

SESSION UPDATE

Illinois Community College Trustees Association

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ILLINOIS BUDGET UPDATE

When the Illinois General Assembly failed to pass a state budget prior to the May 31 deadline for passage of bills, it went into recess to allow for discussions that might hammer out a deal. Two major credit agencies then issued another credit downgrade for Illinois. Further downgrades that would result in “junk bond” status for the state were expected at the end of June if a budget was not approved.

Beginning June 1, the Illinois Constitution requires a three-fifths vote (or 71 votes in the House and 36 votes in the Senate) to pass legislation with an immediate effective date, making it more difficult to pass controversial bills such as tax hikes or spending cuts.

Lawmakers reconvened on June 21 after Gov. Bruce Rauner called them into special session for the purpose of passing a comprehensive budget package. The Governor’s special session proclamation directed the General Assembly to consider legislation that would reach a balanced budget with reforms, including property tax relief, job creation, term limits, and spending caps.

On Sunday, July 2, the Illinois House of Representatives passed a Fiscal Year 2018 budget package. The revenue bill, Senate Bill 9, authorizes a \$36 billion General Revenue Funds budget for the state of Illinois by increasing the personal income tax rate from the current 3.75% to 4.95%, effective July 1, 2017. The corporate income tax rate increased from 5.25% to 7.0%. Notably, the revenue bill did not include any new service taxes or a tax on retirement income. Senate Bill 9 is expected to raise \$5.1 billion (net). The bill passed 72-45, which included 15 Republican legislators in the House. The FY18 budget and FY17 supplemental budget embodied in Senate Bill 6 easily passed the House by a vote of 81-34.

Total state spending for FY 18 was reduced by \$2.5 billion below FY 15 spending levels. The reductions included a 5.0% reduction to the operations budget of most state agencies, and a 10% reduction to state funding for higher education. Community colleges received FY 18 budget authority of \$248 million, which is equal to 90% of the amount received in FY 15. Senate Bill 6 also appropriated \$161 million to community colleges in additional funds for FY 17. Together with an earlier appropriation, the total FY 17 appropriation for community colleges is equal to the FY 15 appropriation.

This budget fully funds all five state pension systems and approves parameters for a new Tier III pension proposal. The budget also assumes \$500 million in savings from pension changes sought by Gov. Rauner to create a defined contribution 401(k) style retirement plan to compete with the defined benefit pension plans currently offered to state employees.

On July 4, the Senate convened and concurred with the House in the passage of the budget package, with one Republican Senator (Sen. Dale Righter), voting with the majority. Shortly after the budget package was approved, Gov. Rauner vetoed the package, citing the lack of property tax relief, term limits, and “regulatory relief” for businesses. The Senate almost immediately voted to override the Governor’s vetoes by a 36-19 vote, the minimum needed. On July 6, the House also voted to override the Governor’s vetoes of the budget package.

There is now a state budget in place for FY18, for the first time in more than two years. Past due bills now stand at \$14.725 billion.

SCHOOL AID FORMULA FUNDING (SENATE BILL 1)

Both the Illinois House and Senate were again in Springfield this week for a special session called by Gov. Bruce Rauner. A substantive solution is still needed to allow education dollars already appropriated to flow to K-12 schools for the beginning of the 2017-2018 school year. Without a new funding formula, general state aid to schools cannot be distributed, and some schools may face financial difficulties opening or staying open after summer vacation.

Senate Bill 1 changes the current formula by which state dollars are distributed to elementary, high school, and unit school districts. The old formula (a “foundation level” approach) was highly complex. Under SB 1, new dollars would be distributed on an “evidence based model” and go to the neediest districts first, starting with the amount of funding the district had in Fiscal Year 2017. All new state funding going forward would be on top of what districts currently receive. No school districts would receive less state money than they received in FY 17.

The FY 18 state budget appropriated more money than last year for K-12 school districts, but included language that requires those dollars to be distributed by an “evidence based model.” That language creates the basis for the disagreement between the legislature and the Governor.

SB 1 passed the Senate by a 35-18-03 vote on May 17. The House amended the bill and passed amended legislation on May 31 by a vote of 60-52-0. On the last day of regular session (May 31), the Senate agreed with the House amendments by a vote of 35-22-0. However, using a parliamentary procedure, a Senator filed a motion that kept the bill in the Senate, likely buying time to negotiate before sending the bill to the Governor’s desk. On July 31, the Senate withdrew the parliamentary motion and sent the bill to the Governor for his consideration.

On August 1, the Governor amendatorily vetoed SB 1 by making a number of changes, including removing sections that would provide state funds for Chicago Public School teacher pensions and a block grant of funds to CPS. The bill now returns to the General Assembly, where lawmakers can take any of several actions:

- 1) The legislature could take no action, which would result in SB 1 failing to become law; or
- 2) The legislature could accept the Governor’s changes, which would only require a simple majority vote in both chambers -- 30 in the Senate and 60 in the House; or
- 3) The legislature could attempt to override the Governor’s changes, which would require an extraordinary majority in both chambers -- 36 votes in the Senate and 71 votes in the Senate.

If the General Assembly attempts to override Gov. Rauner’s amendatory veto, the extraordinary majorities might be difficult to obtain given the original votes in each chamber. If an override is attempted, both chambers must vote to override the amendatory veto or the bill dies. Republican votes would be required in the House to override the Governor.

Gov. Rauner’s use of an amendatory veto to make significant changes to a bill might be argued as a controversial use of veto powers. The Illinois Constitution allows the Governor to amendatorily veto a bill to make legislative changes to a bill, but there are legal limitations on the types of changes allowed. The General Assembly has ruled in past years that an amendatory veto should be technical in nature and cannot change the intent of the bill. Some may argue that Gov. Rauner’s amendatory veto changes the intent of the bill by removing language that would channel funds to the Chicago Public Schools system.

Until something is done to move Illinois to an “evidence based model” of funding, no state funds will be distributed to K-12 schools at all, perhaps rendering many schools unable to open or remain open in the fall.

PENSION REFORM

Several pension proposals were floated by lawmakers during the spring 2017 session. Three proposals ultimately received some support from legislators but did not pass both chambers. None of the proposed reforms would change benefits already being received by current retirees. Although discussed during budget and revenue negotiating sessions, no legislation was considered that would tax all or part of retirement income.

Senate Bill 16, introduced by Senate President John Cullerton, would require employees in the state pension systems and the Chicago teachers' pension system to choose between two choices -- aka the "consideration" model. Current employees would choose either: (1) to continue to have future pay increases count toward their pensions and give up the automatic 3% compounded increases in their retirement benefits; or (2) to keep the compounded pension raises but give up having future pay increases count toward retirement. SB 16 also includes language to lessen state pension payments in the future and would enact a new Tier III hybrid pension plan for state and local governments. SB16 passed the Senate 31-21 but was not considered in the House.

House Bill 4027 and House Bill 4045, sponsored by Republican Leader Jim Durkin and Majority Leader Barbara Flynn Currie, combines the "consideration" plan pushed by Senate President Cullerton, a buyout option, Chicago teacher pension funding, and an end to the General Assembly Retirement System. Both bills would also create an option for retirees to take a lump-sum buyout of their pension benefits. Limitations to the buyout option include limiting the number of people who could participate each year and requiring the payment from the state retirement system to be in the form of a rollover into another retirement plan. Both HB 4027 and HB 4045 passed out of the House Pensions Committee 11-2-1 but neither was called for a vote before the full House.

In conjunction with passage of the state budget for FY18, the General Assembly approved a "Tier III" benefit structure for new hires under most pension systems, including the State Universities Retirement System (SURS). SURS members who become participants of the pension system on or after a to-be-determined implementation date will have the option to: (1) be in a new hybrid benefit, known as Tier III; or (2) elect to be part of the current Tier II pension plan. Existing Tier II members will also have the option of joining Tier III. The Tier III plan is a combination of two parts: a defined benefit pension and a defined contribution plan similar to a 401(k). The change does not impact current retirees or Tier I members. The creation of the Tier III plan does not divert state dollars from SURS to the defined contribution plan. It does require employers to fund the defined contribution plan and any liabilities attributable to the defined benefit plan for Tier III members, if any exists.

OTHER LEGISLATION

This spring, both chambers also passed legislation that would:

- Make voter registration automatic for Illinois residents seeking a new or renewed driver's license or state ID, unless they choose to opt out.
- Prohibit state law enforcement agencies from enforcing federal civil immigration laws.
- Expand automatic expungement for juvenile records.
- Raise the minimum wage to \$15 an hour by 2022.
- Allow the state to sell the Thompson Center.
- Make it easier for local governments to consolidate.
- Implement workers compensation changes.
- Implement property tax credits for veterans and seniors.