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Illinois Blows Budget Deadline, Pushing It Closer to Junk.

- **House plans Sunday vote after adjourning without agreement**
- **S&P warns of downgrade if the impasse isn't soon resolved**

Republican Governor of Illinois Bruce Rauner. Photographer: Scott Olson/Getty Images

Illinois entered its third straight fiscal year without a budget as Republican Governor Bruce Rauner and Democratic lawmakers struggle to agree on how to rein in the government's chronic deficits, pushing it closer toward becoming the first junk-rated U.S. state.

State legislators failed to enact a budget by the end of Friday, the last day of the fiscal year, though negotiations continued. Speaker Michael Madigan, a Chicago Democrat, said in a statement on Saturday the House would vote Sunday "on a revenue package that is modeled on the bill supported by the governor, and House and Senate Republicans."

The failure marked a continuation of the unprecedented impasse that's left Illinois without a full-year budget since mid-2015. Without a deal around July 1, S&P Global Ratings has warned that the nation's fifth-most-populous state will likely get downgraded again, losing its investment-grade status.

After Madigan, 75, appeared briefly on the House floor, Republicans stood and chanted in objection, with one member shouting "Speaker Junk" as Madigan left the floor.

On Friday, Madigan, who controls much of the legislative agenda, pleaded with rating companies to "temporarily withhold judgment" as lawmakers negotiate.

'Job Done'

"Much work remains to be done," Madigan said on the floor of the House Friday, before the chamber adjourned for the day. "We'll get the job done."

Without a spending plan, the state has effectively been on autopilot, leaving it with a record \$15 billion of unpaid bills as it spent over \$6 billion more than it brought in over the past year. The impasse has devastated social-service providers, shuttering services for the homeless, disabled and poor. The lack of state aid has wrecked havoc on universities, putting their accreditation at risk.

If the standoff isn't resolved, Illinois officials have said they won't be able to pay contractors and road construction will shut down, putting thousands out of work. The yields on the state's bonds have risen as investors anticipate a downgrade.

At its root, the fight is a showdown between former private equity executive Bruce Rauner, who in 2015 became the first Republican to lead Illinois since 2003, and Madigan, who's served as speaker for decades. The two can't agree on how to end deficits that were exacerbated when tax hikes expired just as Rauner took office.

The partisan gridlock has created the longest budget standoff ever for a state, according to the

National Conference of State Legislatures. Rauner has demanded any plan come with parts of his self-described pro-business reforms, like a property-tax freeze and legislative term limits. Democrats have resisted, saying his agenda would devastate the middle class. They've passed some of his initiatives, but Rauner argues they didn't go far enough.

School Funding

Without a budget that includes borrowing to pay down the bill backlog, Illinois by August will run out of money for key expenses for the first time since the stalemate began, according to Comptroller Susana Mendoza, a Democrat. That means school funding, state payroll, and pension payments could be affected, she said. There won't be enough money for these mandated or court-ordered payments.

This won't jeopardize debt-service payments, she said. Illinois hasn't missed any bond payments and state law requires it to make monthly deposits to its debt-service funds.

Investors have been punishing Illinois for its fiscal woes. Yields on the state's 10-year bonds have soared to 4.8 percent, 2.8 percentage points more than those of benchmark debt. That's the highest yield of all 22 states that Bloomberg tracks.

"Recognizing that they're continuing to work through the weekend, it doesn't look good to adjourn halfway through your last day," said John Humphrey, the Chicago-based head of credit research for Gurtin Municipal Bond Management, which oversees about \$10.1 billion of state and local debt.

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