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## Illinois Punished by Market as Deadline Nears Amid Fighting.

- **State's yields rise to record over benchmark amid gridlock**
- **Less than two weeks remain in regular legislative session**

With less than two weeks left in the regular legislative session, Illinois lawmakers and Governor Bruce Rauner are still divided on how to end the worst-rated state's nearly three-year budget impasse. Investors aren't pleased.

Bondholders are demanding yields of 4.49 percent on Illinois's 10-year bonds, some 2.45 percentage points more than those of benchmark tax-exempt debt. That's the biggest gap since the Bloomberg indexes began in January 2013.

After May 31, a three-fifths majority will be required to pass anything, making a deal even more difficult to reach. Senate Democrats advanced several bills that had been considered part of a bi-partisan compromise on Wednesday, but they were unable to pass a spending plan for lack of Republican support.

"We're two weeks away from the 31st and that's the deadline that's set," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds Illinois bonds among its \$40 billion of municipal debt. "They've had substantial time to work on this. So far we haven't seen any substantial progress."

Lawmakers are continuing to push forward legislation in an effort to resolve the stalemate by the end of the month. The unprecedented impasse has left the state without a full-year spending plan since July 2015 as Rauner, the first Republican to lead the state since 2003, and the Democrat-led legislature can't agree on how to plug chronic budget deficits. The gap worsened after temporary income tax hikes expired in January 2015. The gridlock has sunk Illinois's credit rating and forced state-supported entities like public universities and social service providers to slash programs and furlough workers.

Moody's Investors Service and S&P Global Ratings have warned that the state's credit could deteriorate further if it enters a third year without a budget. The rating companies rate Illinois Baa2 and BBB, respectively, which is two levels above junk. Both have a negative outlook on Illinois.

Rauner has called for any spending plan to be tied to structural changes like a property tax-freeze and an overhaul of workers-compensation practices. Without a budget in place, the state is still spending money through consent decrees, court orders and continuing appropriations. Its current-year operating deficit is about \$6 billion, Moody's said in a March report, citing the governor's office of management and budget.

"We should never give up in getting a balanced budget," Rauner told reporters in Chicago on Thursday. He said he was encouraging lawmakers to keep working on a deal.

On Wednesday, Senate Democrats approved a plan to allow the state to borrow as much as \$7 billion to pay down the state's record \$14.5 billion of unpaid bills. Legislation to allow local government consolidation and expand gambling were approved and received some Republican votes. Measures that would change the state's procurement practices and pension system won bipartisan approval. They still need to be approved by the House.

Democrats also passed an overhaul of school funding practices, including giving \$215 million to the cash-strapped Chicago school system. The measure received no Republican votes and was immediately rejected by Rauner who called it a "bailout at the expense of every other school district in the state."

## **Bloomberg Markets**

by Elizabeth Campbell

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