

# **Bond Case Briefs**

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## **Illinois Budget Standoff Grinds On as State Finds a Way to Cope.**

Republican Governor Bruce Rauner and Democratic House Speaker Michael Madigan, two of the most powerful politicians in Illinois, have been trying to outlast one another in a dispute that for two months has left the nation's lowest-rated state without a budget.

Illinois muddles through. Government employees get paid, thanks to court orders. Children go to school, thanks to Rauner's signing an education-funding bill. The state fair went on last week as scheduled and the governor signed a bill Aug. 14 designating pumpkin as the official pie.

The veneer of normalcy belies what Madigan terms an "epic struggle" with the venture capitalist-turned-politician. At stake are further credit downgrades for Illinois, and increased stress for Chicago and its schools, which are seeking relief from the state — relief delayed by the impasse.

"We're all a bunch of idiots," said Representative Jack Franks, a Democrat from the northern Illinois town of Woodstock.

"Just because Bruce Rauner says 'Republicans need to do this,' and Speaker Madigan says 'Democrats need to do that,' doesn't mean we have to listen to them," Franks said.

Yet Republicans line up behind Rauner, who insists on labor, tax and regulatory changes, and Democrats follow Madigan, who says the budget must be passed and revenue raised. There is no hint of a break in the impasse. Bondholders get paid, although many state vendors are getting stiffed to the tune of at least \$3.5 billion.

Rauner, a first-time officeholder, is also Illinois's first Republican governor in a dozen years.

Campaigning on a pledge to shake up the government, a \$62 billion enterprise, he has repeatedly challenged Democrats who hold veto-proof legislative majorities.

"I was elected by millions of people; he's been elected by 17,000 people," Rauner told a crowd at the Illinois State Fair last week, referring to Madigan. "Why is he there blocking what we need to do to reform and improve our great state?"

Rauner's confrontational strategy isn't meant to solve the budget standoff, said Doug Whitley, the former president of the Illinois Chamber of Commerce.

"The real story is how much of this whole exercise is posturing for the 2016 election," he said. "This thing could drag out until after next year's March primary."

In the tumultuous Midwest, Republican governors like Wisconsin's Scott Walker, Michigan's Rick Snyder and former Indiana Governor Mitch Daniels have prevailed in battles with organized labor, the Democrats' traditional support group. Rauner, who cites those governors as role models, wants to do the same in reliably blue Illinois.

David Yepsen, director of the Paul Simon Public Policy Institute at Southern Illinois University, said Rauner has misunderstood why he won election.

“He didn’t get elected to gut the labor movement,” Yepsen said. “He got elected because people were angry with Pat Quinn,” the previous Democratic governor.

## **Two Gallants**

Madigan’s obduracy hasn’t made him a hero with the electorate, either, Yepsen said. “Nobody has the high ground with voters, and the people of Illinois say a plague on all their houses,” he said.

When legislative and executive branches go to war over budgets, there are usually immediate consequences. Minnesota’s government shut down in 2011, closing parks and rest stops in the summertime and engendering widespread outrage. It was over in three weeks.

Illinois is living with it. Rauner signed an education aid bill in June, enabling schools to open this month. State employees won court judgments to assure that they get paid. Another court mandated Medicaid payments, and lawmakers cleared the way for more than \$5 billion in federal payments to state programs.

“This is a caricature of Illinois and all of its mismanagement,” said James Nowlan, a former Republican legislator who has written about politics and policy in the state. “Nobody’s looking beyond the next month, the next year, or the next 10 or 15 years.”

At some point the consequences will demand attention, said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance. Illinois is spending without regard for a projected \$6.2 billion deficit in the current year.

“As we get closer to the calendar year — maybe October — there will be struggles to pay higher education and hospitals and other institutions,” Ciccarone said. “Things could really start to back up then.”

Illinois could also be harmed by budget stress in Chicago and Chicago Public Schools, each of which has asked the state for relief from solvency-threatening pension obligations.

Whitley said local governments’ pain and protests might end the stalemate.

“Right now we’re spending about \$4 billion or \$5 billion more than we have,” Franks said. “How long does this go? Forever.”

## **Bloomberg**

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