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## Court Ruling on Unions No Lifesaver for Illinois' Sinking Finances.

CHICAGO (Reuters) – A U.S. Supreme Court ruling on Wednesday that dealt a blow to public sector labor unions will not be a fix, at least in the short term, for massive financial problems in Illinois, where the case was filed, public finance and economic experts said.

Illinois Republican Governor Bruce Rauner, who backed the lawsuit against the state government's biggest union, hailed the court's decision as a major victory for taxpayers, "who must bear the high cost of government."

The 5-4 ruling in the case brought by state worker Mark Janus found that forcing workers who opt out of unions to pay so-called fair-share dues to labor organizations violated free speech rights. But the opinion also noted that nationally, the "ascendance of public-sector unions has been marked by a parallel increase in public spending."

The opinion cited Illinois' "severe budget problems," including a nearly $160 billion unfunded liability for pensions and retiree healthcare in 2013, a huge pile of unpaid bills, and near-junk level credit ratings.

NEGATIVE ECONOMIC IMPACT

"We think the Janus decision does little to nothing to solve the state's financial situation," said Frank Manzo, policy director at the Illinois Economic Policy Institute.

The ruling would negatively impact Illinois' tax collections, he said, as the institute projects the number of state and local government union members to drop by 49,000 to 268,000 and average annual government worker wages to fall by $1,767 given the impact right-to-work laws have had on lowering incomes.

It could take years before union membership and revenue are diminished to a point where labor organizations are rendered irrelevant to politicians who control the purse strings. In the short term, the court's decision could fuel labor discontent in Illinois and stymie fiscal progress.

"To the extent that this decision gets government workers agitated and undercuts their trust in their employer, they might resist reform efforts and that could make it harder to control costs or restructure," said David Merriman, director of the Fiscal Futures Project at the University of Illinois' Institute of Government & Public Affairs.

The Rauner Administration and American Federation of State, County and Municipal Employees Council 31, the defendant in the Janus case, are already embroiled in battles over $400 million in back pay owed to state workers, and a new contract.

S&P Global Ratings analyst Gabriel Petek said the ruling will have no immediate effect on Illinois' BBB-minus rating.

“We will be watching with an eye toward how, following the Supreme Court’s ruling, the state might be able to better manage its baseline cost trajectory related to employee compensation,” Petek said.

He added that the ruling does not help the state alter pension benefits. Past efforts to reduce costly benefits have been halted by the Illinois Supreme Court on state constitutional grounds.

In the U.S. municipal bond market where the state pays a big yield penalty, Illinois’ so-called credit spread for 10-year bonds narrowed by 2 basis points on Wednesday to 170 basis points over Municipal Market Data’s benchmark triple-A yield scale.

Richard Ciccarone, who heads Merritt Research Services, a muni bond data and research provider, said the ruling has potential over the long run to impact Illinois’ political culture and possibly move the state towards some fiscal balance.

“The idea that we’re going to cure all of our financial problems immediately is probably more of a dream than it is a reality,” he said.

By Karen Pierog

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(Reporting By Karen Pierog; Editing by Daniel Bases and Frances Kerry)

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