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Illinois Passes Budget, Moving to Avert Repeat of Impasse.

- **House approves spending plan that Senate passed late Wednesday**
- **Budget now goes to Governor Rauner's desk for signature**

Illinois lawmakers approved a bipartisan spending plan, leaving the state poised for its first on-time budget in four years and avoid a repeat of the record impasse that pushed its credit rating to the brink of junk.

The state House of Representatives voted Thursday to approve the \$38.5 billion spending plan for the year that starts July 1, after the Senate approved the measure late Wednesday. Governor Bruce Rauner said he will sign the package of bills, which will mark the first time since the Republican took office in 2015 that the state has enacted a full-year budget on time.

"We've had to come a long way to get to this point," said Representative Greg Harris, a Democrat, who thanked his colleagues on both sides of the aisle. "It is a balanced budget."

Both Harris and Representative Tom Demmer, a Republican, presented parts of the appropriations bill on the House floor to demonstrate the plan's bipartisan nature. Harris pointed out that Hans Zigmund, Rauner's budget director, was sitting in the gallery and had helped advise lawmakers.

This "reflects a true sense of bipartisan negotiation to find a budget that's balanced, a budget that's workable, and something that can give us stability and predictability over course of the upcoming year," Demmer said on the floor before the vote.

Illinois's bonds, which had already rallied this month amid optimism a budget would be approved on time, moved higher on Thursday, when the debt was among the most-frequently traded in the municipal market. Taxable debt due in 2033, the most active, climbed 1.7 percent to 96.3 cents on the dollar, pushing the yield down 16 basis points to 5.46 percent, according to data compiled by Bloomberg.

Both legislative chambers approved the spending plan with broad support from Republicans and Democrats, a stark contrast to previous years of contentious debate. Last year's partisan fighting over the budget nearly turned Illinois into the first U.S. state to lose its investment-grade status. The failure of the Democrat-led legislature and Rauner to reach an agreement led to a record two-year stalemate that wrecked havoc on the state's finances.

That impasse ended last July after lawmakers overrode Rauner's veto to enact a tax-hike. The money from that levy made this year's budget negotiations easier as the gap between spending and revenue had narrowed.

"There's still a lot that needs to be done, but it's a big positive sign," said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt, including Illinois bonds. "Given the optimism now, it could bring in more buyers," he said, adding that "the trends are turning positive instead of further down."

Starting June 1, a three-fifths majority of each legislative chamber is required to pass any bill, making approval of a spending plan more difficult. The state's unpaid bill backlog stands at \$6.6 billion, according to the comptroller's office, which is less than half of what it was last July, after they piled up because of the stalemate.

The 2019 budget spends more on education and includes cuts to the department of corrections and other operating areas, as well as some pension savings through buyouts and other changes, according to lawmakers. The state's unfunded pension liability across its five retirement systems climbed to \$137 billion as of last June, bond documents show.

On Thursday, Moody's Investors Service, which rates Illinois Baa3, one step above junk, warned that the state is facing an "inflection point" as its pension costs are poised to climb in the coming years, eating up more of the budget. Without changes, like foisting more pension costs on lower levels of government, state spending on pensions, debt and other retirement benefits will climb \$1.3 billion, eating up about 30 percent of revenue next year, Moody's said in an emailed report.

"I don't think just getting a budget passed by the end of the regular session is any sort of accomplishment that's positive for the state's credit," Ted Hampton, Moody's lead analyst on Illinois, said in a telephone interview. "A key point of consideration for us will be whether the enacted budget helps manage or exacerbates the state's long-term fixed cost challenge."

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