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## **S&P: Illinois' Grand Bargain Negotiations Falter In State Senate.**

SAN FRANCISCO (S&P Global Ratings) March 2, 2017-In a recent commentary, "For Illinois, Having A Plan Beats No Plan," S&P Global Ratings said that Illinois may look back on a failure to pass the so-called grand bargain as a missed opportunity. In our view, legislation providing appropriations for the remainder of fiscal 2017 and tax increases to generate additional revenue would help stabilize the state's fiscal trajectory. While negotiations in the state senate over the legislative package appear to have broken down, we understand they could be rekindled, though this may require a public endorsement of the bills by the governor.

Throughout the nearly two-year budget impasse, Illinois' debt service has been paid on a priority basis and without interruption because of continuing appropriations associated with its bonds. These features remain integral to the state's investment grade ratings (GO rating: BBB/Negative). The prioritization of revenues to fund debt is accomplished by deferring payments to many other stakeholders which we do not view as sustainable. Consequently, we believe it's important for the state's credit quality that a budget plan be enacted by the end of the fiscal year. Politically, approval of the bills will become more difficult beginning June 1, when state law will require a three-fifths majority vote of the legislature to approve a budget. U.S. states benefit from a range of inherent advantages starting with constitutionally protected sovereignty over their own fiscal structures. But for a state to enter a third fiscal year without enacting a comprehensive budget could indicate to us an erosion in political will that renders its credit quality and fundamental fiscal conditions as inconsistent with the state's current rating.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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