

OFFICE OF THE GOVERNOR

BRUCE RAUNER

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Governor Rauner's Budget Address

As prepared for delivery

President Cullerton

Speaker Madigan

Leader Radogno

Leader Durkin

Lieutenant Governor Sanguinetti

Attorney General Madigan

Secretary White

Comptroller Munger

Treasurer Frerichs

Members of the General Assembly,

Thank you for your service.

I stand before you today with respect for our co-equal branches of government – acknowledgment of our shared responsibility for the future – and a deeply-rooted desire to work with each and every one of you to right our ship of state.

Although we succeeded last year in eliminating an inherited \$1.6 billion budget hole without a tax hike, we are now in our 8th month without a state budget – and court orders are forcing us to spend beyond our means.

Shocking, yes. Acceptable, not even close.

For more than two decades, we've had unsustainable unbalanced budgets, undisciplined spending, increased borrowing from retirees and vendors, rising taxes, inadequate

infrastructure investment, massive manufacturing job losses, and stagnant family incomes. Dismal economic performance.

The truth is, we haven't had a truly balanced budget in Illinois for decades. In ways both obvious and hidden, we've overspent, and raised taxes to cover it.

To win elections, politicians from both parties made promises to special interests that the state could never afford – unaffordable pension promises that are bankrupting our state.

Adding to the damage has been the cost of delay, the penalty we pay for kicking the can down the road by not paying for our promises when they were made. Postponing the day of reckoning is taxing delayed, only with a steeper price, and increased pain for our working families, when the bill finally comes due.

Years of unpaid bills – with their punishing 12% interest rates – have cost taxpayers more than \$1 billion in interest.

Worse: Delaying pension contributions through a slow ramp, which didn't pay in the actuarially required amount each year, was the equivalent of borrowing from the pension funds at an 8% interest rate – which is the long term yield on pension assets.

Eight percent is a stunningly high interest cost for our taxpayers to bear – that's the rate you pay on junk bonds! Illinois taxpayers owe an additional \$40 billion to the pensions because of this hidden borrowing scheme.

Our costs of government have grown rapidly, while our tax base – families and companies who pay for it all – is declining. Illinois today has fewer jobs and lower family incomes than we had in 1999. Think about that. Absolutely shocking. Unacceptable! Our people deserve so much better.

Raising taxes without addressing the costs of government, and improving the business climate of our state, merely drives families and jobs out of Illinois. In the years after the last tax hike in 2011, Illinois lost \$3.7 billion of taxable income. After the last tax increase, Illinois' credit rating was downgraded to the lowest in the nation. Our pension liability went UP \$28 billion. School funding was cut. The finances in the City of Chicago and Chicago Public Schools deteriorated. And now we lag the nation in job creation.

That experience showed us that a tax hike by itself is just part of an endless cycle of increased spending, borrowing and higher taxes – a cycle that drives people and jobs out of Illinois.

We have to break out of this downward cycle – and build a positive cycle of cost savings and job growth.

We must look beyond annual savings, and focus on changing long term trajectories.

We already know what won't work.

For one thing – this year cannot become a re-run of last year.

Twelve months ago, I proposed a budget with \$6 billion in cuts, and it was quickly rejected by the legislature. I offered to work together to find a compromise, but our reform proposals were ignored.

Instead, Democratic legislators passed a spending plan that was more than \$4 billion out-of-balance, and I had to veto it.

Democrats won't support enough spending cuts to live within our current revenues, and you won't vote to raise taxes to cover your deficit spending unless Republicans agree to support your tax hike.

I won't support new revenue unless we have major structural reforms to grow more jobs and get more value for taxpayers. I'm insisting that we attack the root causes of our dismal economic performance.

Those are the dynamics.

That leaves us with only two choices: either you give the executive branch the authority to cut spending to live within our revenues. Or, we agree – together – on economic and governmental reforms, to accompany a negotiated balance of spending reductions and revenue, that ensures that Illinois can be both compassionate and competitive.

You choose. But please, choose now.

Let's stop wasting time by voting on spending bills you know must be vetoed – and then doing it again and again and again.

The people of Illinois are sick and tired of this – they want us to work together, not watch another pointless cycle of votes and vetoes.

The people have been waiting long enough.

I stand ready to negotiate with each and every one of you – 24 hours a day, 7 days a week.

The people of Illinois want action. The time to act is NOW.

A few weeks ago, one Democratic legislator – someone for whom I have a great deal of respect – told the media that the solution to our problems must include several things: reforms, cuts and revenues.

Quote: “Those are the levers that have to be pulled in order to get out of this, and it’s just not that hard if reasonable people come together.”

She is right – everyone in this chamber must come together in the spirit of compromise and bipartisanship.

Let’s work together to enact a bipartisan, balanced budget with a mix of reforms, cost reductions and revenue – just as that Democratic lawmaker suggested.

And by reforms, I mean REAL reforms that will allow Illinois to grow jobs, expand our tax base and steadily reduce the total tax burden on Illinois families.

The reforms we’ve put forward would make our government more efficient and save taxpayers money.

We’ve introduced procurement reform to save half a billion dollars in the coming fiscal year alone. We have begun the work to sell the Thompson Center and save hundreds of millions. And we are negotiating a new labor contract that is fair to both state employees and taxpayers – to save hundreds of millions of dollars this year and \$3 billion over the next three years.

Since last spring, we’ve been bargaining in good faith with all of the public sector unions whose members serve in state government. We are negotiating on behalf of taxpayers who pay their salaries; on behalf of school children, the vulnerable, and the elderly, whose services depend on taxpayer funds. I am negotiating for all of them.

Our government employees are terrific people. They deserve to be well paid. And under our proposal, they will still be the highest paid state workers in the Midwest.

In the end, I know we will have an agreement that is good for state workers and good for taxpayers. Political attempts by the legislature to intervene at the 11th hour, and alter a binding contract, are a direct attack on Illinois taxpayers – a direct attack on all the people across Illinois whose services depend on state funding. We simply can't afford to increase the cost of our bureaucracy by three billion dollars. Legislation to force that kind of spending, and blow a giant hole in our budget, will be vetoed.

Three weeks ago, during the State of the State address, I said I would support President Cullerton's pension plan as a first step toward major pension reform – and I urged this legislature to pass it without delay.

President Cullerton's pension reform can save taxpayers a billion dollars a year starting in fiscal 2018.

Our administration lawyers met with Senate staff and made clear we will support whatever legislative language President Cullerton wants to use.

Unfortunately, as of today, no bill has even been introduced. Now is the time to set politics aside and do what is right for taxpayers. No more delays. No more stalling.

We also have to implement structural reforms that lower the cost of government, while generating revenue through economic growth.

There's a perception among some of you that the Turnaround reforms we've put forward won't help our budget crisis. That they're quote "non-budget" items. That they don't matter enough to move the needle. That they'd do more harm than good. Well, nothing could be further from the truth.

Workers' compensation reform and lawsuit reform. Mandate relief, consolidation, local control of bargaining and bidding to drive down property taxes. These reforms will provide many billions of dollars every year in government cost savings. But even more critically, they'll help our economy grow faster by rebuilding job creators' confidence in our state. More businesses, more jobs, more people working and paying taxes.

Right now, middle class families face crushing property tax burdens – they see factory workers in Indiana, Iowa, Wisconsin and Texas making more than here in Illinois – and they see jobs and opportunity fleeing our state. I'm fighting for those middle class families every single day.

To create jobs and raise incomes, we've got to change our state's reputation as being hostile to business. If our workers comp costs were in line with the median; if our tort system was typical of most states; if our property taxes were average for America; if our government had long-term fiscal discipline with structural balanced budgets that restore confidence in our financial future – then Illinois would become much more attractive to business – and our economic growth rate would rise from the bottom.

According to the Illinois Department of Revenue, if our state's economy had grown at just the national average over the last 15 years, we would have generated \$19 billion in additional revenue – even without the 2011 tax hike.

Just think about that. Today, we'd have no bill backlog with a billion dollars of interest payments. No budget crisis. And billions more for our schools, human services and infrastructure.

The true solution to fixing our budget is to raise revenue by expanding our tax base and growing our economy – not by raising taxes and driving more jobs and families out of our state.

My point is this: we need to change the way we think about the budget. This isn't a binary choice between program cuts and revenue increases.

This is about economic growth and opportunity – a more efficient government with more value for taxpayers – a better future for everyone in Illinois.

When we adopt reform – and our economy grows – and the cost of government shrinks – at that point, no matter what mix of spending cuts and revenue we consider in the short term, the overall tax burden on Illinois families will decline for years to come.

To take this path, we don't have to enact every item of our Turnaround Agenda in their current forms, but we must pass REAL reforms this year.

The savings for taxpayers from our Turnaround reforms would increase over time and could be many billions of dollars a year – potentially much larger than our current annual deficit.

Even if we only implemented a portion of these recommendations, in a few years we'd have a balanced budget without a tax hike, and we'd have billions of dollars in surplus funds to invest in our schools, our human services, and our infrastructure.

We'd be putting a priority on the next generation, not the next election.

Let us commit today to working together to enact a reform agenda, alongside a responsible, compassionate budget that together forms a sensible long-term financial future for the state.

For a year now, I've believed with all my heart that this common-sense approach could win majorities in both the House and Senate – if everyone was willing to compromise.

But as elected officials, you have to deal with political realities. Primary elections. Special interests. Campaign supporters.

If, in the end, you won't compromise on the reforms we've proposed – and if you're unwilling to work with us to enact a balanced budget with a mix of reform, cost

reductions and revenue – we still must fulfill our shared responsibility to enact a balanced budget.

No reform means we cannot in good conscience raise taxes on the hard-working families of Illinois. Instead, cuts will have to be made.

If that becomes necessary, I would ask the legislature to work with us to make these tough decisions.

If you are not willing to do that, then give the Executive Branch the flexibility to reallocate resources and make reductions to state spending as necessary.

The Unbalanced Budget Response Act would put everything on the table to help us balance our budget – everything except funding for early childhood education and General State Aid to our schools. To balance the budget without reform, we'll have to take a microscope to every other category of state spending.

You've given emergency budget authority to governors in the past – other states have too – and no one can dispute that we have an emergency on our hands. It's not my preferred course of action. It wouldn't solve our long-term challenges. But it would, at the very least, allow us to stop digging the hole deeper.

No matter which of these paths you choose – we must make the education of our children our top priority. The one thing I won't back down on – the one thing that's non-negotiable for me – is increasing education funding.

That is why Leader Durkin and Leader Radogno will be introducing a standalone appropriations bill for early childhood education and our K-12 schools.

No matter how this session unfolds, send that education bill to my desk – CLEAN – NO GAMES – and I'll sign it immediately.

The greatest investment we can make as a community is in our children. And the earlier we begin, the bigger the return.

That is why our budget for early childhood education increases state support by \$75 million, a nearly 25 percent increase. With that level of funding, we'd keep more than 85,000 kids in preschool and create 2,900 more full-day preschool slots.

The \$393 million this budget proposes investing in early childhood education is the most in state history – and will allow us to make giant strides towards ensuring every child in Illinois enters Kindergarten with a chance to succeed.

We have a new Executive Director at the Governor's Office of Early Childhood Development – Kelley Washington – and I want to recognize her presence here today.

Our budget also proposes fully funding the General State Aid foundation level for the first time in seven years.

This will mark the most state money we've ever invested in our school funding formula, and eliminate the need for any proration – a practice that has forced teachers, administrators and school boards to make cuts that negatively impact our kids.

We must fully fund this foundation level as a first step toward reforming our school funding formula. Our current formula doesn't meet the needs of our children. Past attempts to fix the formula didn't work because they pitted communities against each other.

This year, we are already seeing this cynical strategy being deployed. After years of financial mismanagement, our largest school system is threatening a lawsuit against the state. Such a course could set back funding formula reform for years to come, and ignores reality.

Not only did Chicago Public Schools ask for the current arrangement, they are benefiting from a special deal. CPS receives an extra \$600 million more every year than school districts with similar student demographics. Any school funding reform proposal that involves taking money from one school district and giving it to another, is doomed to fail.

To achieve formula changes, we must increase state support for education so that no community has state funding taken away as part of reform. I pledge to work with you on this issue to find a bipartisan way forward. But – nothing should delay the General Assembly from funding early childhood education and K-12 schools for the coming fiscal year.

I restate my request – send me that appropriations bill right away – CLEAN – NO GAMES – to give our schoolchildren, our parents, and our teachers the security of knowing that education is our top priority.

Send me that education bill for students all across Illinois – students like Diamond Jackson. Diamond is a student leader at Springfield Southeast High School – she’s a student board member for District 186 – she’s a rising star and she’s with us here today. Thank you for joining us here, Diamond.

Send me that education bill so that every student like Diamond has the opportunity to succeed.

Send me that bill for teachers around the state like Kim Thomas from Peoria. Kim is the 2016 Illinois Teacher of the Year – and she’s here with us today. Kim, thanks for all you do.

Send me that bill right away, and make sure teachers like Kim have the resources they need to give our kids a world class education.

Ladies and gentlemen, the paths before us are well-defined. Now it's time to choose.

With my hand outstretched – with a genuine desire to compromise – with respect – I humbly ask you to join me in transforming our state for the better.

Turnarounds are about changing direction. From loss to growth. From decline to expansion. From deficit to surplus. For the economy. For jobs. For taxpayers. For our children. For our future.

Right now, we're headed in the wrong direction. We need to work together to change the trajectory.

If we do this– if we come together to fix our long-term challenges – we will deliver world class education to every child in Illinois – no matter where they live or where they came from.

If we do this– if we come together to fix our long-term challenges – we will support the human services safety net on which so many depend.

If we do this– if we come together to fix our long-term challenges – we will lead the nation in the 21st century in economic growth, job creation and infrastructure – the envy of the world – the engine of North America once again.

We CAN do this. We MUST do this. Every hard working family across this great state deserves no less.

Let's get this done TOGETHER.

God bless you. God bless the State of Illinois. And God bless the United States of America.

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