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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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Wheels on? or Wheels Off?

Senate President John Cullerton and Senate Minority Leader Christine Radogno had a busy holiday season this past year. Their gift list included the development of a massive package that would end the two year budget stalemate and get Illinois back on solid fiscal ground. The so-called "Grand Bargain" 13 bill package was unveiled during the waning hours of the 99th General Assembly on January 9 and 10 and the initial expectation was that they could show enough bipartisan support for the package to pass the Senate and to show both the Governor and the House what the framework of an acceptable deal might look like.

Votes on January 9 or 10 did not happen due to both pushback from special interests and major and minor tweaking that was necessary to meet revenue and other expectation. But, as the 100th General Assembly was called to order on Wednesday, January 11 the entire package was reintroduced and subject matter hearings were held last week so that the bills could continue moving. Also, some major modifications and substitutions in the revenue proposals were offered during the hearings to get the revenue picture more in line and there was much speculation that the changes would cause the package's "wheels" to come off. But, according to both Cullerton and Radogno, the "wheels" are not only still on, but they expect that votes, very difficult votes for some members, will be taken when the Senate returns to Springfield the week of February 7.

According to Radogno, she has seven votes from her 22 member caucus. That doesn't seem like a lot but keep in mind that GOP legislators look at tax increases like Dracula and immediately grab for crosses and garlic whenever there is a mere mention. They'd much rather put a stake through the heart of any tax increase proposal than push a green button to support one. Also remember that for the twelve years when there was a Democrat in the Governor's Office the position of the GOP legislative membership was to oppose everything regarding budgets and revenues, period. Recall that when the temporary income tax increase was approved in 2011 it was done with all Democratic votes. But with changes in the Governor's Office also comes

responsibility to provide leadership. Even though the Governor hasn't weighed in on the "Grand Bargain" package he has encourage its consideration to move forward. Moreover, everyone, with maybe the exception of the Illinois Policy Institute, understands that to get the Illinois fiscal house in order it's going to take a combination of tax hikes and spending cuts. As such, Democrats have let it be known that if there's going to be a solution, especially one that gives the Governor some of what he wants, it's not only their votes that are going to be on the bills. Some GOP legislators are going to have to take some tough votes for the good of the order.

During his State of the State address Governor Rauner said little about the package except to say that he was encouraged by the developments in the Senate. The leadership of both parties in the House have been silent thus far, preferring to wait to see the outcome of any Senate votes. However, if the Senate is able to move the 13 bill Grand Bargain package over to the House next week it will mark a major breakthrough. At that point there should be some expectation that the Governor will clarify his position in addition to House leadership and members. The bills in the package are drafted so that if even one of the bills fails to become law then none do. This not only prevents "cherry picking" by members to support only those parts of the package that they are comfortable with but lets it be known that the entirety of the package is more important than any one part. "One for all and all for one" certainly could be the mantra as the package comes up for its scheduled vote next week. If it fails, and that certainly is a possibility, then it may be a long, long spring.

"Grand Bargain" Ins and Outs

The 13 bill "Grand Bargain" package put together by the Senate Democratic and Republican leaders covers the gamut of issues dealing with revenue, spending, bill backlog, pensions, business reforms, local taxes, etc. Some of the initial items have been replaced or modified since the initial release, but regardless of how much modification there is an expectation that various groups will strongly support or oppose certain portions. Business groups, for example, are not happy with the tax increases and do not feel that they have received enough in the way of reforms. Labor group, on the other hand, feel that the package gives away too much by way of workers compensation changes and pension reforms. There was so much pushback on a sugary drink or soda tax that it's been removed completely and replaced with a service tax and a business opportunity tax. Here's the rundown:

- Income tax - Increases the state income tax to 4.99% for individuals and 7.0% for corporations. The initial proposal called for a 4.95% tax on individuals but had to be revised due to the demise of the soda tax and the need for additional revenues to make the plan work. There was discussion to increase the individual tax rate to 5.25% but GOP members nixed any idea that would have the tax rate be higher than the 5.0% that expired. There was also a strong indication that the Governor wouldn't consider signing a 5.25% income tax level for that reason. So 4.99%, a smidgen below the previous level, was the final number agreed to by Senate leadership. And, unlike its predecessor it is not temporary and would generate over \$4 billion per year. The plan also includes an increase in the earned income tax credit for individuals with low incomes.
- Sugary Drink (Soda) Tax - was to have been a 1% per ounce tax on sugary drinks and would have raised millions. Efforts to institute such taxes have always been very controversial and have seldom fared well due to the millions who enjoy such beverages and look aghast at any attempt to raise their cost. An earlier effort in the early 1990s went

nowhere. Things haven't changed and this idea was scrapped after mountainous opposition surfaced.

- Service Taxes - did not make the initial cut but were added when the soda tax hit the skids due to heated opposition. If the legislation is approved service taxes will be imposed on such things as amusements, storage, cable television, satellite television, maintenance and repair, dry cleaning, laundry, landscaping, etc. The service tax plan is similar to that of Wisconsin which is similar. The plan, this far, does not include medical, legal or other such services. The service tax expansion will be heavy enough lifting without engaging the heavy hitters that probably would sink it.
- Business Opportunity Tax - another added starter brought on by the demise of the soda tax and places a small tax based on payroll that can raise big money on the privilege of doing business in the state of Illinois. For businesses with payrolls under \$100,000 the tax is \$225.; between \$100,000 and \$250,000 - \$750; between \$250,000 and \$500,000 - \$3,750; between \$500,000 and \$1.5 million - \$7,500; and \$1.5 million or more - \$15,000. It's estimated that this tax could raise almost \$750,000 million.
- Borrowing - Borrowing \$7 billion to help pay down back bills and get back to a 30 day payment cycle. Candidates, including the Governor, railed about the level of state borrowing and scoffed at doing any more. Realistically, the Senate package acknowledges that there will be no fiscal stability progress if the billions of dollars in back invoices are not addressed. The Illinois Constitution requires a three-fifths vote to do any borrowing so more votes will be required on this bill. However, if the rest of the package moves this one should be easier than many of the others because of the understanding of the public that those performing social services and state vendors need to be paid in a timely fashion.
- Gaming - after years of misfires gaming proponents may finally have their day. the package includes a massive expansion of gaming in Illinois in what probably may be the last of its kind, or at least the last for decades to come. The proposal includes six new casinos (Chicago, Rockford, south suburbs, Danville, Lake County and Williamson County), and slot machines at race tracks. Video gaming in restaurants and bars has become the most plentiful source of gaming revenues in the state at a cost to the currently casinos. Current casino operators will not be helped by the competition from race tracks and the additional six casinos. But, the general expectation is that most of the new licenses (Rockford, Lake County, south suburbs, and Danville) will attempt to draw customers from Wisconsin and Indiana venues. Should this package become law the appetite for gaming should be satiated in the state of Illinois and any future expansion doubtful, with one exception. The United States Supreme Court is scheduled to hear arguments on the current federal law banning sports betting except in Las Vegas, Atlantic City and a few other places. If that law is overturned the state would no doubt opt to make it available.
- Corporate Exemption and Business Taxes - modifies and removes a number of business exemptions such as decoupling from federal deduction allowances on domestic production activities, eliminating the unitary business noncombination rule, makes permanent the research and development credit, redefines manufacturing to include graphic arts, modifies pollution control facilities valuation for property tax purposes,

among other provisions. It also eliminates the Corporate Franchise Tax that the business community despises.

- Property Taxes - includes a two year freeze on all local property taxes that is part of the Governor's Turnaround Agenda.. To assist schools there would be relief from some mandates like driver and physical education.
- Pensions - includes a pension reform proposal patterned after the "consideration" concept advocated by President Cullerton giving state employees a choice between accepting reductions to retirement cost-of-living increases in exchange for a higher pensionable salary; elimination of future pensions for legislators; providing the state pays for the teacher portion of pension payments for Chicago schools as it does for schools in the rest of the state; If the pension reform portion of the bill is ruled constitutional it would be a huge step toward fiscal solvency of the pension systems by the 2045 target date set for at least 90% funding. However, from the day this provision would become law it would almost certainly be challenged and would take at least two years to wind through the courts so any savings would not be seen until then.
- Budget - provides funding for human services, prisons, etc. for the remainder of the fiscal year that ends on June 30. There is some question as to whether the budget would be balanced should all these provisions be approved. Some agencies and observers have speculated that the deficit even with the new revenues could be over \$3 billion short. There may be changes or recalculations before the final versions of these proposals are sent to the Governor should they have the votes to pass.
- Workers Compensation Reform - part of the Governor's Turnaround Agenda will provide for restrictions on accident claims, set maximum rates and limit physical therapy under certain circumstances.
- Minimum Wage Increase - may or may not be part of the final package. The initial plan called for an increase from \$8.25 per hour to \$9.00 per hour on July first, then \$.50 per year until 2021 when it would reach \$11.00 per hour. It apparently has been removed from the latest version of the package due to some pushback regarding the inadequacy of the proposed level by major proponents. During the major push for minimum wage increases in 2014 the focus was on \$15 per hour.
- Other items - the plan includes other items from the Governor's Turnaround Agenda such as a two term limit on serving as Senate President or Minority Leader. The Senate has already included such a provision in their rules; a local government consolidation bill that allows a method to combine townships, dissolve coterminous or substantially coterminous townships, and expand a program statewide that allows county boards to dissolve units of local government where county board chairs appoint the majority of those local government boards.

How desperate is the Illinois fiscal situation? A group out of the University of Illinois called the Fiscal Futures Project has been doing research since 2008 and recently concluded, based on the most current statistics available, that unless there is some major effort to address the budget, bill backlog and pension situation the forecast is bleak. They project that without a comprehensive package that includes revenues and budget cuts the deficit for FY 2017 will approach \$13 billion,

the budget gap will continue at a clip of \$14 billion for at least the next five years, unfunded liabilities for employee pensions and health care could reach \$174 billion, and unpaid bills for services to the state will reach \$10 billion.

Two weeks ago Governor Rauner also announced he would like to see a capital plan come forward which would mean the issuance of more bonds and more debt service. He did not indicate when such a plan might be put forward or how he would intend to pay for it. Maybe he'll provide details, as well as his position on the "Grand Bargain" in his budget address that is scheduled for February 15.

The Attorney General Gets Into The Act

In what she says is an effort to move the budget crisis into resolution mode, Attorney General Lisa Madigan has asked the St. Clair County Circuit Court to dissolve their previous orders allowing state employees to be paid without specific appropriations. Two years ago, in conflicting court orders, the St. Clair County Circuit Court ordered that state employees could be paid even though there was no appropriation signed into law. Within a short period after, the Illinois Supreme Court ruled that state employee pay raises did not have to be paid because of the absence of an appropriation. At the time and since there was no effort to use the Supreme Court decision to block the payment of employee salaries. The Governor at the time and since said he would continue to pay state employees and the Attorney General also let everything be, and as a result things continued as normal as the state's budget crisis deepened.

Over the past two years of budget impasse there has been one thing noticeably missing ... outrage. While there certainly has been a negative impact on human services and other programs during the budget impasse, most Illinoisans have not been directly impacted. At the beginning of the impasse in July, 2015 the expectation was that the crisis would come to a halt when state services were forced to shut down. That, of course, never happened because of the St. Clair County Circuit Court ruling. Now, however, with the Attorney General's action the rubber may meet the road. A state government shutdown would certainly get everyone's attention.

The reaction to the legal action has been predictable. AFSCME is not happy, obviously because its employees are at risk of losing paychecks. The Governor is not happy because a state shutdown that he's been able to avoid for two years might force him to not only abandon much of his Turnaround Agenda but also approve a large tax increase. Democrats, on the other hand, are happy for the same reasons the Governor is not.

Has the possibility of a "Grand Bargain" caused the Attorney General to chart her course of action? Probably. It's interesting to note that she asks that the order dissolution be effective February 28, which allows time for the legislature to approve the "Grand Bargain" if it so chooses. If the circuit court dissolves the previous rulings and the state is forced to shut down it may be just a matter of time before the pressure forces some accommodation that finally results in some resolution of the impasse that has lasted seemingly just short of forever.

Session Schedule/Deadline Dates

Here are relevant dates for the remainder of the 2016 and the 2017 legislative session:

- February 3 - Last day to request House Bills to be drafted
- February 10 - Bill introduction deadline - House and Senate
- February 15 - Governor's Budget Address
- March 17 - Senate Committee Deadline
- March 31 - House Committee Deadline
- April 10 - April 23 - Spring Break
- April 28 - 3rd Reading Deadline - House and Senate
- May 12 - Senate Committee Deadline - House Bills
- May 19 - House Committee Deadline - Senate Bills
- May 26 - 3rd Reading Deadline - House and Senate
- May 31 - Adjournment