Rancor between governors and legislatures causes record-breaking budget impasses in Illinois and Pennsylvania.

BY ELAINE S. POVICH

Take divided government, mix in red-hot tax issues, sprinkle with partisan politics, build on a base of pension liabilities, structural deficits and a dash of Great Recession hangovers, and you have the noxious stews that created the recent budget standoffs in Illinois and Pennsylvania.

Both states eclipsed the old record of “stop-the-clock” budget overtimes not seen since 2002, in Kentucky. The animosity between the Pennsylvania and Illinois legislatures controlled by one party with governors of the opposite party rose to a rolling boil. While Pennsylvania’s impasse finally came to an end in March, most big issues were left unaddressed. And, as this issue of State Legislatures went to press, Illinois continued with no budget for the second year in a row. Court challenges and stopgap funding measures kept both states going at a functional level, but the effects on state operations ranged from the critical, to the inconvenient, to the absurd.

It seemed like every week there was another real or threatened impact in one or both states—from closing schools, reducing college scholarships and cutting mental health services to eliminating license plate renewal reminders, cutting assistance for low-income burials and delaying payments to lottery winners, to name a few.

To get through the first half of the school year, before they finally received stopgap money, school districts and entities that service schools in Pennsylvania borrowed about $1 billion, resulting in up to $50 million in interest and fees that will have to be paid back to the lenders, according to state Auditor General Eugene DePasquale. County social service agencies made up some of the slack left by the lack of state funds by borrowing on the private market and using reserves, but the resulting uncertainty left employees, vendors and clients on edge.

“If you borrow, if you spend money out of your own investments, that’s a direct cost to the taxpayer,” says Doug Hill, executive director of the County Commissioners Association of Pennsylvania. “I don’t know of a single county that got a thank-you from the legislature, saying, ‘Thanks for doing that while we sat on the budget for six months.’”

In both states, however, the biggest bites of the budget apple—K-12 education, state employees, universities, public safety and prisons—continued to receive funding through the use of stopgap money or borrowing.

That, state lawmakers acknowledge, was a blessing and a curse.

Tens of thousands of state workers didn’t suddenly appear on the unemployment rolls, nor did hundreds of school buses sit idle in parking lots while children romped endlessly in back yards. If these big-ticket areas had been left unfunded, however, some believe that might have forced a timelier budget compromise.

No Pain, No Gain?

“If state employees weren’t getting paid, if the DMV wasn’t open and people couldn’t get driver’s licenses; that would have really changed things,” says Illinois Senator Daniel Biss (D).

“There’s no doubt it’s a double-edged sword, because it doesn’t bring everything to a head quicker,” agrees Pennsylvania House Majority Leader Dave Reed (R). “But on the flip side, there’s less interruption to the average person’s life who really isn’t spending every day thinking about the politics in Harrisburg, you know, they are just trying to go to work, or get their kids to school.”

“If the state had shut down, you better believe we would have had a budget by now—
and everybody knows it,” says Illinois Senator Toi Hutchinson (D), chair of the Revenue Committee. But, she says, “We can’t even shut the state down right.”

Many of the other legislators in the two states, along with the governors, could not see precipitating mass suffering as they worked on their budget disagreements. They felt keeping kids in school, prisoners in prison and workers working was a better path.

It’s a good thing, says Biss, that Illinois Governor Bruce Rauner (R) signed the part of the Legislature’s budget proposal that kept schools open for the 2015-16 school year. Closing schools would have outraged people, Biss says. He represents an upper-middle class suburb of Chicago full of well-educated professionals who “would have been in the streets with a pitchfork and a torch if that education budget had been vetoed,” he says. “Instead, as engaged and as thoughtful as they are, 90 percent of them [didn’t] notice it.”

In March, a public opinion poll con-

“How Common Are Late Budgets?”

Budget battles, special sessions and potential government shutdowns always capture the public’s attention, but the vast majority of states, most of the time, complete their budget on-time and without a special session. Still, there is just a handful of states that have never had a late budget and have no provision in place to guide such an event.

Since 2002, at least 25 states have started a new fiscal year before passing a budget. When that happens, state governments deal with it in a variety of ways. Shutdowns are one way.

In most cases during a government shutdown, essential health and safety services continue, but all personnel working in nonessential areas are furloughed until an agreement is reached. This can be tough on employees’ incomes and a nuisance for residents left without some services.

Minnesota shut down for 20 days in 2011 as a result of the stalemate there causing a loss of $49.7 million in revenue, the Office of Management and Budget estimates.

When New Jersey experienced an eight-day government shutdown in 2006, Atlantic City’s casinos were closed for the first time since they opened in 1978. And in the mid-2000s, Michigan shut down twice, for just a few hours each time.

Several states that face the prospect of passing late state budgets have provisions in place to deal with it. New Hampshire, North Carolina and Wisconsin passed budgets this year after the start of the fiscal year, but lawmakers avoided disasters in New Hampshire and North Carolina by passing temporary spending plans or continuing resolutions. In Wisconsin, a constitutional provision allowed spending to continue at the previous year’s funding level.

Massachusetts lawmakers occasionally pass a temporary spending plan for just a few days because the governor has 10 days to sign or veto the budget, even if it passes at 11:59 p.m. on June 30—the last day of the fiscal year.

In other states, court rulings over the decades have specified which areas must continue to receive funding in the absence of a new budget.

“Lots of work has been done. Very little has changed.”
—Illinois Senator Daniel Biss, on month 11 without a budget agreement.

“The average person ... isn’t spending every day thinking about the politics in Harrisburg, you know, they are just trying to go to work, or get their kids to school.”
—Pennsylvania House Majority Leader Dave Reed on how the impasse affected most residents.

“If the state had shut down, you better believe we would have had a budget by now... But we can’t even shut the state down right.”
—Illinois Senator Toi Hutchinson on keeping visible services funded during the budget impasse.

—Erica MacKellar
firmed Biss’ observation. Only about a third of the registered voters surveyed by the Paul Simon Public Policy Institute at Southern Illinois University said they or someone in their immediate family was affected by the budget stalemate.

**Not Painless for All**

Yet incidents of critical programs lacking state funds kept popping up in both states throughout the dispute. Many were addressed—one at a time—but not all. In Pennsylvania, for example, county human services offices used reserves, borrowed money and scrimped along to pay for increased services for victims of child abuse or neglect. Reported cases have skyrocketed since legislation passed in the wake of the 2011 Jerry Sandusky child molestation scandal at Penn State.

Likewise, in Illinois, staff at mental health facilities had to juggle as fast as they could to keep their doors open without the state funds they normally get—funds that usually make up about 90 percent of their budgets.

“It’s been interesting,” says Ann Campen, chief operating and financial officer at the Tazwood Center for Wellness in Pekin, Illinois. “We now turn away anyone who can’t pay for services.” Campen blames the state government in total. “They know the problem—both sides of the aisle. They all shake their heads and say, ‘We wish there was something we could do.’”

Meanwhile, the two states continued to borrow, resulting in downgraded bond ratings, which in turn increased interest rates, adding to the states’ budget woes. Moody’s Investors Service downgraded Pennsylvania again in May, citing a structural deficit and a negative outlook. As for Illinois, it has the lowest bond rating of any state and was downgraded to two steps above “junk” level on June 9. That was the 16th downgrade since 2009. According to Moody’s, the long-running partisan standoff is impeding Illinois’ powers to increase revenue or constrain spending.

**The Players**

Both Rauner and Pennsylvania Governor Tom Wolf (D) are wealthy businessmen who put millions into their own 2014 races, and campaigned as “outsiders” who would shake up the establishment.

That, they did.

Both came to the executive office with little experience in public policy but promised to repair the damages done by their unpopular predecessors. They found out quickly that the top-down governance of the business world doesn’t necessarily work with legislative bodies—a coequal branch of government—especially when the other party has the majority.

**The Pennsylvania Predicament**

Despite the state’s $50 billion unfunded pension liability in 2014, Wolf campaigned against scaling back pension benefits for future state employees. Instead, to fund the pension plan and return $1 billion to school systems, he advocated taxing companies now using hydraulic fracturing to unearth oil and gas from Pennsylvan-
nia’s previously dormant coal fields. That appealed to Pennsylvania voters who had seen school funding cut by his predecessor, Tom Corbett (R), leading to overcrowded classrooms and a lack of art classes. Wolf also promised to address the state’s $2 billion structural deficit.

In addition to the structural budget deficit and underfunded pension system, disputes arose over taxes and school funding. Lawmakers were also on opposite sides of a couple of tangential but equally polarizing issues—privatizing liquor sales and providing property tax relief.

“Everyone starts with the attitude that we’re going to get things done,” says Pennsylvania Senate Majority Leader Jake Corman (R). “But it soon became all fight, fight, fight, as the governor tried to get everything done in the first year.”

The situation was exacerbated by the fact that Pennsylvania is recovering very slowly from the Great Recession, leaving tax revenue lagging.

The budget impasse finally ended in late March, when Wolf allowed what he called an “unbalanced” $6 billion appropriations bill to become law without his signature, completing work on the $30 billion budget for FY 2016, which also went into effect without his signature. The legislature then immediately began work on the FY 2017 budget, leaving many of the controversial issues unaddressed.

“In retrospect, could we have ended the budget impasse last June the way we finally ended it this April? Yes, we absolutely could have,” says Reed, the House majority leader. But there are some pretty major items still on the table that have now been pushed into this year’s discussion—liquor, pensions, property tax reform.”

Wolf agrees issues were left unresolved.

“For years Harrisburg has kicked the can down the road, and irresponsible budgets have led to a large structural budget deficit and underfunded schools,” he said after he let the budget take effect. “I think all sides share the goal of moving the commonwealth forward, but we have to come up with solutions to really address our issues.”

“We have a very polarized legislature, more than in any time in modern history,” says Terry Madonna, director of the Franklin and Marshall College’s Center for Politics and Public Affairs. “We elected a liberal governor and an even more decidedly conservative legislature and never the middle shall meet.”

The college center’s poll found that although Pennsylvania’s registered voters blame both the governor and the legislature for the lengthy impasse, 50 percent hold the legislature most responsible, while only 35 percent blame the governor.

The Illinois Imbroglio

Although party control is reversed in Illinois, the polarization is similar to Pennsylvania’s, if not worse. Rauner campaigned on a “turnaround agenda.” A wealthy venture capitalist, Rauner pledged to disrupt the entrenched Democrats in the Illinois General Assembly, reform union bargaining rules, change the workers’ compensation system, modify regulation of business and reform tort law.

Rauner spent $28 million of his own money on his campaign and enraged Democrats by putting $20 million into the Republicans’ campaign fund ($10 million of his own and $10 million from two friends) after he was elected to help move his agenda. He also directed some of that money to favored primary candidates and, in a direct slap at veteran House Speaker Mike Madigan (D), had his allies help Madigan’s Democratic primary opponent, Jason Gonzales, who lost nonetheless.

The General Assembly—where Democrats currently outnumber Republicans 39-20 in the Senate and 71-47 in the House—has worked with Republican governors in recent history, including Jim Edgar and George Ryan in the 1990s. But Rauner is different. He came in riding a wave of what he thought was a mandate to change things with his pro-business agenda. He also allowed a 2011 temporary income tax hike to expire, dropping it from 5 percent to 3.75 percent. The corporate tax fell from 7 percent to 5.25 percent. These
changes, along with the delayed budget, resulted in the state spending $500 million more than it takes in every month, creating an estimated FY 2016 budget gap of $6.2 billion, according to the state comptroller.

Democratic lawmakers bristled at Rauner’s actions. “If you have a supermajority in one party and the governor of another party, the things that you want or hold hostage before you approve a budget have to be within reason; something you can expect the people in the other party to vote for,” says Senate President John J. Cullerton (D). Seeing Rauner offending their core constituency led them to cling even more tightly to unions and their ability to organize and contribute. And looming in the background, along with Illinois’ structural budget deficit, was the huge unfunded pension liability.

“There’s a real lack of trust between players,” says Illinois Senator Heather Steans (D). She says Rauner’s perceived attacks on unions and state employees unified the Democratic constituencies against him. “You consolidate them all against you, so it becomes a war, rather than an effort to compromise.”

Representative Patricia “Patti” Bellock (R), a Rauner supporter, says the governor is just sticking with his reforms “so he can face the people who put him in office wanting to change this state. We have all the data to prove our state is not doing well. We want to turn it around to say we are on a sound footing so [businesses can] come be in our state.”

“Rauner represents change, a business approach,” says David Yepsen, director of the Paul Simon Public Policy Institute. “But he has no background in elective office and has … made a lot of enemies in the beginning—you can’t do that in Illinois.”

Rauner admitted things have not gone the way he envisioned.

“We knew change would be hard, but we didn’t know it would be this hard,” says the governor. He blames the “entrenched politicians,” who he says have run the state badly. “In the last decade, hundreds of thousands of manufacturing jobs have left the state, the unfunded pension liability ballooned to $111 billion, and the state’s credit rating tanked. Illinois needs pro-growth reforms to create jobs and grow the economy, as well as structural changes within government so tax dollars are working for taxpayers and not the government insiders.”

As the deadline for passing the FY 2017 budget without a three-fifths majority expired on June 1, there was political sniping in all directions in Springfield. Democrats were pitted against Democrats over a stop-gap education funding bill that some suggested was a “giveaway” to Chicago schools, while Republicans and Democrats continued to blame each other for the impasse.

Of the registered voters surveyed by the Paul Simon Institute, 84 percent said the state was on the “wrong track.” Rauner’s disapproval jumped from 31 percent in early in 2015, to 50 percent this year. The poll did not ask about the General Assembly’s approval.

With the two sides entrenched in both states and solutions evasive, the Paul Simon Institute’s Yepsen turned to humor.

“My solution for the problem in both Illinois and Pennsylvania is that the two states swap governors,” he says. “They are both well-to-do, and they’re both Dartmouth graduates.”