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Illinois House Overrides Rauner's Veto to End Budget Impasse.

- **Lawmakers override governor's veto to end record budget fight**
- **S&P warned of likely downgrade without budget by July 1**

For the past two years, nearly Illinois Governor Bruce Rauner's entire time in office, his state was locked in a political paralysis that battered its universities, left contractors waiting to be paid and undermined its standing on Wall Street.

Then on Thursday, faced with the risk of becoming the only U.S. state with a junk bond rating, Democrats who control the legislature and almost a dozen of the governor's fellow Republicans voted to override his vetoes of a \$36 billion spending plan and across-the-board tax hikes, enacting a budget for the first time since mid-2015.

"If we don't have a budget, with virtual certainty, we will go to junk status," said Representative David Harris, a Republican who broke ranks with the governor. "At least with a budget, we hold off."

The resolution will ease the cash-flow crisis that threatened to halt payments to pensions, schools and government workers. It will allow the state to borrow money to pay down a record pile of unpaid bills that tripled to \$15 billion during the impasse. Social service providers and universities starved of aid will get some relief. And Illinois will have an actual spending plan for the next 12 months, instead of haphazardly running deeper into the hole by spending more than it's taking in because of court orders and continuing appropriations.

After the deal came together over the last week, with votes during the weekend and on the Fourth of July holiday, Illinois bond prices rallied on signs that the elected leaders would finally tackle the government's long-building financial strains. On Friday, the state's bonds were the most actively traded municipal securities, with taxable Illinois bonds due in 2033 rising to an average of 96.8 cents on the dollar, up from 91.5 cents on June 30, according to data compiled by Bloomberg. That pushed the yield down to 5.4 percent from 5.9 percent.

The House of Representatives on Thursday followed the Senate by approving the budget bills despite Rauner's objections that it would unduly burden residents by raising their taxes. House Speaker Michael Madigan, a Democrat, praised the the end of a "destructive" impasse while noting there's still work to do.

Even though it's over, the risks to the state may not be. While officials clashed over the budget, the state's obligations to its deeply underfunded pensions grew to about \$130 billion. On Wednesday, Moody's Investors Service, in anticipation of the successful override, said it could still downgrade the state over the next few months, citing potentially optimistic revenue assumptions and the massive retirement fund debts.

"This budget will not solve all our problems tomorrow," Comptroller Susana Mendoza, a Democrat, said in a statement Thursday, praising the passage of the budget, but noting that vendors still won't

get paid as fast as they want. “We haven’t won the lottery.”

The fight between Rauner, who in 2015 became the first Republican to lead the state in more than a decade, and legislative Democrats was stoked in part by the expiration of temporary tax increases just as he took office. Rauner has held the line against any plan that failed to include elements of the agenda he says he was elected to enact, including a property-tax freeze, legislative term limits and changes to the workers’ compensation insurance system to cut costs for businesses.

Rauner had said he vetoed the budget measures because they were insufficient. On Thursday, he said the “tax-and-spend plan is not balanced, does not cut enough spending or pay down enough debt, and does not help grow jobs or restore confidence in government.”

The break in the record-long impasse came after S&P Global Ratings and Moody’s last month dropped Illinois’s credit rating to one step above junk and warned of further downgrades if the government failed to take steps to stanch the bleeding. A cut below investment grade would be unprecedented for a U.S. state. That possibility hasn’t entirely receded, though Fitch Ratings earlier this week called the budget plan “concrete progress” and S&P said it was a “meaningful step.”

“Even with this override, it is one step in a long journey that Illinois is going to need to stay on in order to stabilize its finances,” said Laurence Msall, president of the Civic Federation, a Chicago nonprofit that tracks state and municipal finance. He added that there doesn’t appear to be a “silver bullet” for addressing the state’s unfunded pension liabilities.

Even with the resolution, John Humphrey of Gurtin Municipal Bond Management said he wants to see a more stable political atmosphere before buying Illinois’s debt. Gurtin doesn’t hold any Illinois general-obligation or sales tax bonds, he said.

“In the short-term yes, they stanching the most immediate liquidity pressures that they were facing,” said Humphrey, Gurtin’s Chicago-based head of credit research. “But the amount of fiscal discipline that’s going to be required each year, every year remains to be seen, especially given the political environment.”

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