the deficiencies.

In July, the Center for Tax and Budget Accountability said that upon their review the new budget was approximately \$2.5 billion short of being balanced. They based the projection on their assessment that the state needed \$7.5 billion to maintain spending levels and accommodated \$5 billion with the enacted revenue increases, leaving a \$2.5 billion shortfall.

Then, in early September the Chicago-based Civic Federation, a tax and fiscal watchdog, issued a report indicating that Illinois' new budget "met the textbook definition" of being balanced and cited a projected \$360 million operating surplus. But, there's more there than meets the eye. The projected operating surplus is based on a \$500 million savings during this fiscal year that won't be happening, as well as a calculation that the surplus can only support \$3 billion in borrowing to bring down payment backlogs, not the \$6 billion that was approved.

In mid-September the Better Government Association (BGA), in conjunction with Politifact, released its own analysis of the budget in an effort to support or debunk an assertion by the Governor that the budget is \$1 billion out of balance. They came to the conclusion that the claim was true.

And this past week the Illinois Policy Institute entered the arena and issued a statement about the budget balance, or lack thereof. They cited some points listed by both the Center For Tax and Budget Accountability and the Civic Federation reports and added their estimation that state expenditures will outpace revenues by about \$300 million given that base state revenues may be lower due to the tax hike itself, some accelerated payments to local governments may cost an additional \$220 million, and suggested, as have others, that state revenue projections on which the budget was based are too "optimistic" and will be lower than anticipated.

Where does some of the confusion come from? Well, one \$500 million example is the inclusion of a pension change that was initially requested by the Governor in his February budget address and included in the final budget document. Included in his budget proposal was a plan to create a 401(k) style opportunity for some individuals that would start on July 1 and save the previously mentioned \$500 million. The provision was adopted in the budget but now the pension systems estimate that it won't be able to implement the plan until at least July, 2019 ... which means any savings in the current fiscal year, or even the next, will be zilch. And, of course, all sides are disavowing their parts in the process to the extent they can. Democrats say that what's in the budget is the same plan the Governor outlined. The Governor's Office says that "significant changes" were made but hasn't yet said how. Everyone is pointing fingers but it appears that the essence of the criticism is true. The old adage, "figures lie and liars figure" certainly sounds like it would be appropriate here. But, regardless of who takes credit or blame, it does appear that this is at least one budget hole that's going to have to be addressed sometime before too long.

Even though there has been a dispute over balance, those responsible for crafting the budget and revenue package point out that, for the most part, the massive bleeding has stopped and the state has begun its slow climb back to fiscal health. In response to the criticism the legislative architects of the budget have insisted that by carefully planning bonds sales and by targeting bill repayments to help capture Medicaid reimbursement for the \$4.1 billion of Medicaid payments that are outstanding with the possibility of \$3 billion in federal payments in the mix. Rep. Greg Harris (D-Chicago) the chief House Democratic budgeteer, stated that the budget passed should be looked upon as a "source of fiscal relief" rather than an irresponsible effort.

There also have been comments from the Governor's office that there would be efforts to trim budgets further to help address whatever deficit there actually is. The General Assembly leadership from both sides have indicated that they are willing to meet and try to resolve whatever shortfall issue still remains. The hope is that whatever actions are agreed to are done in a bipartisan fashion causing minimal angst.

Two Lingerin Issues

With all of the talk of balanced budgets and the possible need to shore up revenues either by adding more or saving some there are the two major issues over the last few years that have been the source of constant conversation but of little concrete action. The first is pension reform and the second is the seemingly age old issue of gaming expansion.

It's no secret that state funding for pensions is a mess as had been for the last twenty years. The "Edgar Ramp" formula, the 40 year funding schedule to get state pension systems to 90% funding by 2043 has been a disaster at best. Not only did the schedule heap much higher payments into the middle of the schedule (for example, a billion additional dollars per year for the last several

years with more to come), but missing a payment and underfunding other years has seriously exacerbated the problem. Making changes to stem the unsustainable outflow is critical but yet there has been nothing but silence during the last few months from the Governor on down as to the status of any legislative action. It's true that the last legislative attempt to resolve the problem was held unconstitutional by the Illinois Supreme Court. But there have been many discussions since that court ruling. There was also a pension reform bill that was part of the original "grand bargain" set of bills that was never called in the House after having been approved by the Senate. But since then, nothing.

The legislation that was approved by the Senate as part of the "grand bargain" contained, by and large, the "consideration" model championed by Senate President John Cullerton. He and his attorneys feel that it will stand constitutional muster. The "consideration" model would allow the state to bargain in some manner to extract concessions from state employee pension benefits in exchange for other considerations, hence the terminology. While it's not certain that the Illinois Supreme Court would accept the idea they did seem to refer to it in a footnote during their decision on the previous attempt at reform. At this point, with the state pension systems having about \$130 billion in unfunded liabilities, any effort to try to both current and future dollars should be welcome. Remembering that it will take two years from the time a reform bill is approved to wind it's way through the courts to the point of a final decision, the hope is that some serious attempt at getting a reform bill to the Governor takes place sooner rather than later.

Gaming expansion legislation in Illinois is a lot like Dracula. It rises from the dead every so often, creates a lot of mayhem, has a stake driven through its heart and goes away only to resurface and relive the same cycle a few years down the road. This year it rose from the grave again as Senate Bill 7 and for a while it looked like there was a real chance that it could pass. But, alas, when the smoke cleared after the legislature adjourned the gaming bill was still in dry dock.

Even though there is a finite share of gaming dollars everyone conceivable wants a shot at some of them. There is also a stark realization that for the have-nots there may be only one bite of the apple left before gaming expansion rides off into the sunset in perpetuity. One major flaw in the original gaming legislation in the opinion of many was that Chicago was excluded. Even though at the time the Chicago exclusion was voluntary most were aware that at some point in time the position of the City would change. Now it has and it pretty much has been the catalyst for all discussion regarding expansion. But, there is also an acknowledgement that once Chicago gets what it wants the gaming ball game will be over. So it's now or never for anyone who wants part of the gaming booty. And do they ever want!

According to estimates, about \$1.5 billion from Illinois gamblers travels to neighboring states each year. The state and jurisdictions close to our bordering states would like to head those wayward Illinoisans off at the pass and have gaming opportunities for them within our own borders. Secondly, there is a huge agricultural industry built around horses and horse racing that is dying and would love an influx of funds that they feel gaming expansion can provide to uplift their plight. With this backdrop of issues, as well as the state's fiscal mess, Senate Bill 7 was conceived and included as part of the original "grand bargain". It passed the Senate very early in the legislative session, February 28, but still languishes in the House even as the focus on new revenues was becoming more intense and income and other taxes were being enacted. The question now is whether or not the issue of gaming expansion will rise again, either during the upcoming October/November veto session or early next year. Sponsors have indicated that

the impact of the bill will be \$500 million in new revenues. With the state still in a delicate position fiscally leaders may feel that this may be the time to let gaming expansion sail.

Among the provisions of Senate Bill 7 are:

- Authorization of 6 new casinos (Chicago, Danville, Rockford, Lake County, South Suburbs, and Williamson County). Remaining casinos may have up to 2,000 positions. Chicago will be allowed 4,000 positions.
- Authorizes slot machines at race tracks (1,200 at Arlington, Hawthorne, and Fairmount and up to 900 at Quad City Downs). Arlington has been pushing hard for table games in addition to slot machines and that may crimp plans to move the bill forward;
- Profits from Chicago casino are for Chicago police and fire pensions;
- Authorizes progressive jackpots for video gaming and increase the maximum bet (up to \$4, from \$2) and the maximum jackpot (up to \$1,199, from \$500) per hand for video gaming; and
- All up-front fees used to pay down old bills, and remaining revenue to the Education Assistance Fund.

Senate Bill 7 gives every gaming interest in the state something to offer those who have a predilection for games of chance and provides a boost to efforts to enhance education funding and pay down the mountain of the state's unpaid bills. There certainly are concerns about gaming being too accessible and the societal ills that come along with it. With the explosion of gaming opportunities both in other states and online state leaders may be looking at Illinois getting its share.

There has been nothing as yet to point to any real movement of either of these two issues in the veto session but it's easy to say that they'll continue to be part of any conversation about the state's fiscal health.

General Assembly Exodus Continues

The time is fast approaching where members of the General Assembly will have to make a final decision on whether or not to place their names back on the ballot for the 2018 election cycle. In a follow-up to last month's item a number of other legislators have decided to take a pass on 2018 and call it a career. Just last week five legislators made the call to call it quits. The cruelty and bitterness of the budget impasse has been cited as one of the most prevalent reasons for the decision having been made. In the case of GOP members who voted for the tax increase and/or veto override add the prospect of a very expensive, blistering primary election campaign as a reason to opt for retirement. The following list will be updated periodically as more decisions are made by various members. Petition filing does not take place until the end of November and petitions can be withdrawn for period of time after filing so it may not be until the beginning of the year that we have a complete list of legislators who are voluntarily leaving. The primary election is scheduled for Tuesday, March 20 and after that we'll have an almost final determination as to the impact that the tax vote(s) has on the makeup of the legislature. The is the

list so far by category. Even though some on the list are running for other statewide or local offices, they will not be returning to the legislature and that's what this list is meant to determine.

Senators Resigned (1): Sen. Christine Radogno (R-Lemont)

Senators Not Seeking Re-election (6): Sen. Pamela Althoff (R-McHenry), Sen. Daniel Biss (D-Skokie), Sen. Tim Bivins (R-Dixon), Sen. James Clayborne, Jr. (D-East St. Louis), Sen. William Haine (D-Alton), Sen. Kyle McCarter (R-Vandalia),

Representatives Resigned (2): Rep. Brandon Phelps (D-Harrisburg), Rep. Emily McAsey (D-Romeoville)

Representatives Not Seeking Re-election (17): (*notes Republican who supported tax increase): Rep. Steve Andersson (R-Geneva)*, Rep. Daniel Beiser (D-Alton), Rep. Patricia Bellock (R-Westmont), Rep. John Cavaletto (R-Salem)*, Rep. Scott Drury (D-Highwood), Rep. Mike Fortner (R-West Chicago)*, Rep. Chad Hayes (R-Danville)*, Rep. Sara Wojcicki Jiminez, (R-Springfield)*, Bill Mitchell (R-Decatur)*, Rep. Elaine Nekritz (D-Northbrook), Rep. Reginald Phillips (R-Charleston)*, Rep. Robert Pritchard (R-Sycamore)*, Rep. Carol Sente (D-Vernon Hills), Rep. Cynthia Soto (D-Chicago), Rep. Juliana Stratton (D-Chicago), Rep. Litesa Wallace (D-Rockford), Rep. Barbara Wheeler (R-Crystal Lake)

Representatives Running For Senate (2): Rep. Laura Fine (D-Glenview), Rep. Brian Stewart (R-Freeport)

House Republicans Supporting Tax Increase Running For Re-election (7): (*notes primary opposition): Rep. Terri Bryant (R-Mount Vernon), Rep. C.D. Davidsmeyer (R-Jacksonville), Rep. Norine Hammond (R-Macomb), Rep. David Harris (R-Arlington Heights), Rep. Charles Meier (R-Highland), Rep. David Reis (R-Olney) Rep. Michael Unes (R-Pekin)

Session Schedule/Deadline Dates

Here are relevant dates for the 2017 legislative session:

- Fall veto session - 1st week - October 24, 25, 26; 2nd week - November 7,8,9