Speaker Madigan: "The House shall come to order. The Members shall be in their chairs. We ask the Members and our guests in the gallery to turn off laptop computers, cell phones, and pagers. And we ask our guests in the gallery to rise and join us for the invocation and the Pledge of Allegiance. We shall be led in prayer today be Lee Crawford, the Pastor of the Cathedral of Praise Christian Center in Springfield."

Pastor Crawford: "Let us pray. Most gracious and most kind God, the author and the finisher of our faith, the giver and the sustainer of our lives, we pray that You would bestow Your most precious blessings upon this august Body. We pray that You bless its Leader. We pray that You will bless all of its." Members, Members that You have chosen to serve here. We pray that You will bless them this day in truth, may You bless them this day in strength, may You bless them this day in grace. This we ask in Your Son’s name. Amen."

Speaker Madigan: "We shall be led in the Pledge of Allegiance by Representative Mathias."

Mathias - et al: "I pledge allegiance to the flag of the United States of America and to the republic for which it stands, one nation under God, indivisible, with liberty and justice for all."

Speaker Madigan: "Roll Call for Attendance. Representative Currie."

Currie: "Thank you, Speaker. Please let the record show that Representatives Arroyo, Burke, Collins, Colvin, Flider, Fritchey, Gordon, Graham, Harris, Jakobsson, Jefferson, Molaro, and Patterson are excused today."

Speaker Madigan: "Mr. Bost."

Bost: "Thank you, Mr. Speaker. Let the record reflect Representative Durkin, Coulson, Lindner, and Bassi are excused today."

Speaker Madigan: "The Clerk shall take the record. There being 100 Members responding to the Attendance Roll Call, there is a quorum present. Mr. Clerk. Mr. Bost."

Bost: "Thank you, Mr. Speaker. I have an inquiry of the Chair when we're done taking roll."

Speaker Madigan: "State your inquiry."

Bost: "Thank you, Mr. Speaker. I was talking with Representative Biggins a while ago and I know the Sox are playing a doubleheader today. They're playing in the afternoon and then they're playing in the evening. And they're actually setting people out and then they're coming back in and so they're paying twice. Since we're having a doubleheader, we were just kinda wondering do we get paid twice on per diem? Does that work that way? Or how does that work?"

Speaker Madigan: "One per diem."

Bost: "Okay. Well, we just wondered."

Speaker Madigan: "Thank you. Ladies and Gentlemen, at… at the end of the day yesterday the Committee of the Whole recessed. And so at this time, we are prepared to reconvene the Committee of the Whole. And Representative Franks will continue to serve as the Chair of the Committee of the Whole. Mr. Franks."

Chairman Franks: "Thank you, Mr. Speaker. For those of you that have the handout, we're going to switch the panelists this morning. We're going to start with Walter Knorr from the University of Illinois. And for those of you who didn't get the other memo, the end of Session party at the Governor's mansion is postponed until further notice. So, we'll start right now with Walter Knorr."

Speaker Madigan: "Mr. Franks, if I could interrupt just for a brief moment. To the Members, please be advised that we estimate that there are no more than two hours of testimony remaining before the Committee of the Whole. The plan for the day would provide that at the conclusion of the Committee of the Whole there will be Party caucuses. After the caucuses we shall return to the floor to consider the Bill, which is on the Calendar that would provide for the authority to lease the state lottery. So that's the plan for the day. Mr. Franks."

Chairman Franks: "Thank you, Mr. Speaker. If we have Mr. Knorr here we can start. We'd also like to make… the Governor's Office has kept their panel here as well, so if you'd like to ask any questions of the Governor's Office, after Mr. Knorr's testimony, you'll have that opportunity. Thank you for being here."

Walter Knorr: "Good morning, everyone. My name is Walter Knorr. I am presently the chief financial officer of the University of Illinois. I'm here today because of the many years that I have spent in the public side of the aisle. For many years, I was the chief financial officer/controller of the City of Chicago, also controller of Cook County. Sat on all the public pension funds, actually on both sides, both as the employer and as a trustee on… on those pension funds and spent many a sleepless night worried about the financial health of those public pension funds. I did that for almost 21 years. So I was… been heavily involved in the… in public pension funds during that period of time. I… I'm here today… though I am the CFO of the University of Illinois, I'm really here on my own personal stead. So the positions I express today are my positions, do not necessarily represent the University of Illinois. I want to make that clear, even though I know that the State University Retirement System has signed off on the… on the pension bonds. But I wanted to have that disclaimer up front. I share the sentiment with everybody in this room that the state pension funds should be adequately funded. I'm not here to dwell on the past, but I believe everybody in the room agrees that an unfunded pension liability of over forty billion dollars ($40,000,000,000) is troublesome. I think, ya know, personally, that pension obligation bonds of approximately sixteen billion dollars ($16,000,000,000) represent an opportunity for a substantial infusion of additional pension assets and a significant improvement in the funded ratio of the state pension plans. I now… I assume you've been inundated with presentations and analyses and proposals, and I am not going to take up your valuable time with my version of those… those presentations. But simply, I think that… that certainly with interest rates, you're looking at perhaps a 6 percent interest rate on… on the bonds. You're looking at opportunity for savings between the 6 percent on the bonds and the 8.5 percent actuarial rate that you have to provide for on a budgetary basis. You're looking at a potential savings of over 2.5 percent on the bonds. And I… and I think you're looking at a tremendous opportunity to increase the funded ratios for the… for the pension funds. I think that the… I think they're all strong rationales for pension bonds. I think that the market is strong and will, ya know… basically, just as in 2003, I think… ya know, internationally… domestically and internationally that the bonds would be well received. And I think you should be very proud of the state's credit. It's looked across the world internationally as a… almost a sovereign credit, internationally. Based on the state's pension funds asset allocation policies and historical returns, which over the last 3, 4 years had been 13 percent for the pension funds… the state pension funds, there is a high probability that long term the invested proceeds will exceed the borrowing rate and the actuarial rate… the assumed actuarial rate for the pension funds. It's important that a plan for timing of the investment of the pension funds is carefully considered. The… all the pension funds of the State of Illinois are well equipped to invest their assets at rates that should achieve over 8.5 percent in today's markets. The individual pension funds have very deliberate asset allocation policies to achieve these goals and particularly focused on the equities and fixed income. I think the… you know, one of my mentors was a gentleman by the name of Cecil Partee and he said that this… ya know, he would say that the investment of the assets should happen with all deliberate speed. Ya know, that was one of his favorite sayings and when I… always said that 'deliberate' meant careful and considered and 'speed' spoke for itself. I think that what's important is to put together a risk-management strategy to make sure that the assets are transferred on an expeditious basis to the pension funds. Certainly, the markets are very… very big to basically absorb billions of dollars of capital infused into the markets. Everyday the international… the domestic and international equity markets have trades in excess of a hundred and seventy-five billion dollars ($175,000,000,000) a day. So this is something that the markets can certainly, ya know, absorb. I think… you know, my… I'm keeping my remarks very short, but I think in summary that the… the proceeds of the sale of pension obligation bonds would push the funded ratio from its present 60 percent level, ya know, which is of concern, and probably up to something around the area of 75 percent, a 75 percent level with a sixteen million dollar… sixteen billion dollar ($16,000,000,000) investment in the pension funds. Certainly, market conditions are favorable for such a sale and the equity and fixed-income markets are certainly can digest a sixteen billion dollar ($16,000,000,000) investment and… and not have any cost of carry associated with the sale of the bonds. And so that's… those are my… just my short personal remarks with regard to the… with regard to the pension bonds. I'd be happy to answer any questions and thank you for your attention."

Chairman Franks: "Representative Chapin Rose is recognized for 2 minutes."

Rose: "Over here, Mr. Knorr. Thank you."

Walter Knorr: "Yes, Sir."

Rose: "Is this the official position of the University of Illinois?"

Walter Knorr: "No, Sir. I… as I said, this is my personal position and I, ya know, put that out as my initial comment that this is my personal position based on my long years associated with the public pension funds."

Rose: "Is there an official position of the University of Illinois?"

Walter Knorr: "I do not have one. No, Sir."

Rose: "Okay. So are you testifying as the CFO or are you testifying personally?"

Walter Knorr: "Well, I'm just, ya know, testifying personally, but that's my position as the CFO of the university. But I'm testifying personally."

Rose: "Okay."

Walter Knorr: "Based on my experience."

Rose: "You had just mentioned that this might be a good idea because the current market dynamics. Are we at the high point of… relative high point of markets, say over the last 5 years?"

Walter Knorr: "Well, I think if you look back historically over 45 years, that we're still at the, ya know, at the low point of those historical… that historical analysis."

Rose: "Well, I guess my point is though, 5 years ago when the pension bond sale went forward they bought low and subsequently achieved the higher gain because the market went up. The 8.5 percent point that you're mentioning is a point that was achieved because you were in a rising market. Right now, we're kind of at the high point, at least over the last few years, and you might see a correction. Certainly, Sir, with my limited experience as a University of Illinois student who did take FIN 254, typically as interest rates rise the market's tend to decrease because investors go elsewhere. Interest rates have been on the rise over the last 2 years. The FED, as I saw last week, has apparently decided to hold its course for the time being. But certainly, a market correction is on, I think, the forefront of many people's minds, which would mean then we would buy… or we would sell… sell debt in the form of bonds to then be invested at the high point of the market, which would subsequently probably tank. I mean, what goes up must go down, and we're at the high point. And I guess my point in all this is in a maybe… in hindsight, a shrewd position from 3 or 4 years ago when the first bond sale went forth to restructure that debt. But today, I fail to understand why we should buy high only to sell low at a later point. That's… the whole reason that the first round of debt sales 3 or 4 years ago worked is because you sold… you bought the equities at a low point in the market equilibrium coming off of the '01-'02 recession. Wouldn't you agree, Sir?"

Walter Knorr: "I… yes, Sir. Well, the… in 2003 the bonds sold for 5.05 percent. And right now, we're looking at a rate… as of probably on Tuesday, my guess is we're just a tad over 6 percent, 6.02, something like that, on the long end of… on the long end of the bond. These are all priced off of treasuries, ya know, for purposes of this is going to be a tax… this would be if you… if you do, you know, pass it, it would be a taxable bond… a taxable financing, which is still a very low rate. And yes, the spread between what you can achieve… you know, investing the proceeds and that interest rate, that's basically the first benchmark. And… but… and certainly that, ya know, anything in excess of the 8.5 percent actuarial rate, basically, adds to that… adds to that benefit that you…"

Rose: "But that 8.5 percent is not a guaranteed rate in the equity. That's my point."

Walter Knorr: "No, Sir. That's the actuarially assumed rate. That's…"

Rose: "Right."

Walter Knorr: "…that's the rate that you have to put into your budget, you know, on an annual basis, you know, to basically fund the… to fund the pension plan."

Rose: "Right, but what you're suggesting…"

Chairman Franks: "Please bring your remarks to a close."

Rose: "And I have to bring my remarks to a close here. What you're suggesting is we issue securities at 6 percent to invest them and hopefully achieve an 8.5 percent rate. And the point I'm making is that we're at the top of a cyclical market right now, where we'd be buying high and would make it almost impossible to achieve that 8.5 percent at this point in time."

Walter Knorr: "Yeah, there… there's a lot of statistical analysis out there and I would defer that question and the answer in great detail to a panel a couple down. But there is a lot of statistical analysis out there looking into the future that basically says, you know, gives you the percentage chances of: a) it's very high percentage of beating the 6 percent rate; and b) the beating the 8.5 percent rate with the investment of the proceeds. And there's a lot of analysis that goes on with that, you know, particular…"

Rose: "Did you ever read that book, Dow 30,000 (sic-by 2008)?"

Walter Knorr: "Umm."

Rose: "Didn't quite make it, did we?"

Walter Knorr: "Well, I think… we're halfway there, I guess. Yes."

Rose: "Right."

Chairman Franks: "Thank you."

Rose: "Very well."

Chairman Franks: "Representative Pritchard for 2 minutes."

Pritchard: "Good morning, Mr. Knorr. In your analysis in support of this bond sale, did you consider who would be paying the service on that bonding?"

Walter Knorr: "Yes. I mean, it's part of the overall funding plan for the state's pension plans. This would be a state obligation. Certainly."

Pritchard: "So the pension systems would be coming up with what? About a billion dollars ($1,000,000,000) a year in service?

Walter Knorr: "Well, the state would be coming up with a billion dollars ($1,000,000,000) a year… would be coming up with a pension system."

Pritchard: "So is it the state or the pension systems that would be obligated?"

Walter Knorr: "The state is obligated, Sir. The proceeds from the bonds go to the pension plans for their investment and basically, earning this… this rate. The actual debt service on the bonds would be… for the state's pension service, it would be part of an overall pension funding plan which would combine the debt service as well as the annual funding requirement, you know, the residual funding requirement."

Pritchard: "And that then would come to what kind of total that the state would be obligated to pay?"

Walter Knorr: "Oh, I would imagine it's… I would defer that exact number to this panel that's coming down here."

Pritchard: "But in the neighborhood of four billion dollars ($4,000,000,000) a year."

Walter Knorr: "Umm, you know, I… "

Pritchard: "For next year."

Walter Knorr: "Well, I think… well, I think the plan would be to capitalize the interest, so there wouldn't really be a debt service hit on the… next year for purposes… in purposes of this plan. But I imagine the annual debt service, once it's out, it's…"

Pritchard: "So you have no reservations…"

Walter Knorr: "We would normally would push the amortization out into the future…"

Pritchard: "Yeah."

Walter Knorr: "…and we basically would be back-end loaded. That would be the way that these are normally structured. So…"

Pritchard: "But you don't have any reservations that the pension systems would be obligated to pay that extra service charge?"

Walter Knorr: "Well, I think that, again… this is an obligation, again, of the state. The pension funds are basic…"

Pritchard: "And you don't have any reservations that the Legislature would take another pension payment holiday? Because we put sixteen billion dollars ($16,000,000,000) into the pension system."

Walter Knorr: "With all due respect, Sir, I really can't speak, you know, to the…"

Pritchard: "I think those are factors you better be considering."

Chairman Franks: "Could we keep the noise level down a little bit in the room, please. Representative Black, you're recognized for 2 minutes."

Black: "Thank you very much, Mr. Chairman. And Mr. Knorr, thank you very much for being here. Do you oversee any of the University of Illinois invested assets?"

Walter Knorr: "Yes, I do, Sir."

Black: "What was the return on those assets last year?"

Walter Knorr: "I think that the… for the university… invested assets for the university's endowment was something in the vicinity of 10 percent, on the endowment side. And for the…

and for the foundation, I think it was… it was higher than that. I mean, I don't have the exact…"

Black: "Well, perhaps we should transfer the investment portfolio to the university, rather than the pension funds. You did very well. Well, let me ask you a question. Were you asked to testify here today?"

Walter Knorr: "I… you know, I'm aware of the, you know, the pension obligation bonds. I was asked if I would, based on my previous experience with pension funds, you know, would be… would be… would come forward."

Black: "And if I may be… excuse me for being bold, who asked you to testify?"

Walter Knorr: "It was… you know, the Governor's Office did ask me."

Black: "The Governor's Office. I'll be darn. Imagine that. Let me ask you a question that I… I'm trying to wrap my mind around. If we borrow the sixteen billion dollars ($16,000,000,000), by my math, the state would then have, in long-term bonded indebtedness, thirty-eight billion dollars ($38,000,000,000). Now, in your experience, does the state have the cash flow to manage that kind of debt service?"

Walter Knorr: "Certainly, I think it, you know, it has to manage itself, you know, to have that in the future. I mean, you know, speaking to the future again, you know, and having the cash flow, to, you know, to have that certainly that has to be part of the annual budget analysis that comes before the Legislature, you know, to make sure that there is the cash flow to, you know, handle debt service and the…"

Black: "The key word there being 'manage', manage our cash flow. I've not seeing empirical evidence lately that we're managing our cash flow. Let me ask you another question. Of the… if we sell the sixteen billion (16,000,000,000), what would your view… how would we divide that amongst the five (5) public pension systems? It… would there be a formula that we would follow?"

Walter Knorr: "Well, I think, you know, that would, again, leave that up to the Body and the… and the state to basically come up with an allocation formula, and it could be done in a number of different ways. One is the size of the assets in the individual five (5) pension plans. It could also be weighted by the amount of underfunding in each of the individual pension plans or the amount of actually unfunded pension liability. But… but all of those would be asset allocation formulas that you could use."

Black: "Thank you very much. One last question, very briefly, what, in your opinion, would the impact be if we do this but do not make pension and spending reforms and possibly revenue sources? Can we achieve this symmetry without pension reform and without perhaps an additional revenue stream?"

Walter Knorr: "Respectfully, I'm trying to understand the question, Sir."

Black: "Well, if… if we borrow this sixteen billion dollars ($16,000,000,000) and we put it into the pension systems, will we maximize the results if we do nothing on pension reform and we refuse to consider a revenue source that would help retire the debt? Would… would we be able to achieve our objectives or are we setting ourselves up for a cliff over which we may fall 4 years out, 6 years out, 8 years out?"

Walter Knorr: "That's, you know, very di… very difficult, you know, question to answer. I think, again, it has come back to managing this cash flow."

Black: "Managing."

Walter Knorr: "You know, and I would sustain that certainly if the expectation is… the highest expectation is that the pension funds are going to exceed the borrowing rates on the… on proposed bonds or exceed the actuarial rate, that that'll end up being an additional budget savings, you know, for… for the state."

Black: "All right. I thank you very much. Go Illini. And if you need an orange tie see me afterwards."

Walter Knorr: "Okay. Thank you, Sir."

Chairman Franks: "Representative Chapin Rose for an additional minute and a half."

Rose: "Mr. Knorr, would you agree that the S&P 500 is a reliable index over time? Standard & Poor's 500 index, 500 largest securities in the… the country."

Walter Knorr: "Yes, Sir."

Rose: "Okay. And that would be something… an investment vehicle that we would invest in hoping to achieve the 8.5 percent return, correct?"

Walter Knorr: "Well, I think… I mean, again, as a I stated, I think the individual pension funds have their own asset allocation policies."

Rose: "I understand. But that would be one of the vehicles, correct? Repre… Mr. Knorr, would it shock you to learn that we are at the top of a 5-year high in the S&P 500? I just pulled it up here on the Motley Fool Website. In fact, yesterday's close of fifteen twenty-five forty (1,525.40) is only fifteen dollars ($15) off the year high of fifteen forty fifty-six (1,540.56). We're at a 5-year high. Does it make sense to buy a security at a 5-year high and then let it go down?"

Walter Knorr: "Well, certainly, again, I'm putting my, you know, my trust in your pension funds to basically make prudent investments, according to their asset allocation policies. That's, you know, where it's going to… you know, that's where it's going to lie."

Rose: "Mr. Knorr, if we were to put this money in at a 5-year high then we suffered a recession and a subsequent market correction and went down, wouldn't that just compound the pension problem?"

Walter Knorr: "Well, certainly that would… you know, if you're not achieving the actuarial…"

Rose: "Thank you."

Walter Knorr: "…rate, you know…"

Rose: "Thank you, Mr. Knorr."

Chairman Franks: "Mr. Lang is recognized for two and half minutes."

Lang: "Thank you, Mr. Chairman. Mr. Knorr, I'm over here. How are you? Different side."

Walter Knorr: "I'm sorry."

Lang: "Welcome. It's a pleasure to have you here."

Walter Knorr: "Thank you, Sir."

Lang: "Have you considered… I understand that you're in favor of doing this and your… it's your personal opinion, but I'm wondering, 'cause I know you have a lot of experience, if there are other ideas other than the ones you've seen on the table for us to deal in this issue."

Walter Knorr: "Well, certainly the other side is basically the… you know, what can you do with the benefit package, the retirement package. You know, certainly you cannot diminish, you know, the retirement benefits that are already guaranteed, you know, to, you know, existing participants and to… and to potential retirees and to retirees. So, all of that has to be looked at on a prospective basis, you know, for any adjustments that you can make to… to reduce the… the annual liability or the annual cost, you know, to… to the pension fund. But, you know, for purposes of essentially a… you know, that would be probably the primary thing that you would be looking at."

Lang: "So that would be moving forward but…"

Walter Knorr: "It… it'd probably have to be looked at on a forward basis."

Lang: "Do you have any ideas or do you know any experts we could go to, because I'm not sure anyone else has ever talked to another expert, as to ideas we could have to deal with our current problem other than the ideas that are on the table?"

Walter Knorr: "Well, I think… you know, I think that it is certainly… I mean, you're hearing from a lot of experts today. I think I would defer that to, you know, other experts. I'm… I'm really don't have an immediate recommendation, you know, for purposes of an alternative, you know, consultant."

Lang: "And so, your position on this, which again, is your personal position, is based partly on that fact, that so far no one's come up with an alternative and that it's… it's not so much a public policy position that you think we oughta take, but one that we oughta take because it's… it's really the only thing out there."

Walter Knorr: "Well, I think… you know, the rationales… the strong rationales that I identified were really the market conditions for bonds and the acceptance, you know, that the bonds would have, the potential for budget savings… real budget savings, you know, associated with this, as well as just the infusion of assets of these… of this size increasing the unfunded liability to… from 60 to 75 percent, you know, with the… that infusion."

Lang: "Thank you very much, Mr. Knorr."

Walter Knorr: "Thank you. Thank you, Sir."

Chairman Franks: "Thank you, Mr. Knorr. We appreciate you being here. Those are the questions that we… that we have for you. So, thank you for coming down and speaking with us."

Walter Knorr: "Thank you."

Chairman Franks: "If we can please have Mr. Johnson from the Taxpayers' Federation. Thank you. Mr. Johnson's the president of the Taxpayers' Federation of Illinois and we very much appreciate you being with us today."

J. Thomas Johnson: "Thank you very much, Chairman Franks. I appreciate the opportunity to come to visit with you about the Illinois pension obligations that we are facing. They are… without doubt, everyone in this room can agree that they are significant. They are the most significant pension liability for… of any state in the nation and there is a responsibility for us to try to address this and there are different ways to address it. My comments today about the plan raises some concerns that the Governor's presented. One, after infusing the pension funds with new assets, the plan continues to avoid our current contribution responsibilities. Normal cost of pensions on an annual basis is approximately one point three billion dollars ($1,300,000,000). The servicing of pension debt, either that which exists today or that which is proposed, would cost approximately one point five billion dollars ($1,500,000,000) a year, for a total servicing cost of current contribution requirements and the pension obligation bonds, about two point eight billion dollars ($2,800,000,000). The current plan, as I understand it, would provide in 2008, one point eight billion dollars ($1,800,000,000). And we are concerned that asset sales and debt are used to fund current operating costs. In our opinion, current revenues should pay current operating costs. The plan calls for initial achieving of 83 percent funding level through the two transactions that are proposed, but that would drop over a period of time to 77 percent as we continue to use asset sales in pension debt to fund… fund current operations. That's not a plan that we can get… garner our enthusiastic support around. We believe that deciding how to fund that outstanding liability should take second seat to how do we contain the cost of our employee benefit programs, programs that currently far exceed the benefits normally found in the private sector. We endorsed the proposals made yesterday by a group of business organizations and policy organizations, including the Taxpayers' Federation, to curb the benefits under our… both our pension programs as well as under our health care benefit programs. Many of those programs… many of those suggestions were, in fact, proposed a few years ago by the Governor's Commission on Pension Reforms. We believe that with… that should be the first step in addressing our pension obligations and that they… that could make a significant contribution to the problems in out years. Having said that, we are not opposed to the sale of government assets. If all of the proceeds, both immediate and future, are exclusively used to pay down debt, not used for operations. In the case of the lottery, we do not see it as a core government function, but it is a source of funding current government services. It could be sold if the proceeds are reinvested in pension assets that produce a greater return than the current return on the lottery asset and we are able to contain costs to replace the revenue lost as a result of the loss of this current revenue producing asset. We do have a couple caveats, and that is, what are we selling? We're selling an intangible asset of the right to operate a monopoly business. The parameters of the sale can be tricky. When you sell a monopoly, must you guarantee that the monopoly continue to exist and what is the state's responsibility to assure that that occurs? Secondly, how do we assure the citizens of the state that the lottery will be operated and marketed in a way that serves all of our citizens' interests? When you're selling an intangible asset, those challenges exist and they need to be considered carefully before the parameters are ultimately developed as to an RFP. Pension obligations, again, they can be used and have been in the past and they can produce an arbitrage benefit if the property is properly invested at the right time. But we should not repeat what… what we've done in the past and use them to avoid our current… current operating costs of State Government. With that, I'd be glad to answer any questions you may have."

Chairman Franks: "Mr. Lang, you are recognized for two and a half minutes."

Lang: "Thank you, Mr. Chairman. And Mr. Johnson, good morning."

J. Thomas Johnson: "Good morning."

Lang: "Thank you for being here with us. I am… let me ask you if you think that… you indicated that you didn't think it was definitely off the table to sell government assets under given circumstances. Do you have an opinion about, and maybe you said it and I missed it, whether if we're going to do something with the lottery it should be sold or leased?"

J. Thomas Johnson: "Well, I think there's a lot of questions about it. One, how is that business going to be operated on a go-forward basis? It's very challenging when the government is selling a monopoly business. It's really an intangible asset. It's not like it's a Skyway or something that's hard and concrete. The parameters that you must place around the transaction are very important. How will it be operated? How will the product be marketed? Will you sha… be able to share if there is considerable increase in profitability of the lottery? And so forth. We do not see the lottery itself to be a core government function. It's not like a tran… part of our transportation system. If is a revenue producer and the revenue it produces needs to be replaced or, on the other side, costs need to be contained to replace the lost revenue as a result of the sale of the asset. So, we see it as a transaction that can be evaluated, should be evaluated, and so forth, but should be very carefully structured. And all of the implications of that transaction need to be understood."

Lang: "So those would be the same questions that we would ask whether it was sold or leased, and I'm just wondering if you have an opinion as to… as to which we should choose if we'd go this way?"

J. Thomas Johnson: "I would thi… suggest that any time in the private sector market an intangible asset is sold, it really isn't sold. It is… it is securitized. What the lottery is a revenue stream. And what the buyer of that transaction will be is a revenue stream. More often than not in the private sector, that is a license or a lease transaction, rather than an outright sale of the asset."

Lang: "I think you answered my question. Thank you very much."

Chairman Franks: "Representative Jeffries for one minute."

Jeffries: "Thank you. Did I understand you to say that under the proposed, the Governor… it would only… it will bring in one point eight billion (1,800,000,000) and… which… it would only cover one point eight billion (1,800,000,000)? Did I understand that correctly?"

J. Thomas Johnson: "What… what I understand, the current fiscal year plan was, was that as a result of these transactions there would be an infusion of assets into the pension funds, some of that have… has to service debt. And the debt service would require one and a half billion dollars ($1,500,000,000) and current costs of pensions are one point three billion dollars ($1,300,000,000). We believe, at a minimum, the amount that's deposited into the pension funds should cover current costs and the cost of servicing that debt. That totals about two point eight billion dollars ($2,800,000,000). The plan that was presented earlier this year only provided a one point eight billion dollar ($1,800,000,000) contribution to the pension funds, and that's approximately a billion dollar ($1,000,000,000) shortfall from what we would think would be required to have an appropriate fiscal plan around solving our pension plan… funding plans… problems going forward."

Jeffries: "All right. Thank you."

Chairman Franks: "Thank you. Representative Flowers, you'll be recognized for 2 minutes."

Flowers: "Thank you. Mr. Johnson, you had mentioned something about health care and how much your contribution as far as the pension is concerned. How much of the pension fund is health care?"

J. Thomas Johnson: "None of it, currently."

Flowers: "None of it."

J. Thomas Johnson: "The… ultimately, we have two (2) sets of liabilities. One, the cost of funding pensions for our eligible employees. And two, the cost of funding health care for the retirement of those employees. Historically, we have set aside assets for the funding of pensions. We haven't done a very good job of that. We're only 60 percent funded today. When it comes to health care retirement benefits, we have set no assets aside. We pay-as-you-go. And we believe that the state needs to adopt a program to also start setting aside assets for retiree health care benefits as well. But, we also need to try to contain the cost of those programs and make those benefit structures more comparable to what the taxpayers of this state would normally receive if they worked in the private sector. And we don't believe Illinois's current benefit structure is comparable and it is more generous than the taxpayers of the state realize from the private sector employment."

Flowers: "So how much approximately have we expended as pay-as you-go?"

J. Thomas Johnson: "Well, the current cost of health care for both employees and retirees is about one point eight billion dollars ($1,800,000,000) a year. It's my understanding that approximately five hundred million dollars ($500,000,000) of that a year is the cost of health care for retirees."

Flowers: "I'm sorry, I didn't hear that last number."

J. Thomas Johnson: "Is the cost… five hundred million dollars ($500,000,000) is the approximate cost of health care for retirees. And that has to be paid on a pay-as-you-go basis because we, unlike pensions, we have never set aside assets for that cost, as we should."

Flowers: "And if we didn't have that cost, that five hundred billion (500,000,000,000) (sic-five hundred million), would that money then be able to go into the pensions?"

J. Thomas Johnson: "Well, I'm suggesting that any way you can contain the cost of current operations, whether it be refining the health care costs for our employees and our retirees, that's savings and those savings can then be allocated to pay off past debt."

Flowers: "Thank you."

Chairman Franks: "Thank you. Representative Fortner for 2 minutes."

Fortner: "Thank you, Mr. Chair, Mr. Johnson. Yesterday there was some discussion about when there… if the state should choose to sell an asset, what value should it be expect to get from that asset? Obviously, the number ten billion (10,000,000,000) was suggested as a base level in the proposal that was presented initially. We also heard some computations that if one more fairly calculated the growth of the value of the revenue stream from that asset might be as much as sixteen billion (16,000,000,000). Has your organization looked at what the value for the lottery as an asset might be in terms of present value?"

J. Thomas Johnson: "We have not. Obviously, until you get a determination of what the market is willing to pay for that asset, it's hard to determine what your current rate of return is. We know we're getting about six hundred and twenty million dollars ($620,000,000) a year. If, in fact, the asset is worth ten billion dollars ($10,000,000,000), as a result of that current revenue production and promises for the future, then you're talking about a 6.2 percent return on asset value. And that's the way you would calculate it out. You also have to look at how long of a license it is and what implications that has, what are the limitations on the operation of the… of the monopoly, both in terms of how it can be marketed and what kind of products can be sold through that retail stream. All of those take… must be taken into consideration. And until the General Assembly would decide on what kind of limitations that would be, it's very hard to put an asset value on that asset."

Fortner: "Thanks. My second question, when you were discussing about the level that the state should have assets to deal with the liability, if you just take the pensions, I know you also mentioned the future health care benefits, but just on the pension side, what percentage do you or does your group feel is an appropriate number? We know there's the 90 percent number which is the target from the 1995 plan. Is that… is that the right number?"

J. Thomas Johnson: "You know, it's been kind of an established, you know, fact that it should be 90 percent. Where did that 90 percent came from? I… I read Mr. Miller's document today, too, it came from a negotiated process and so forth. I think he made some interesting points in that possibly the… we should relook at. What should be the goal of how much is necessary in order to properly fund that asset, given the type of enterprise we're in, versus the private sector. I… we haven't done enough work on that to be… for me to speak to it with any expertise. I think it's an interesting issue to… to research and evaluate."

Fortner: "Thank you."

Chairman Franks: "Thank you. Representative Pritchard for 2 minutes."

Pritchard: "Thank you, Mr. Chairman. Mr. Johnson, good morning."

J. Thomas Johnson: "Good morning."

Pritchard: "You mentioned in your comments that reforms needed to be a part of any type of pension settlement. You, I know, were aware of the comments made yesterday from many of our labor organizations in response to that. Do you care to have a response on how feasible you think these reforms might be?"

J. Thomas Johnson: "I think some of the reforms are very feasible. I mean, often when people comment on the subject matter of the pensions they look at… you know, our average pension benefit may be at the national average, but you can access that pension benefit earlier in your… your age, chronological age. For example, we can access full retirement benefits at age 60 with no haircut for early retirement. Many other pension programs have a retirement age of 65. You need to look at every aspect of the benefit structure. Not only the con… the calculation of the benefit, but at what age can you access that full benefit. And those are things that I think that were overlooked in the debate yesterday and I think there are areas that we can make reforms that would bring us to the national average, rather than below or above the national average. And we should look at each aspect of our benefit programs to see where we stand, not just one. And one, it… would be… would produce a very misleading result."

Pritchard: "Certainly an infusion of sixteen billion (16,000,000,000) in bonds and a sale of ten billion (10,000,000,000) or more in the lottery system would infuse a considerable amount of money into the pension system. Do you have any concerns that the state is going to continue its obligation to make annual payments after that kind of infusion and reduction in our obligations?"

J. Thomas Johnson: "It's the ob… it's the obligation we have to future taxpayers of this state. You pay current expenses with current revenues. We have not been doing that. We should do it. One aspect I'll have to say about the pension obligation bonds, is it hardens up a debt. It's a debt we owe. If it is a bonded debt, you have to pay off the bonds. Currently, if you look at the history of our state, we have not been funding the soft debt of this state and we need to get a mechanism in place to be sure that those obligations are met when they're currently incurred."

Pritchard: "Thank you."

Chairman Franks: "Representative Reis for 2 minutes."

Reis: "Thank you, Chairman Franks. Mr. Johnson, I don't know if you're aware that there's been an Amendment filed to the sale of the lottery Bill and it's our understanding, we don't have the language yet on it, but that more of the pension sale proceeds will be diverted towards keeping AFSCME workers hired, setting up an annuity to keep the school funding that's in place, protected. How would this affect your view on this pension… or lottery sale now?"

J. Thomas Johnson: "Sale of assets and incursions of debt should not be used to pay for operating costs. If we're going to co… if we're going to operate government, we need to have the revenue in place to pay those bills currently. We should not use asset sales or incursion of debt to pay for operations. Bottom line. That's not a responsible fiscal plan that any of us should endorse."

Reis: "Okay. Mr. Chairman, I would hope that if we're going to be considering this Amendment that the Governor would come up here and tell us about his plan. You know, we've got a nice forum here set up where we can discuss this in an open manner, hear both sides of the issue. You've done a fabulous job, along with the Speaker, in setting this up. And… and, ya know, for us… to call this a three-ring circus, I think this is great. This is a perfect opportunity for both sides to air their feelings on this and I wish the Governor would come up here and tell us what his Amendment is, what his belief is and… and truly stop playing the games himself."

Chairman Franks: "Thank you. Mr. Johnson, we appreciate your testimony. Thank you very much for coming today."

J. Thomas Johnson: "Thank you very much."

Chairman Franks: "Our last panel is our financial service firms. And we have Loop Capital Market's chairman and CEO, Jim Reynolds, and City Group Managing director, Steven Woods. If you gentlemen will come on up. Thank you for being with us today. And if you can identify yourself and proceed."

Jim Reynolds: "Good morning, everyone. It is indeed a pleasure to be here and address this esteemed Body. Chairman, it's a pleasure to be here, Mr. Speaker and also Members of the General Assembly. I'd like to spend a few minutes of addressing the issue of pension obligation bonds. Obviously, I had a chance to sit through yesterday and a bit this morning on the discussion around them and have really changed my comments a little bit so as not to sound too redundant. But that being said, you folks here in this Body are facing a very serious issue. What is refreshing to me though, in the course of your dialogue yesterday and today is that it is obvious that you understand that this is a very serious issue and you're addressing it with all seriousness, which I think is very refreshing. The issue that you are wrestling with or dealing with is certainly not a new issue. Although for yourselves, to have it at this point, at this stage is tantamount and very serious. But that being said, it's an issue of many states all around the country. And as you sit here, various and sundry states are either approving, contemplating, or actually issuing pension obligation bonds. So it is not an isolated Illinois issue. My strong suggestion around the framework that you use to address this issue is one, you actually frame out what it is, which you have done. You're looking at a very significant liability here of in excess of forty billion dollars ($40,000,000,000) today that's growing at a rate of 8.5 percent, roughly, and that's about three and a half billion dollars ($3,500,000,000) a year that has been pointed out over the next 3 years will have a liability of over fifty billion dollars ($50,000,000,000). When you look at this issue and how to address it, which I've heard several comments on today, I think there is a myriad of ways that you address this. So far, there's been discussion on only two (2) of those ways: asset sales… one asset sale and obviously the issue of issuing bonds. But there's other issues, that other tools that states use. Whether they're revenue growth assumptions, budget cuts, adjustments of future benefits, there are a sundry list of tools that should be considered. Generally speaking, the reason that pension funds get into this particular situation is that the pension… their pension obligations are considered to be what we call a 'soft obligation', which means you don't have to write that check every year. That doesn't have to be balanced. And if you don't balance it one year, it just goes up the next year. It's a soft liability. Also, generally speaking, the pension liabilities are among the most expensive parts of the any government structure. Illinois is also not alone. Illinois happens to have, though, one of the highest… or the highest rates of underfunded pensions, roughly 60 percent funded, in the nation. But it is not alone with this issue. In my opinion, it's imperative that this Body take a look at the issue, scope the problem, and adopt a disciplined approach to handling it, a disciplined approach to curtailing the growth of this liability that candidly is growing significantly. A prudent use of pension obligation bonds is a significant tool to address the issue of underfunded pensions. You've talked a lot about the state of the state. I'll give it to you the way I see it. Basically, your pension liability is… is an actuarial assessment of the amount owed by the state on its… at any given time. The unfunded liability is an actuarial assessment of the difference between the assets in the fund and the liabilities owed by the fund. That number in Illinois comes to about forty billion dollars ($40,000,000,000) and that number is compounding at a rate of 8.5 percent a year. When you have a forty billion dollar ($40,000,000,000) number compounding at 8.5 percent a year, I don't think it takes a lot of thought to realize that you have to do something pretty big to curtail, to bring down that number, and to bring down the rate of growth or future generations or future lawmakers are just going to have to deal with a norm… a number that is basically enormous. Compound interest… normally when we think about compound interest, when you think about compound interest and when I think about compound interest, we think about it as a very valuable tool. It's a tool that, for our retirement, for our savings, is very significant in how those things grow.

Invest young, let compound interest do its work, and you have enough money there when you retire. The issue you're facing today, though, is the issue of compound interest in reverse, and that is you owe money, the debt is growing at a rate of 8.5 percent, if you don't curtail that rate of growth in the liability, then that forty billion (40,000,000,000) growing at 80… 8.5 percent becomes fortythree (43), forty-seven (47), fifty (50), fifty-three (53), and so on. Two things must be present, and I heard a dialogue today, a very good dialogue today, about this issue of whether pension obligation bonds make sense right now. I was around when you did the first issue in 2003 and the 2003 issue could not be characterized in any other language except that it was a grand slam homerun. It was probably one of the best, most timely pension obligation bonds ever issued in this country. You issued at an all-in rate of 5.5 percent at a time when the markets were poised for growth and you achieved that growth. The pension plans in the state have generally returned, during that period of time, north of 9 percent. So you borrowed money at 5, you got returns of 9 or more. That was a very good deal. But I've also heard discussions over the course of yesterday and today as to whether it not… it… or not it makes sense to do it again and in what size it makes sense to do it. Well, the reality is the climate is not as good as it was in 2003. That's a given. Interest rates during that time were about fifty (50) basis points or so lower than they are right now. And your all-in cost, if you did it right now, would go from a 5.05, which you got in 2003, to somewhere in the neighborhood of 5.80, 6 percent, 6.25, somewhere in there. The two parts of a successful pension obligation bond, though, are the cost of the money, which has gone up, but that's only one part. The other part of a successful pension obligation bond is the expected return of the assets that you invest in. And if we look currently at what you would be looking at or the factors that you would be considering, that would be borrowing at a rate of somewhere around 6 percent, looking at the opportunity to invest currently. I think right now there was some discussion of the S&P, it's up about 9 percent year to date, and whether or not it would make sense or it would be achievable to be able to invest in assets that would get you a rate above your cost of funds, which is 6 percent. We sat and we heard one of the experts, Bill Atwood, executive director of the Illinois State Board of Investments, say that their long-term imputed rate of return is about 9.2 percent. So if that long-term rate held true for most of the other plans, which I think that's about where the others are, more or less, it would probably be a good deal to do that again today. The factors, though, that I would consider if I were you, would not be whether or not a pension obligation bond is a good thing or a bad thing. It's already proven that it is a good thing, and you proved it in your 2003 issue. But to me, the factors that are prudent for this Body to consider are: what size should that deal be, the proper timing of that deal, the structure of that deal. One of the other issues that I… I heard addressed, and I think it come… it came up several times, is the issue of the indebtedness of the state. Let's be clear about what happens with a pension liability versus a pension obligation bond. Right now, the state is obligated to pay a rate to the pension funds. Basically, an 8.5 percent rate on the outstanding assets of the fund, if you will, or the unfunded part of the fund, which is about forty billion dollars ($40,000,000,000). That's owed by the state right now. What happens when you issue a pension obligation bond, though, is that the liability goes from… your liabilities don't go up. But it goes from a soft liability, which is what you have right now to contribute to the fund, to a hard liability, and that is you have to pay that interest rate to bondholders. You shift your payments basically from what you owe to the pension funds to what you owe to bondholders. But the good news there is, candidly, what you owe to the pension funds accrues at a rate of 8.5 percent annually. What you would owe to bondholders accrues at a rate of roughly the cost of issuance. Let's call it, give or take, 6 percent. Therein is the key difference. The thing that makes a pension obligation bond work is the spread between your cost of money and your investment. Here, also there's one other consideration, when you're in as underfunded a position as you are here at the state, and that is the rate that the liability that you have, which is forty billion (40,000,000,000) also accrues, which is 8.5 percent. So you'd be able to replace that 8.5 percent accrual with a roughly 6 percent accrual, which is very significant. In closing, I would only say that: one, pension obligation bonds are a great arsenal to have in anyone's tool kit, and you don't want to take them out. What you want to do, though, is debate, which is what happened here today, a healthy debate on how ya use 'em and when ya use 'em. But in a situation that is… exists right now in Illinois, it's clear that you're going to have to do something significant to address the significant liability that you have. Thank you very much."

Steve Wood: "Thank you. Thank you, Representative Franks and Mr. Speaker, House Members. My name is Steve Wood. I'm a director with Citigroup Global Markets. By way of personal background, right now I'm based in New York City, but I spent the first 10 years of my career here in Springfield. I worked for the state, worked for the Illinois Bureau of the Budget and was CFO for the Illinois Department of Transportation. And my daughter was born here, so it feels like I'm coming home and it… I'm always glad to be here. I represent Citigroup Global Markets, otherwise known as Citi. And Citigroup Global Markets is among the leading global underwriters of bonds, underwriting internationally over hundreds of billions of dollars in bonds every year, including pension bonds, such as those being considered for the State of Illinois. I'm here in support of pension funding bonds, especially bonds that increase the funding ratios of the pension fund and decrease the unfunded liabilities. Essentially, the theme of my remarks are how this type of program would be viewed in the capital markets by rating agencies and by municipal analysts that are trying to analyze the State of Illinois and its fiscal health. One of the concerns that people have about the pension unfunded liability is not only its size, but its proportion. It's forty billion dollars ($40,000,000,000), you've heard that, but it's also a 60 percent funded ratio. Illinois is among the lowest states in that funding ratio. The proposed program would put it solidly in the middle at about 80 percent funding, which is right… right in the average zone and also with the zone that I would think the rating agencies consider pretty typical for this type of situation. The unfunded liability also, on a per capita basis, is quite large for Illinois. It's over thirty-four hundred dollars ($3,400) per citizen. That, again, is among the worst in the… in the states. The proposed program puts it near the top of that. It would reduce that to about two thousand dollars ($2,000) per capita. Again, those metrics would be viewed favorably in the financial markets and would reflect well on Illinois. Pension bonds, as… as Jim has mentioned, are well used and well regarded as tools for pension funding. Over forty billion dollars ($40,000,000,000) have been issued by three hundred (300) jurisdictions to date. Other states include Wisconsin, Kansas, New Jersey, Oregon. West Virginia just sold nine hundred million dollars ($900,000,000) of bonds and put that into its pension fund two weeks ago in June. Connecticut, Alaska, Kentucky, Puerto Rico are all considering pension bonds to help shore up their… their pension systems. As I re… as I mentioned, they would be well received by the markets, they would be well regarded by rating agencies. The rates that you could command would be between 5.75 and 6.50. I think today's market, as Jim mentioned, closer to 6 percent. And when analysts look at this type of situation, I think the prevailing view is very simple. You're replacing an 8.5 percent obligation with a 6 percent obligation. There's a lot of anxiety about whether or not that 8.5 percent can be achieved in the investment side. Our simulations and our… the way we look at that was we do some probabilistic simulations looking at historical returns that have been available and the way funds have been invested in Illinois pension funds. We calculate there's a 90 percent chance that the long-term results would be between 7 and 11 percent. Easily, the median is over 9 percent, surpassing the 8.5 percent target. Over 30 years, a high… over 95 percent chance that you would earn more in the pension investments than… than you would cost for the bonds. And so, there's a high chance that the… the economics and the arithmetic of the pension bond program would actually be the result going forward, again, based on the good record of the pension system's own investment strategies, as well as historical returns available for all classes of securities. So, essentially, the basic benefit of pension bonds is you increase funding ratios, you reduce budget outlays, same way as if… when you refinance a mortgage at home and you lower the… lower that mortgage from 8.5 to 6 percent, your monthly payments go down. Any state that is experiencing budgetary stress or fiscal stress, that's always a positive. The proposed program, as we've analyzed it, is a disciplined program. It does result in manageable, annual increases over time. That's viewed as a… that's viewed as a positive in the financial markets. The bonds themselves would be highly marketable and viewed favorably. We think that the entire program, whether you adopt part of it or adopt it over time, is always going to be a positive. Whatever your financial outlook is, whatever your budgetary stress is, whatever your ultimate total plan is for addressing pensions, we believe that bonds can always improve that. It creates wealth, hard wealth, that is invested, and in the long run it adds to the overall fiscal stability of the state. With that, an… be glad to answer questions."

Chairman Franks: "Thank you very much. Mr. Eddy, you'll be recognized for 4 minutes."

Eddy: "Thank you very much, Mr. Chairman. Can you… Mr. Woods, could you describe… and I understand putting a good face on this and I understand that’s what you do. First, let me ask this question, 'cause it's just… I'm not trying to be critical. What's the commission rate for this kind of a sale for companies that do that?"

Steve Wood: "What the… the payments for the bond underwriters?"

Eddy: "Yeah. What… what…"

Steve Wood: "It hasn't been determined for this transaction. Generally, you would… what we count as… we count it as dollars per one thousand dollar ($1,000) bond. So we would put it at somewhere between two and a half ($2.50) to four ($4) to five dollars ($5) per bond, which would be half a percent."

Eddy: "Well, let's just talk in terms of the sixteen billion dollar ($16,000,000,000) bond issue."

Steve Wood: "All right."

Eddy: "What type of… what type of payment or what type of commission… give me a rough idea of what that would make the bonding companies."

Steve Wood: "Well, in fees, that would probably be… I don't, does anyone want to do some arithmetic? Fifty million (50,000,000)."

Eddy: "So, about fifty million dollars ($50,000,000) would… and that's just a curiosity I had. But let's go the other direction on this spread. What if the spread does not occur? We always look at things in case… worst-case scenario."

Steve Wood: "Right."

Eddy: "Right now, you're saying, 'I've heard the 6.25. I've heard as high as 6.5 percent.' You… you're right in that ballpark. What… what happens if you do not achieve the desired level on the investment?"

Steve Wood: "Well, over the long run, over… over the 30 years, if you look back and you did not achieve the desired investment then that you would have less than you had expected when you started."

Eddy: "So… so there is potential that a bond issue of this magnitude, if you don't meet the… the desired… could have a devastating effect on an already underfunded pension system?"

Steve Wood: "Very tiny potential."

Eddy: "There's a very tiny potential? So you feel very confident that that spread is there?"

Steve Wood: "Yes."

Eddy: "It's absolutely there. Let me ask you the other side of the question having to do… You know, this is still debt. It's a different type of debt, and I understand the difference between the percentage and refinancing your debt. But the State of Illinois has about twenty-two billion dollars ($22,000,000,000) worth of bonded debt. This would add to that total. It would bring us to thirty-eight billion dollars ($38,000,000,000) in bonded debt. Does that have… what kind of effect does it have on a state to not double but potentially increase by a large percent the total debt of the state for that long of a term?"

Steve Wood: "Well, I think the financial analysts in the markets view it pretty transparently, that they see it for changing one type of obligation for another. And so, we think that in terms of the valuation, that that much burden, they would see it as neutral to positive. The reason that it would be at least neutral is that, again, we already have that obligation as a… as a pension obligation. The way it would be interpreted positively is because it is an affirmative, positive step to disciplining the payment stream."

Eddy: "So, I guess in short your answer is that the debt is there, it's in one place or the other…"

Steve Wood: "That's correct."

Eddy: "…and the fact that it's bonded debt, hard debt, and not liability paid to pensioneers makes it a different… or no different kind of debt and really does… has no affect."

Steve Wood: "Yeah, it's actually in… yeah, some of the rating agencies view this differently. Standard & Poor's, for example, actually does calculations both ways when they do their ratios."

Eddy: "So, is… just final question."

Chairman Franks: "Okay."

Eddy: "Having said all that, your conclusion would be then it would have no effect on the bond rating of the state?"

Steve Wood: "Presented as it is, yes. It would have no effect. That's my conclusion."

Eddy: "Okay. I… I thank you for that explanation."

Chairman Franks: "Thank you. Representative Pritchard for one minute and a half."

Pritchard: "Thank you, Mr. Chairman. You gentlemen are certainly experts in the procedure for bonding and helping states accomplish that bonding indebtedness. But don't you also have to look at the state's ability to pay those obligations? And what's your analysis of the Illinois situation and our ability to meet additional obligations?"

Jim Reynolds: "Thank you, Sir. That's a… that's a very good question. The reality is that your obligation is accruing now at 8.5 percent a year. That's the reality, and that your supposed to pay that. What we're saying is let's eliminate some of that 8.5 percent and replace it with 6 percent debt that you have to pay. I don't necessarily think that that should be viewed any way other than positively, because you're… you're not necessarily increasing your liability. You're replacing a higher cost liability for a lower cost liability. And if the assump… if the assumption is your intent is to pay the liability as it stands, which Illinois has always done… well, in terms of pensions, probably not as effectively as… as they should. But if your intent is to pay the liability, then it should be viewed favorably."

Steve Wood: "I'll also answer that as well. When you… when you look at your monthly budget and you have a car payment and you have a… you have to pay the electric bill and you have a mortgage payment, if you're worried about making all those payments because you're… you're not getting the pay raise that you want, when you do a refinancing of your mortgage and you lower those payments, you're better off. And the… and I think that when you raise the question if there are doubts about the state's ability to make long-term payments and you lower those payments, you relieve some of those doubts. So, we see it as a positive. When you look at the State of Illinois and you… it's highly rated in the AA category, and you look at the forecast, this is a terrific state. It's got a great economy, it's broad based, it's in… among the richest in the world. So, essentially, Wall Street doesn’t look at the State of Illinois and they don't see quite the difficulties and the day-to-day budgeting debates that you see. They see it as rock solid."

Chairman Franks: "Thank you. Representative Rose, you'll be recognized for 2 minutes."

Rose: "Thank you. I don't believe I need that. But to the Citigroup individual, will we get our fifty million dollars ($50,000,000) back, plus damages, if the market goes the other direction? The taxpayers? I take it that's a 'no'. You are…"

Steve Wood: "No."

Rose: "There's a record here we're keeping. Thank you. Secondly, I was just… I don't know if you heard my previous questions to Mr. Knorr, but I pulled up fool.com, which is, as I'm sure you know, a pretty popular website for those of us who don't have finance degrees, and I was just looking at the S&P 500. We appear to be at a 5-year high and actually just fifteen dollars ($15) off the 52-week high of this year. Would you yourself invest in that right now? Would you take sixteen billion dollars ($16,000,000,000) of your own money and put it in the S&P 500? Yes or no?"

Steve Wood: "Well, I wouldn't do anything into one single thing. And I don't think the pension funds would either, but that…"

Rose: "Well…"

Steve Wood: "…that's a question for Bill Atwood."

Rose: "…you may be… you may be right on that point, but the general principle here, Sir, is that we are at the height of a market. Would you not agree with that statement?"

Steve Wood: "Well, every time it reaches a new high, we're at the height of the market. I think the way we look at it and the way…"

Rose: "Are we at the height of the last 5 years?"

Steve Wood: "Yes."

Rose: "Thank you. Would you take sixteen billion dollars ($16,000,000,000) of your own money and put into the market?"

Steve Wood: "No."

Rose: "Thank you."

Chairman Franks: "Representative Mulligan, you can take the last minute of Mr. Rose's time."

Mulligan: "Thank you. I have two questions for either gentleman. Number one, at some point when our pension obligations bump into the interest obligations at some time in the future, with our bond indebtedness and how much we'd have to pay out in pensions, legally, who has the first claim on our money? Would it be the pensioneer or would it be the interest payments? And the other question is, if you put yourself in a disadvantaged position with a bonding ratio, doesn't it increase the cost of how much our short-term borrowing costs us if we want to use short-term borrowing to pay Medicaid bills or something else like that, because our overall financial picture does not look as good? So two separate questions."

Steve Wood: "Sure. No, I understand. I'll answer the first one. I don't think there's any payment competition between paying pensioneers and paying interest. The… the total… the total budgets would be paid… paid each in their own turn. I don't see that there'll be… that that tragic trade-off comes… because they don't really come out of the same place. They'll come out of the state… state budget, but the pension fund actually pays the pensioneers. The… the contributions to the pension fund and the payments of the debt service would come out of the state budget. But you wouldn't… you wouldn't have a… you would never have a situation where you're having to make some tragic choice between paying bond interest or write… cutting checks to pensioneers."

Mulligan: "Except having the money. If you're going bankrupt, you have to either raise income tax or find the revenue somewhere."

Steve Wood: "Well, that's… but the pension funds, even in their current state, have… have a lot of assets to make… make their…"

Mulligan: "And then the other part about the short-term borrowing we do on a routine basis."

Jim Reynolds: "Steve, if… if I may. One of the things that… that I think you… you probably want to beware of is that the rating agencies are well aware of two things. Well, more than two, but two significant things. One, they are aware of the amount of debt you have outstanding. But they are also aware of your unfunded pension liabilities. And they actually look at both things when they come to some conclusions about credit worthiness for the State of Illinois. And it… it's not like one is hiding and one is not. And when you pay one down and support the other, very often… that's why it's not as simple as it sounds. Very often they view that positively, that the state is taking a proactive measure towards reducing a significant liability, which is the pension liability. One of the reasons I think that you got here now is because it's a soft liability and it's easy not to do it. Because if you don't do it, you just don't do it and it grows the next year for the next politicians, like yourself, or the next administration. But the rating agencies are aware of that action of not doing something. To me, I think the way I would view it if I was this august Body is maybe you don't like sixteen billion

(16,000,000,000), maybe you like ten (10,000,000,000), maybe you like five (5,000,000,000), maybe you like seven (7,000,000,000). I don't know what that number is. But one thing is for sure, to allow the pension obligation to continue to grow will basically put a strangle hold on your ability to virtually do anything else, that is if you intend to pay the pension obligation."

Chairman Franks: "Thank you. Representative Scully, you are repre… recognized for 2 minutes."

Scully: "Thank you. Mr. Reynolds, during your presentation you talked about you anticipate… well, an all-in cost of the 2003 pension obligations was about 5.5 or 5.05?"

Jim Reynolds: ".05."

Scully: "Okay. Thank you. And you also said that you would project, as well as we can project the future, an all-in cost of 5.8 to 6.26 percent."

Jim Reynolds: "Rough… roughly in that range. But, as you know, depends on when you do it. But right now, that's about the range."

Scully: "Obviously. You also said you anticipated a cost of funds of approximately 6 percent."

Jim Reynolds: "That's… that's the same. Basically, that… they're the same numbers. Basically, an all-in rate will cost the funds is the same of around 6 percent. That would be the 5.8 to 6.25. So around 6, give or take."

Scully: "Okay. What do you anticipate the difference would be between the actual interest rate on the bonds and the all-in cost? That is, how much will the expenses of doing the bond decree… increase… excuse me, decrease the yield? Excuse me, increase the cost."

Jim Reynolds: "Increase the yield. Yeah, increase your cost and increase the yield. I don't know. I haven't… I don't have… I'm not privy to what the cost for the lawyers are, any actuarial assumptions…"

Scully: "Lawyers are expensive."

Jim Reynolds: "You're a lawyer? Well, then you know for a fact. What's your billing rate? But the investment bankers. So, those costs put the state, generally speaking… and I can say this. I don't want to be offensive to these guys, but generally, they're among the lowest paying states in the nation, in terms of compensating underwriters and other professionals. So, they conduct themselves in a very prudent manner in those expenses."

Scully: "Can… can you give me any estimate of how much the yield cost will be? What… what the co… well, obviously, the components are the costs of doing the bonds plus the base cost of borrowing, the base rate on the bond? Can you give me an estimate of what those components are?"

Jim Reynolds: "Steve, you want to try to do that math? I can't do that."

Steve Wood: "We can give you that math. I… just off the top of my head, I would think it'd be in several basis points. So, for example, if the… let's say you had exactly 6 percent."

Scully: "Good example."

Steve Wood: "The cost might add a couple of basis points to it."

Jim Reynolds: "6.03, 6.04."

Steve Wood: "Yeah, something like that. But I… I'll get you… we can get you actual figures with… go ahead and…"

Jim Reynolds: "And al… and also it depends on how big a deal it is."

Steve Wood: "It'll be hypothetical for you."

Scully: "Excuse me, Mr. Reynolds. Could you repeat that?"

Jim Reynolds: "It also depends on the size of the deal. If it's a smaller deal, it'll add a few more basis points. If it's a bigger, it's less basis points."

Scully: "And that certainly makes economic sense. So, for the purpose of our analysis, you would project that the cost of doing the transaction would increase the cost… the yield cost… excuse me, the cost of the all-in costs by approximately 4 or 5 basis points?"

Steve Wood: "Yeah, I think that… or less."

Jim Reynolds: "Or less, yeah."

Scully: "Thank you. Mr. Reynolds, you also said that, during your presentation, it is not a question of whether or not a pension bond is a good thing. You said the proof that it is a good thing is the 2003 transaction. Do you recall that statement?"

Jim Reynolds: "Yes."

Scully: "Wasn't the 2003 transaction… it wasn't the benefit of that, but really driven by the incredibly low interest rate market that we were selling into?"

Jim Reynolds: "Oh, yeah. There's no doubt about that. I mean, if… if you had to do that again, probably would've been a great idea to do twenty (20,000,000,000) or twenty five (25,000,000,000) or thirty billion (30,000,000,000). But…"

Scully: "I certainly wish we had…"

Jim Reynolds: "Yeah."

Scully: "…done a bigger transaction then."

Jim Reynolds: "Yeah. But one… but you did the biggest one ever done then, remember. So, it was…"

Scully: "But because it was good… the benefits of that were driven primary… primarily by the extremely low interest rate market that we were selling into. Can we really use that as a definitive statement that pension bonds are inherently good? Which was your statement."

Jim Reynolds: "Well, it's already proven that they are a good tool to have in your toolkit. Let's make sure we understand what I'm saying. It's already proven that they are a great tool to have in your toolkit. Not only did you prove it in your '03 issue, but Se… Steve pointed out, many, many states, cities, and counties and agencies are doing them and have done them since. So they're a proven, a positive component for a toolkit. But what you always want to be aware of, and it's great to… as you look at this issue and explore it, one side of the equation is your cost of borrowing, but the other side is your cost of in… your proceeds from investing, your returns from investing."

Scully: "I understand that."

Jim Reynolds: "So you have to look at the two…"

Scully: "And without having a positive yield there, it's a dumb thing to do."

Jim Reynolds: "Well, it won't work. It won't work."

Scully: "Right. On that issue…"

Chairman Franks: "Last question."

Scully: "…are you suggesting that the… are you proposing this would be a fully taxable bond as opposed to a tax exempt bond?"

Steve Wood: "Yes."

Jim Reynolds: "It's a taxable bond."

Scully: "And is that… is that because it… of the intended arbitrage?"

Steve Wood: "Yes."

Scully: "Thank you."

Chairman Franks: "Thank you. Representative Dugan. All right, one…"

Dugan: "Thank you. Mr. Chairman, I just have one question. And I… I think, certainly, we understand to re-obligate the bonds at a lower interest rate of course will cost us less. I guess my question to you is the… the plan as we've seen it indicates that we, of course, would have a big influx into the pensions, but then possibly some may think that then we don't continue to pay the pension obligation payment. So, if that ends up being the case, then is this truly a good thing to do? I mean, an influx of money at a lower rate is certainly good."

Steve Wood: "Right. Well, my understand…"

Dugan: "But if we're all also intending and then not continuing to pay the pensions because our payment is lower then we're not… we're not really solving anything, are we?"

Steve Wood: "Well, yeah… no, your… your point's absolutely well taken. And I think that's… that's one of the key components of all of the pension bond programs that we've seen, and that is that that… the pension bond is a part of a continuing disciplined contribution system to the pensions, which I understand this proposal to be. Not only would it achieve an 80 percent funded ratio with all of the influx of funds, but it would also achieve the 90 percent target earlier. You would… you would be correct if, in fact, the rest of the contributions were curtailed, if you will, and… and all you did was put the funds in upfront and you stopped putting anything more in. That… that would definitely spiral negatively very quickly. No, but as we understand it, the… the total program involves not only doing the bonds and the lottery proceeds, but then a continuing increasing contribution total over time. And that… and that would be the key."

Dugan: "Okay. Thank you."

Chairman Franks: "Representative Lang, you're recognized for 2 minutes."

Lang: "Thank you, Mr. Chairman. Gentlemen, thank you for being here. You both seemed to indicate one thing I think we all knew, that whether we issue pension obligation bonds would depend mostly on two things: 1) what they cost to buy; and 2) what we get back on the investment. Is there some optimal number of the gap between the two… obviously, the wider the gap the better off we are. But is there some number beyond which it's too risky to move in that direction? Maybe you'll each have an answer to this question."

Steve Wood: "Okay. Well, yeah. Actually, we've seen this in other states and, frankly, the gap that they've tried to articulate is about a hundred (100) basis points. So, although we've seen that, we've seen it even… even thinner than that. And a lot of ways we look at it as… as though we would look at a refunding of regular bonds, which would be that you would want to achieve some sort of percentage savings in your estimates. And the… that metric generally comes out to something between fifty (50) and a hundred (100) basis points. So, in other words, in this… to translate that into this situation, your actuarial rate is 8.5 percent, that would say you would not want to issue bonds if the market was going to charge you more than 7.5 percent. So anything below 7.5 is still a pretty good idea. Anything above that's not such a good idea."

Lang: "Well, given the fact that we have billions of billions of dollars in debt here, should we not as a state, as a matter of public policy, not just as a matter of what the financial markets would do, but as a matter of state policy, wouldn't we want a wider gap to lessen the risk? Isn't that too narrow a gap when we're talking about the kind of debt we have already?"

Jim Reynolds: "Well, I mean, the… you hit on a very good point. That's a very prudent point. You want the widest gap that you can achieve. And if interest rates were like they were in '03, 5.05, then… but they're not. And they're still at a rate though… they're around 6. Around 6. And if you could get a return on investment of around 8.5 to 9, long term, it still makes sense. One of the things, though, that you point out is, what's optimal? Well, what's optimal is… is as wide as you can get it. But what's actually doable for you to address the issue that you're facing right now? This is probably a pretty good tool to do some of it with. But I think the other question that you should probably ask yourself as you're contemplating it is, I'm not… I may not be comfortable with this number or that number but I know I want to address this liability, then maybe this number makes sense in terms of it not necessarily being the particular spread that I would like."

Lang: "Well, you… one more question, Mr. Chairman. You talked about timing, Mr. Reynolds, in this. Is this a good time to do this? If… if this General Assembly passed a Bill to allow for these pension obligation bonds, is this the right time to do this, today?"

Jim Reynolds: "Right now, the data points to 'yes'. But I tell you what… what I think that they should do and that I would do. I would sit down with the exec… 'cause remember, once you do this issue you're going to handle the pension… you're going to hand the pension funds a significant amount of dollars all at once. So you want to sit down with the executive directors and let them know the cost of funds, let's say around 6, and their comfort level with taking those funds in and being able to reinvest those funds. Now, we talked about the S&P and… and the DOW; but remember, they reinvest in real estate, they reinvest international, they reinvest in hedge funds. So, their ability to put together a portfolio in investments that will provide an adequate return on that investment. And if they, in fact, came back positively, then this would be a great time to do so. Yes."

Lang: "But given the market, is this a good… I'm just asking whether this is the time to do so? If you were the executives of those five (5) state funds and we would give you the sixteen billion dollars ($16,000,000,000) or whatever the number's going to be, would you be able to today, in today's market, invest that at a… at enough of a gap to make a difference?"

Steve Wood: "Yeah. Yes. I think… it's not a trivial matter and I think that the discussion that Bill Atwood put together and the things that I've read from the State Board of Investments that they do have a plan and it would take some time. But again, we… the simulations and the outlook we have is over 30 years, it's a excellent proposition. Now, there might be some unhappiness and some… in the near term you'll see ups and downs. But frankly, when you look at the all the longer term trend lines, I think that those will all even out in the end and for the downs you'll have compensating ups and you'll… you'll meet your target."

Lang: "Last question, I promise. Would it be prudent for us as a General Assembly to know what those fund managers plan to do before we give them the tool?"

Jim Reynolds: "You know, you raise a very significant issue in terms of the diligence that this Body might want to consider. And if I were a part of this Body, one thing I might want to do is have a discussion with those managers and get a sense from them as to what they think the long-term investment horizon looks like with their funds. You heard from one yesterday, and that was Illinois State Board of Investments, that indicated he felt comfortable that they can achieve a rate consistent with their prior long-term rate of return, which was about 9.2 percent. But you also have Illinois teachers, you also have several other plans that will be receiving these funds. So, would it be a good idea for those… for this Body to talk to them? Probably so."

Lang: "Thank you, Gentlemen. Thank you, Mr. Chairman."

Chairman Franks: "Thank you. And Mr. Reynolds and Mr. Woods (sic-Wood), we thank you for being with us today. We very much appreciate you coming down. That concludes the panels that we had today and I appreciate the diligence and efforts of those who testified and I really appreciate the Members' attention and hard work. So, thank you very much. I'd like to recognize House Majority Leader, Representative Currie, for a Motion."

Currie: "Thank you. I move that the Committee of the Whole stand in recess."

Chairman Franks: "You've heard the Lady's Motion. All those in favor signify by saying 'aye' and opposed 'no'. The 'ayes' have it and the Motion is adopted. The Committee of the Whole does now stand in recess 'til the call of the Chair."

Speaker Madigan: "The House shall come to order. As previously announced, our plan now would be to go to Party Caucuses and our thinking is that we will return to the floor at 3:00, at which time we will call the Bill that would provide for the lease of the lottery. I'd like to announce at this time that in terms of scheduling through the weekend. The plan would be for a Saturday morning Session and a Session on late Sunday afternoon which would permit people to go home for Saturday night to be with their families and to attend church services, if they so desire, on Sunday morning before returning to the Capitol. Everybody should be advised that the Governor has filed two more Proclamations calling for Special Sessions, one at 2:00 tomorrow afternoon and one at 2:00 on Sunday. These have been filed with the Secretary of State, they're concerned with the TRS system and SER system. But for now, the plan would be Party Caucus, return to the floor at 3:00. Thank you."

Speaker Madigan: "The House shall come to order. The Chair recognizes the Clerk."

Clerk Mahoney: "Rules Report. Representative Barbara Flynn Currie, Chairperson from the Committee on Rules, to which the following legislative measures and/or Joint Action Motion were referred, action taken on July 06, 2007, reported the same back with the following recommendation/s: 'approved for floor consideration' is Amendment #2 to House Bill 2055."

Speaker Madigan: "On the Order of House Bills-Second Reading, there appears House Bill 2055. Mr. Clerk, what is the status of the Bill?"

Clerk Mahoney: "House Bill 2055 has been read a second time, previously. Floor Amendments 1 and 2 have been approved for consideration."

Speaker Madigan: "On Amendment #1, who is the Sponsor of the Amendment?"

Clerk Mahoney: "Representative Madigan is the Sponsor of Floor Amendment #1."

Speaker Madigan: "The Amendment will be handled by Representative Currie. Representative Currie."

Currie: "Thank you, Speaker and Members of the House. This basically is the proposal from the Governor to enter into a long-term lease arrangement for the Illinois State Lottery. I would suggest that we adopt the Amendment and then discuss and debate the Bill on Third Reading."

Speaker Madigan: "Lady moves for the adoption of the Amendment. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The Amendment is adopted. Are there any further Amendments?"

Clerk Mahoney: "Floor Amendment #2, offered by Representative Hoffman, has been approved for consideration."

Speaker Madigan: "Hoffman."

Hoffman: "Thank you, Mr. Speaker, Ladies and Gentlemen of the House. Floor Amendment #2 contains two (2) provisions. The first indicates that a portion of any consideration paid to the state in combination with other revenue sources will replace any funds that would not go into the School Fund. That would take care of the six hundred million dollar ($600,000,000) issue the people are concerned about. In other words, we would make sure that that is taken care of as part of any lottery sale. In addition, there are… there is an initiative that has been put forward by AFSCME to make sure that there are… the people who work for the lottery and are AFSCME employees, the state would retain as employees… those employees of the lottery."

Speaker Madigan: "The Gentleman moves for the adoption. On that question, the Chair recognizes Mr. Lang."

Lang: "Thank you. And do you wish to debate this Amendment, Mr. Speaker, or move this to Third?"

Speaker Madigan: "Our plan was to put it on the Bill and move the Bill to Third."

Lang: "That would be fine. Thank you."

Speaker Madigan: "Those in favor of the Amendment say 'aye'; those opposed say 'no'. The 'ayes' have it. The Amendment is adopted. Are there any further Amendments?"

Clerk Mahoney: "No further Amendments. No Motions filed."

Speaker Madigan: "Put the Bill on the Order of Third Reading and read the Bill for a third time."

Clerk Mahoney: "House Bill 2055, a Bill for an Act concerning public employee benefits. Third Reading of this House Bill."

Speaker Madigan: "Representative Currie."

Currie: "Thank you, Speaker and Members of the House. This is the Governor's proposal to enter into a long-term lease arrangement with some private concessionaire to operate the State Lottery, use the proceeds primarily to improve funding for the pension systems, the state five (5) pension systems, also replace the missing six hundred thirty ($630,000,000) or six hundred fifty million dollars ($650,000,000) a year that would otherwise be lost to education by virtue of spending lottery moneys in the pension system. The proposal has come before us because it is said that our state pension systems are in crisis. The funding levels are not adequate to the task. We must put additional moneys into the system in order to keep our heads above water. I'd like to quote, if I might, from testimony given last summer by John Filan, then the director of the Office of Management and Budget, to a United States House Committee. Quote, 'By any measure, the Illinois State Pension Systems are better funded and more secure than they were when Governor Blagojevich first came into office. Any statement to the contrary, particularly statements about raiding or stealing, is demonstrably and completely false.' I would suggest to the Members of the House that our pension systems are not in crisis. In fact, we have on the books today a statutory commitment to bring us to 90 percent funding of the liabilities of those systems by the year 2045. I would suggest instead that the crisis today is the crisis of a budget problem of the fact that in order to meet that 2045 out date we are required to spend more money in the 2008 budget, the 2009 budget, and 2010 budget, more money than we want to because putting those additional dollars in will make it tougher to fund other priorities for Members of this Assembly. Priorities like education, priorities like health care. So, in fact were the Governor's scheme to be approved, what would happen in fact is that while there would be new moneys going into the pension system, the statutory obligations we face today would be obligations upon which we would renege. We would not make those payments into the pension system in 2008 budget, in 2009, and 2010. That is the crisis for which it is proposed that we enter into a long-term agreement to turn responsibility for running the lottery over to a third private party. Now, it is said by many… said by many that lotteries are not core functions of government and therefore it's okay to enter into some kind of other arrangement for their operation, for their direction. I think that is legitimate. And we certainly heard that from many civic organizations in our 8 hours of testimony over the last two(2)days. The Taxpayers Federation, the Civic Committee, the Civic Federation, they all said precisely that. But their proposal, that it's okay to give up this core… this noncore asset in a lease or a sale arrangement, was predicated on two (2) items. That is it's only legitimate to do it and put the money into the pension system if we reform the pension system. Nowhere is that proposal before us. The second caveat… and this to me is at least as important. You don't do it… you do not do it in order to pay for operations. You don't mortgage your future to pay your grocery bill. And that unfortunately, Members of this chamber, is I think exactly what the proposal that is before us would do. It would use the… the proceeds of this expansive operation in order not so much to make to pensions more secure, but to make the budget a little easier on all of us when we finally come to a resolution for fiscal 2008, fiscal 2009, and fiscal 2010. So, for those reasons I think we should look very carefully at the idea that this is somehow going to solve a crisis, a crisis that I believe does not in fact exist. No other state to my knowledge has yet decided to lease or to sell a lottery. Connecticut looked closely at it at one point and decided that it wasn't a good idea. We know that people who might want to operate the lottery will want to maximize profits. We know that the people who are most likely to play the lottery are the elderly, people who are of low income, and members of minority groups. If we were to enter into this arrangement, will we be encouraging more advertising targeted precisely at those vulnerable populations who may not understand that the odds really are against you. So, for those reasons I would suggest that the Members of the chamber look very closely at this proposal. And I think you should give the proposal very much a gimlet eye. I don't know that we have a crisis that needs solving. I sure don't know that the lottery today ought to be for lease or for sale. And I would encourage your 'no' votes."

Speaker Madigan: "Mr. Sacia."

Sacia: "Thank you, Mr. Speaker. To the Bill. Ladies and Gentlemen of the House, yesterday I posed the comment to Mr. Filan. And I used the analogy of a high school student quitting high school at the age of 16 so he could buy a car. In other words, take a short-term perspective on his life. I believe the sale of the lottery or better put, the long-term lease of the lottery, is akin to a young person quitting school, a short-term solution to a long-term problem. I stand in strong opposition to this idea. The loss of sixty billion dollars ($60,000,000,000) over the next 75 years is literally unconscionable. This is a very poorly thought-out idea. And I ask to join all of the colleagues in this chamber in a strong 'no' vote on a very, very bad idea for the citizens of Illinois. Thank you, Mr. Speaker."

Speaker Madigan: "Mr. Lang."

Lang: "Thank you, Mr. Speaker. I rise in opposition to this Bill. First, let me explain to the Body that you heard me ask Mr. Filan yesterday if they would answer some written questions 'cause I didn't have a chance to get to all of my questions. Those questions were delivered to the Governor's Office at 6:30 last evening. Early this morning I got a letter from Mr. Filan indicating that I would have my answers shortly, they would be forthcoming shortly. It's now 3:16 in the afternoon. They knew we were voting on this today. I did not receive those answers. Had I done so, I would've shared them with every Member of the House. Ladies and Gentlemen, this is an ill-conceived plan. It might not be an ill-conceived plan if this were… if the parameters of the Bill were such that it took care of all of our pension problem. So, as Mr. Sacia correctly points out, over the next 75 years we could be getting sixty billion dollars ($60,000,000,000) from the lottery. And yet, the Bill talks about leasing it for a minimum of ten billion dollars ($10,000,000,000). That's a pretty wide gap. And yes, we could get more on the open market, but why would the Bill not a have a greater number? Why would we not make it a minimum of twenty ($20,000,000,000) or thirty billion dollars ($30,000,000,000) to really take us out of any problem we have with our pension debts. Additionally, there was this talk and we'd discussed it many times of many different witnesses yesterday regarding the money that would not be going to education from this, estimated today at six hundred and thirty million dollars ($630,000,000). And there was an Amendment added… Amendment #2 was added that talks about making sure that money gets replaced, but it doesn't say how the money's get replaced. It doesn't say from what funding source that revenue would be replaced. And indeed, it's limiting to that same six hundred and thirty ($630,000,000) or six hundred and fifty million dollars ($650,000,000). We know today that lottery proceeds are growing, despite the fact that we have riverboats in Illinois, despite the fact that we have that competition. Lottery proceeds have been growing. And today it could be seven hundred (700,000,000), tomorrow it could be eight hundred (800,000,000). If we decided to do some other new games or provide new technology, we could be in a billion (1,000,000,000) or a billion five (1,500,000,000) from the lottery that could go to education. And yet, this Bill would limit us for a very long time to replacing only six hundred and fifty million dollars ($650,000,000). It's ill-conceived, it's ill-advised. The Majority Leader was absolutely correct when she referred to this being not pension reform, but budget relief. In fact, that's all it is. If you'll look at the charts, and I'm sure all of you have, you will see that all this does is give some budget relief temporarily for the few years between now, during this ramp up period for the next few years and does not really do too much thereafter. And the… And, indeed, at that end of that there's another ramp up. We should not be selling a state asset to give ourselves temporary budget relief. In the very first year of this, in fact, this will cost us money. There won't even be budget relief, because while the Governor's talking about saving five hundred and fifty million dollars ($550,000,000) in the first year on payments we won't have to make, we'll have to restore six hundred and fifty million dollars ($650,000,000) to education. So, in the very first year there won't be budget relief at all. It will cost us a hundred million dollars ($100,000,000) to make this plan happen in the very first year. Then there's only a few years left of the ramp up. And I would suggest that while there's a serious problem finding the dollars for this ramp up, we should not mortgage the future of education in Illinois or put future General Assemblies at risk by this risky proposition. Again, I'm not totally against the notion that says we have a state asset, it's not a… it's not a core part of our budget, it's not a core asset. Yes, we could sell it. And if we could sell it for the whole forty billion ($40,000,000,000) to take us out of this debt, probably a good thing to do. But this Bill doesn't accomplish that. This Bill doesn't even attempt to accomplish that. We don't know who the vendors are going to be. We don't now how the bidding will take place. We'll have to create a whole new bureaucracy. I think something they call the Lottery Control Board, to watch over the vendor. The vendors could be overaggressive in their marketing techniques in communities in Illinois that are already paying too much for lottery tickets. In short, we need to have a better handle on what this is all about. To me, this is another piece of vague legislation. To me, there are still answers that we don't have. It's a lot like a health care plan we've heard about that has been thrown out here by the

Governor. A plan with holes, a plan where the rule making authority the State of Illinois will determine what the Bill does. We cannot allow to sell an asset of this importance or to lease an asset of this importance without getting a lot more answers. We gave them the opportunity to give them all… us all the answers. They have not been forthcoming. This is not a good deal for us or for the school children of Illinois. And I would recommend 'no' votes."

Speaker Madigan: "Mr. Hoffman."

Hoffman: "Well, thank you, Mr. Speaker, Ladies and Gentlemen of the House. Let me just discuss what one of the previous… I believe the speaker said the Sponsor of the… the legislation saying… unbelievably saying that this is not a crisis. That a forty-one billion dollar ($41,000,000,000) unfunded liability deficit problem in the pension funds that's going to grow to over fifty billion dollars ($50,000,000,000) of unfunded liability is not a crisis. Well, let's not call it a crisis. Maybe we just call it a really big problem. Okay? Can we do that? We don't want to call it a crisis. Let's call it a really big problem 'cause that's what you over there have been doing to us over here for the last two (2) years. And when we ran for elections we all said we gotta address the pension crisis. Maybe we should have said, 'Oh my goodness, we gotta address the really big pension problem, 'cause it's a big problem.' Now, is this the… is this the silver bullet? Is this the total answer? I'm not saying it is. It's an answer. It's a plan. It's an idea. Why would we kill it without sitting down together in a bipartisan fashion to come up with a solution to the pension crisis? It's a crisis. It's over forty billion dollars ($40,000,000,000), crisis. In 1972, you know what the big problem was? A two point eight billion dollar ($2,800,000,000) big problem. Well, maybe… maybe you call that a big problem. Now, it's over a forty-one billion dollar ($41,000,000,000) crisis. And we know what the last two (2) days were about here. The testimony and the speeches, and speeches before we even heard testimony about how this was going down, and how it wasn't going to pass, and how we weren't going to vote for it, and how it was a bad idea instead of talking about other ideas, other plans to address the crisis. Let me quote the great sage of our time, Rich Miller of Capitol Fax. Rich Miller. We all know Rich. What'd Rich say about yesterday's hearing? 'Today's Committee of the Whole is most likely yet another one of those fair trials before the hanging stunts.' And that's what it was. That's what yesterday was. That's what today is. It's a stunt, because we don't want to sit down together and come up with a real solution to over a forty billion dollar ($40,000,000,000) problem. Now, I don't think we on this side of the aisle… You guys would like to say on that side of the aisle what we did the last 2 years, 'Oh my gosh, it was terrible. We should lose elections over what we did. Oh, it's awful that we didn't address the pension problem.' You know what we did? Over the last 4 years we put over thirteen point three billion dollars ($13,300,000,000) into the pension system. Is that enough? No, it isn't. No, it isn't. But we took tough votes because actuarially, we reduced the future costs of the pensions by changing some benefits. Now, you can do a couple things. You can either put money or assets or pension obligation bonds into the pension funds to help… help address the crisis. Or you can cut benefits which some of you apparently would like to do and some people in the business community maybe would like to do. You could find another revenue source. You, on that side of the aisle, could raise the income tax and put it into the pension funds. We have said this is a reasonable solution. We have other solutions we can work together, because you know what's going to happen? This year alone… this year alone we do nothing; five hundred and seventy-five million dollars ($575,000,000) additional has to go in to pay old debts created by the Edgar administration, old debts created by the Thompson administration, when we didn't address the crisis. Next year if we do nothing, if we don't put assets into the pension funds, you know what we gotta do? Seven hundred million dollars ($700,000,000) more on top of the five hundred fifty-seven million dollars ($557,000,000) this year and the year after that, in FY '10, another billion ($1,000,000,000). Another billion (1,000,000,000) to pay back the sins of our fathers, not our sins, the sins of our fathers for not doing the right thing when it came to pensions. Cumulatively, you know what that is? Cumulatively, three point four billion dollars ($3,400,000,000) that can't go to education, can't go to health care, can't go to pay school districts who need it in high growth districts, can't go to build new university…

capital and university buildings. And if you want to talk about lost education money… if you want to talk about that, our own budget director came up with some solutions, but we can work together to do that. You could take a portion of the sale from the lottery, put it into an annuity, and you could make sure that six hundred million dollars ($600,000,000) is there for years and years and years to come. If not now… if we aren't going to address it now, then when are we going to address it? If you're not going to come up with a plan, then don't look yourself in the mirror in the morning and say you care about this issue, 'cause if you're going to vote 'no', you better come up with a plan because just voting this down is doing nothing to address the budget crisis that we're facing. Since we're all quoting people, let me quote my Speaker who indicated, 'There is a tendency in the Legislature to hope things just kind of go away. This has reached a point where I don't think it's just going to slide under the table. I think it's got to be addressed.' And that was said in response to a Civic Committee of the Commercial Club of Chicago where he deemed it a wake-up call, the issue of health care bills and pension debt. It should be a wake-up call to us. Just killing this today does nothing to move us forward and certainly does nothing to move the State of Illinois forward."

Speaker Madigan: "Mr. Granberg."

Granberg: "Thank you, Mr. Speaker, Ladies and Gentlemen of the House. You know, I think most of us have heard this on the radio… heard their ads. So, I know I hear it listening to

Cardinal games. You hear all these mortgage brokerage companies talking about, 'We can reduce your debt. Let us refinance. We will reduce your debt by 100 percent, 200 percent, 300 percent' whatever the cost might be. What they fail to tell you is, yeah, we'll reduce your payment. We're not going to reduce your debt, because those are going to be interest payments only. We won't touch the principal. That's what we're doin with our pension debt. We are paying the interest. And until we come up with a realistic plan to reduce the principle, we are going to be faced with this constantly. For the newer Members, I… I don't want to bore you. But for the newer Members, I will give you the brief history of how we arrived at this situation. Back in the '80s there was a law that we had to fund our pensions, on the books. And what did we do? We ignored it. Ignored it. This has been going on for decades. When I was first elected I remember flying with Governor Thompson back to my district. And I asked the Governor, I said, 'Governor, what are… what's the strategy on howing to… on how to deal with this pension debt?' And he said, 'Ya know, Frankly, Kurt, he said, 'nobody really cares about it.' Which I found amazing, but I learned a lesson because in… in the early '90s the Speaker made me Chairman of the Pensions Committee. So, I tried to raise the issue, make it noticeable, people would start paying attention to it. So, we had a downstate hearing on the pension debt. We had a hearing at Champaign at the University of Illinois on the pension debt. And out of those two hearings, local media, that was it, one day. Then, we went to Chicago at the

Thompson Center. And we had all the witnesses about how bad this debt is and what it's going to do to our kids and our grandkids. Not one representative of any media was there, no one from the Tribune, no one from the Sun-Times, no T.V., no radio, no one. And that proved to me that Thompson was right. People didn't care. And so we continually did not fund the pensions the way they were supposed to be funded and took the easy, politically expedient answer and used those funds for programs, because that's what we like to do. Politicians want to see money go into programs so we can go back to our constituents and say, 'We increased the funding for this. We increased the funding for that.' Because people never really got excited about pension funding, because it's way down the road. So, with the Speaker's help, he appointed me. And I negotiated with my good friend… my… my former… who's passed away, Senator Bob Madigan, who's the Republican Senator from Lincoln. And to avoid the election issue, because Dawn Clark Netsch was the Sponsor of the legislation to fund the pensions and Governor Edgar was proposing to fund the pensions, Bob and I would meet up in Lincoln at night to try to keep it out of the political realm. And with the Senate in Republican control, 'Pate' Philip would not let any Bill out that the Governor, Governor Edgar, did not agree to. So, the Governor proposed a 20-year ramp, we proposed a 10-year ramp, and we compromised at 15, which is what we're facing now in the year 2045. This is not set in stone. These dates, these timelines, are not set in stone. They can be changed. But we're witnessing right now this 3- year ramp down. This is what it comes down to. It has reached critical mass because their no longer be any funds for anything else besides Medicaid and pensions. No money for education, no money for anything else. Now, if you want to go back to your constituents like I'll have to go back to mine and say, 'we had to take care of the pension debt that past administrations and past Legislatures have incurred', then you'll… that is what we will do, 'but there's no money for you. We have to pay for pensions for state employees.' That'll go over real well, especially in the private sector where people have lost their manufacturing jobs. I don't think so. So, I think this is not the plan I prefer to see. In fact, I had a Bill that if we came to this we would sell the lottery. The Taxpayers Federation of Illinois representing large businesses was in favor of that, if all the proceeds went to the pension funding. And I agree with that. I think it should. That's what we should do. We have to pay down on the principal. We have to do the right thing. We have not done that in the past. And people will say, 'Well, we should have the flexibility.' Well, we've done real well over the last 25 years funding pensions. I don't think so. We need to do something dramastic… drastic and dramatic, to attempt to resolve this problem. If it's not this Bill, some other one. But we have to reduce the principal, Ladies and Gentlemen. It's just a fact of life. If we don't, future Legislatures are going to be saddled with this debt where you will have no discretion for any other type of domestic spending. None. None. Not for your local mayors, your county boards, your schools, whatever you might have, your parks. None. Every dollar of revenue growth will go to those two (2) items. And I don't think we should tolerate that. So, to echo Jay's remarks, if you vote 'no', ya know, I can understand why you might. But come up with something else, then. You know, everybody will say, 'Well, I'm a target. I can't vote for this.' And the last count, I think we have about 80 targets on the floor. We have to do this. Sometimes you have to do things. And I think the people will respect that. We can't always take the politically expedient, the politically easy way out. Let's address it. The people will understand that we've done the right thing."

Speaker Madigan: "Mr. Franks."

Franks: "Thank you, Mr. Speaker. I'd like to speak to the Bill. One of the previous speakers indicated that our last two (2) days was a stunt. The Governor called it a waste of time and he called it a three-ring circus. I don't feel that way and I don't believe anyone here feels that way. We spent hours on testimony, giving the Governor exactly what he asked for. He asked for us to be engaged in the process and to debate his Bill, which we're doing now. He called us here on the premise that this is an emergency. He called an emergency Session. This is not something that should be taken lightly. It's not something that should be abused. But he deemed this an emergency and he asked for an expedited hearing and that's what we gave him. If he doesn't like the result, that's his problem. But we gave everything that he asked of. And I believe the only emergency he has now is that the Governor's proposals are flat-lining because the proposals he put forth don't hold water. You heard other speakers, such as Representative Lang, talk about the fact that there is no money for schools if we should sell this, there's no mechanism at all. In May we had a hearing. At that time, I asked for documents from the Governor's staff on best practices. I asked for them for an audit of the lottery and also what the numbers were. We haven't received anything and that was five (5) weeks ago. They're not serious about providing us the information that we need, but they were here to answer questions. But did you hear how they answered them? Yesterday I asked rep… I asked Mr. Filan whether the Gross Receipts Tax, which the Governor initially thought would be the mechanism to fund education should we sell the lottery, whether that was still on the table. You notice he didn't say 'no'? He kept dancing around the issue. Even after the Lieutenant Governor, the Comptroller, the Treasurer, and 107 Members of the House of Representatives voted 'no' and said no, he still thinks it's somehow viable. It… it makes you question his reason, his ability to reason. This… They argued yesterday, the Governor's Office, that we need more money. That's what the whole thing's about. Their assumption is we need more money. And I agree that we do need some more money, but perhaps if we change the system and went to a zero-based budget and we cut out eight-five thousand dollar ($85,000) a year drivers, and we cut out hundred thousand dollar ($100,000) commuting costs by the Governor over the last five (5) weeks, then perhaps we would not need as much as he says that we do. The

Governor's office did not prove most importantly that the sale would generate more money than if we kept this asset ourselves. The testimony is that our per capita spending on this is below the national average. We spend a hundred and fifty-four dollars ($154). The national average is a hundred and ninety-three ($193). If we would meet the national average alone we'd get hundreds of millions of dollars extra a year from that asset. We can run this asset better. It is short-sighted to sell this asset. They did not make the case that we would get more money. This is a bad deal for the citizens of the State of Illinois. And after our hearing I think we've heard all the evidence. I encourage all of you to vote 'no' on this ill-fated idea."

Speaker Madigan: "Mr. Black."

Black: "Thank you very much, Mr. Speaker and Ladies and Gentlemen of the House. My… my goodness, the… the rhetoric. Ladies and Gentlemen, lift up your eyes, open your hearts. This is a new day, a new beginning, a fresh start. I anticipated this. I knew this was going to happen. I knew it two (2) months ago. Somebody told me that. I can't… I can't remember who. But I look at it as a new day, a fresh start, a new beginning. The only problem is I've heard all this stuff before. Let me ask a few questions. If this is such a good idea I'm sure they'll be answers. What is the Lottery Concession Trust Fund that this Bill sets up? Does anyone know? The Lottery Concession Trust Fund."

Currie: "That… that, as I understand it, is where the bids would go before the new lottery board of directors determines which… which one to choose."

Black: "Well, that makes eminent sense. And this new Lottery Control Board, will they have the ability to restrict where new lottery games might be marketed, the kind of advertising that might be directed, who the target audience might be? Would that be things the Lottery Control Board could say, 'No, no, no, we don't want you to do that.'"

Currie: "They will have to develop an advertising policy and any legislation that we were to adopt would certainly guide their policy decisions."

Black: "That's good to know. But if we sign a contract with a company, can this Lottery Control Board control the contractual terms that the person who leases the lottery might demand?"

Currie: "I would imagine that what is in the contract would govern that relationship."

Black: "Well, I would think so. And if I were spending ten billion dollars ($10,000,000,000) I would want certain contractual guarantees that I would be free to market my product wherever I thought I could maximize my profit. And why not? If I'm purchasing or leasing something for ten billion (10,000,000,000) and the most conservative estimate I've heard in the last few days is that over that period of time had we left the lottery in place with perhaps changes over the years, the lottery would have perhaps been able to net sixty billion dollars ($60,000,000,000). Whoever leases this lottery is going to make a fair return on investment. I'm not sure how one would define 'fair'. I would certainly be interested in leasing the lottery, but I'm sure the Procurement and Ethics Board would not let a former Member of the General Assembly participate in the lease of this lottery. And I'm sure that no Member of the General Assembly will be able to lobby on behalf of any company that might want to lease the lottery. Certainly, no members of the Governor's staff, former members, would be able to lobby on behalf of any company that would lease the lottery or would they? Hmm, I wonder. Now, I was kind of surprised when my good friend looked on my side of the aisle and chastised us for what we've done to the lottery and that we campaigned against you on the lottery and what you did. Well, if we did, we didn't do a very good job. How many of you were defeated? I mean we did such a good job of making the lottery a campaign issue, one of our own Members decided to join you. What campaign issue? It might've come up in an individual race, but I don't believe this Party and the people on my side of the aisle made the lottery a campaign issue. You told us you solved it. Senate Bill 27, Public Act 94-4, Schoenberg, Sandoval, Molaro, Giles signed into law on June 1, 2005. The legislation made a number of changes to state pension system and reduced the contributions to the system for FY'06 and FY'07. Reduced the contributions to the pension system. It wasn't our Bill. State contributions to the system establishes the levels for the five (5) systems for FY'06 and '07. Instead of requiring contributions based on actuarial con… calculations contained in the 1994 funding plan, which I've heard from what I consider to be paid witnesses in some cases, was a horrible idea, calculated by that evil, evil Governor Jim Edgar, whose popularity polls the last time I looked was in the 84th percentile, shorted the system by two point two billion dollars ($2,200,000,000) in state contributions over FY '06 and FY '07. This was your Bill. You passed it. Now, here were some of the reforms. Remember, some of these witnesses told us we needed to make reforms. Not just put money in the system, but we needed to reform the system. Here were some changes that were proposed that were not enacted. Governor Blagojevich suggested the following reforms, all of which were removed from final legislation. He wanted to replace the current 3 percent cost of living with an annual pension increase equal to the change in the consumer price index or 3 percent, whichever was less. He wanted to limit all new employees included in the SERS alternative formula to newly-hired police officers. For SERS and TRS, shift the cost of liability to employers in cases where the end of career raises exceed 3 percent. The final legislation, that was increased to 6 percent. And he wanted increase the retirement eligibility requirements for new hires in all systems to age 65 with 8 years of service, age 62 with 30 years of service, and age 60 with 35 years of service. Those were all taken out and I have forgotten how much money that might've saved. As memory recalls, it wasn't as much as we were told. But that was your Bill. It was supposed to solve the problem. And here we are arguing about whose fault it is. There's enough fault to go around. I'll draw the line when it was said the sin of my father, our fathers. My father didn't have anything to do with this. I know that's hyperbole. I'm not being literal. My father was raised during the Depression, went in the war during World War II, came home and built a business, ran it for 40 years, passed it on to my brother. His pension is Social Security and whatever money he managed to save during his working life. It wasn't the sin of my father. Of that generation? Are you kidding me? I don't think we have to look back generations. We can look back in the last two (2) decades and see that we all made mistakes. So, don't look over here on this side of the aisle and try and blame us for politicizing the issue. I resent that. I particularly resent that when the Gentleman who made that comment said, 'We need you to work with us in a bipartisan way.' What did the Governor say on the 29th of May? 'You guys better get a budget together because if you don't, those damn Republicans are going to be involved in it. Now we don't want that. We don't want that.' Well, I don't know what happened to your Leadership, but you didn't get the budget resolved. We weren't participants in those discussions. Up until the last day of May, we weren't invited, our Leader was excluded. We weren't second class citizens, we were just ignored. We acquiesced, we could've all voted 'no'. We could've raised the dickens. We all agreed to give the Governor an extra thirty (30) days to make his budget message. Instead of making him do it in February, we let him do it in March. And here we are on the 6th of June just finishing up two (2) days of testimony. Where were all these proposals? What legislation was drafted? Oh, there were some ideas sent to the Speaker. I've sent some ideas to the Speaker, too. Sometimes I get a note that it wasn't a good idea, sometimes I get a note that he didn't receive it. Sometimes he picks up the phone and says, 'Put it in Bill form.' And he's right. Until it's in Bill form he doesn't know what I'm trying to do. But I guess things are different from the second floor to the third floor. And you look at us for bipartisan support when we haven't even been a part of the process until June 1. The Gentleman said we need a capital budget. Couldn't agree more. Haven't had one in seven (7) years. How many roads are going to crumble? How many bridges are going to collapse? How many sewers will cease to work? How long can you stretch out the work on the Dan Ryan? It's already behind schedule and double the amount of money that it was supposed to take to fix. You know, you're… you're making it very difficult for a Cub fan like me to get to Wrigley Field. And I'm getting tired of it, quite frankly. I'd take the CTA, but you change the schedule so often I don’t know when it runs. Besides that, most of the lines are closed at one time or another. We've… we… we submitted a plan for a capital budget under Leader Cross two (2) months ago. Doesn't raise taxes, has a dedicated revenue stream to retire the bonds, and it would address roads, it would address mass transit, it would address school construction, and it would address the… some of the needs of higher ed. and community colleges. It's out there, folks. It's out there. We're willing to work with you. We filed a budget. You may not like it, but we're not sitting over here going 'Na, na, na, na, na.' We would've been willing to work with you in March, April, and May. We were not allowed to. We're willing to work with you now. We filed a budget, we filed a capital plan. Neither is probably perfect. And Leader Cross has said to the Speaker on more than one occasion, we're willing to work with you. We're willing to listen to your ideas. We're willing to accept some of your Amendments because the bottom line is, as one Member of your side of the aisle said while he looked over here and acted like it was our fault, we want a capital plan and we know the longer we put off highway and bridge repairs, the more expensive it gets. We need a capital plan. I think all of us agree. Now, let's get to work and do one. We have to get a budget. The pressure point in August will become unbearable. You already have heard from… from community-based organizations in your district, how much money are we going to have? Without that knowledge, they don't know how many people they can serve. They don't know how many people to keep on the payroll. There are schools that don't know if they can operate. There are schools in this state who no longer have borrowing power. They no longer are able to issue tax anticipation warrants. They need to know what their state ed checks will be. That has nothing to do with the sale of the lottery. Oh, Amendment #2 says we're going to… we're going to hold them harmless, but it doesn't say how, and it doesn't say for how long, and it doesn't say from what revenue source. A tough vote? I don't think this is a tough vote at all. I think you go home and tell people that the time for gimmicks is over. The time for me getting calls at 7:30 at night at dinner on my cell phone from the Governor's staff asking me if I wanted to vote for the Bill if they did this and that. I've been here 21, almost 22, years. I've never gotten a call at 7:30 at night from a member of the Governor's staff wanting to know how I plan to vote on the Bill the next day if we change this or change that. I thought that was a little odd. I very carefully read the first Proclamation that called us in to Special Session. Believe it or not, most downstaters know how to read. Many of us subscribe to more than one newspaper. I read that first Proclamation. You get it out and you read it and you see if I'm wrong. Half of that Proclamation was a press release. Now, I have done this, I have done that, I have put this in there, and that in this, and by the way, you'll come down to Springfield on such and such a date and you will deal with two (2) issues, two (2) issues that we should and could've dealt with in March, April, and May, or early June. We're all in the same boat here, folks. I have events planned with my grandchildren, there are weddings that will take place, some of us have elderly parents that we need to spend time with. I am not going to sit here day after day and listen to what I have to listen to day after day and get the news that my 89-year-old father may have passed away and I wasn't there. I'm not going to do that. I'm not going to miss time with my grandchildren. I'm now at an age where every day I miss with them is a day I will never get back. I'll do the best I can to be here everyday and do the job that the people in my district want me to do. But of all the letters I've gotten since we've been in Special Session, how many have been on selling the lottery? How many have been on the pension system? None. How many have been on electric rate relief? Thirty-six (36). Even at this late date, they're still concerned with electric rate relief. So, please, don't look at our side of the aisle and say this is our fault and that we used it as a campaign event. If we did, we sure didn't use it very effectively. Our Leader has made it clear, he has expended… he has extended his hand to your side of the aisle. We participated fully in an emergency 30-day budget. We're willing to do whatever it takes to work with you, but I want you to keep in mind that you simply… your Party simply treated us as invisibles until June 1. That's not right. It's not fair. You disenfranchised every member of my district, be they Democrat, Republican, or Independent. I had no input. Our Leader had no input. So, let's just quit worrying about who we're going to blame. We have a pension problem we need to address. So, the vote is simple. Will selling the lottery fix the pension problem temporarily or permanently? That's the question. I don't think it's a tough vote at all."

Speaker Madigan: "Representative Mulligan."

Mulligan: "Thank you, Mr. Speaker. Will the Sponsor yield?"

Speaker Madigan: "The Sponsor yields."

Mulligan: "Representative, I only have a brief question and then I'll probably speak against the Bill. But it was my understanding when I asked the question in caucus that there would be an oversight board put into place and the duty of those… that board would be promulgated by rule."

Currie: "Some… some of the responsibility would be statutory, but the Lottery Control Board would establish by rule things like the advertising policy."

Mulligan: "All right. There are other things that would be interesting to me that I would… would find very interesting. Number one, what types of games they would have. If they could do video poker online. What kind of credit they would be able to issue."

Currie: "No, they would not have authority to change the kinds of items that are available through a lottery. They could not authorize video poker."

Mulligan: "So, my understanding from other states is that's one of the only ways you can make money on a lottery is to do those kinds of things and that when you promulgate rules that you can pretty much change the parts of that board out of the glare of the General Assembly."

Currie: "Not my understanding. We would have to authorize that by statute."

Mulligan: "I've been told prior to this, particularly with such things as All Kids, that the reason they left nothing in the Bill, as compared to KidCare, was that because in Kid Care the General Assembly, part of which were your rules, was too definite and hampered the administration in being able to go out there and negotiate. And that's why All Kids had nothing in it and then they promulgated the rules. So I don't know why I would think this administration would do anything other than that. Do you think that we can limit it some way by statute and that the Governor would sign something like that?"

Currie: "Well, absolutely, we could limit by statute. And as to your specific question about video poker, my understanding is that nothing in this Bill would authorize the Lottery Control Board to permit that game legally in the State of Illinois."

Mulligan: "All right. To… to this Bill, and probably to the general situation. I find it hard to believe anything that the second floor puts out anymore. I certainly believe the Sponsor of this Bill, although I think it was an interesting presentation. It was almost… we'd be… I would call it 'do not pass presentation', which is interesting on the House Floor. But let's go back over some reasons why we lost a certain amount of confidence. I understand also that the Governor called what was happening here a three-ring circus on television last night, and I guess he thought that he was the ringmaster last week when he snapped the whip for us to be here now. I guess he didn't like it when he found out it was supposed to be an equal partnership where we were supposed to participate, ask questions. When he said he wanted legislative input, the only legislative input this man ever wants is for us to rubber-stamp 'yes', not to ask questions, and not to be there at any particular point to cause a conflict. In his first year in office, some of us gave him the benefit of a doubt because we were all elected to the General Assembly at the same time in 1992 and took office in 1993. And our Leader was friendly with him. Many of us could not remember exactly what he did when we was a Legislator because he had no particular area that I felt was an area that we would say as a

Representative he was outstanding in this kind of legislation. Similarly, when I asked what he had done in Congress I also got that answer and one of the questions I asked was, 'What kind of pork did Rod bring home for Illinois?' And they said, 'Rod wasn't around much in Congress for him to bring any pork home, and that was because he was criticizing us for having accepted pork.' But we kinda went along with it and I thought, well, maybe he would be a good administrator. And, ya know, it's always nice if you get elected to Congress and your father-in-law gives you a hand. My father-in-law was a alderman in Des Plaines. Perhaps if he'd been alderman in Chicago I could be a Governor now. And I'd treat you all better than this guy is doing, let me tell ya. So I'm just thinking, we decided we would go along with him and try and help him in his first year, banked on friendship and goodwill. Well, suckers we were, let me tell ya. Because we helped and we tried to do what we could do and then he lied to us and he did things for the next 4 or 5 years that no Governor has ever done. Let me just give you one particular instance in my district on a flooding project that we were just asked to return the money on. Funny part of it is the project, which it took us 8 years to find a place to hold water, is no longer even in my district. It happens to be represented by Representative Nekritz and Representative Garrett. So we wonder why we do not believe this man. In the second year, he went out and tried to balance the state budget on the back of immigrants and fee-for-service with Human Services. And so, we went into overtime and we sat there and we negotiated. And then we needed a House Committee to be in place for several years just to make them follow the rules that we had set up, not to steal the money from Human Service people and put it in the General Revenue Fund. So, we went along with that. And then the next 2 years, I guess, the Democrats on your side of the aisle felt it was more important to go along with this Governor, as election was coming, and that it would be to your benefit, once again, to have him elected. And so, we were totally cut out of the budget. But I notice the Governor, the anti-pork Governor, gave away quite a bit of pork and you all had memorandums of understanding because, learning from past history, his word was not to be trusted. So we move forward now into the fifth year and what brought about the wins and everything? Well, immediately after a primary a Governor, who has threatened, cajoled, and raised tons of money, proceeded to beat up on the other candidate with character assassinations so cruel that newspapers in places even across the country commented on it. And he turned that into a big win, using as his front piece the All Kids Program, a program that was sponsored by this General Assembly where the rules were promulgated, where false… false things were put out about how the money was going to be saved on managing Medicare, and how he lied throughout a campaign and spent approximately seven million dollars ($7,000,000) out of the Human Ser… the Health and Human Service budget to advertise All Kids and then run his ads next to them. And then, without ever mentioning once that he wanted to do universal health care, he drops it in late on his own Party with all kinds of tax increases that raise the bar of what would happen in any budget. And what did he do in those budgets in Human Services? He was very selective. He took out individual areas in the budget and then made those people whose areas were removed go out and lobby us. Gave individual lobbyists individual Legislators to coerce or try to coerce and then we wonder why no one trusts him. And then we go into negotiations where he vilifies us and then he says he wants us all back here to work with him. I think it's simple. What is the definition or what is his definition of working with the Legislature? We certainly are an equal co-Body to the Executive Branch. He does not treat us thusly. He treats us as inferior Members and only seeks our input when he wants us to rubber-stamp something. I certainly do not understand that. He has ruined the Workforce Development Board. If you want to make your state be able to pay for pensions and pay for programs, you make it a worker-friendly, family-friendly, business-friendly state. You do not go out and not have a full program that includes roads, business, and labor working together. No one will ever even mention George Ryan, but George Ryan's director of the budget, Steve Schnorf, who was under the Edgar and Ryan, worked with both sides of aisle. Republicans and Democrats could walk in and get a meeting and try and solve a problem for a constituent. That didn't mean they gave it away. This administration has not met with the Conference of Women Legislators on any routine basis, does not meet with Legislators, he even did not meet with a gentleman, Mr. Eden, from… who had a program from the Civic Federation. Who does this guy talk to? Is it because he can't articulate or he's too lazy to do his homework? No one expects him to know everything. But we expect him to be there, we expect him to be interested, we expect him to work with us, and we expect to get the job done and make this state a better place. Then you will raise revenues and then you will pay things off without putting them on the backs of the public or the poorest of people. He has never done that in any of the years he's been here. I think he should get his act together, get real, and figure out if he wants to work with us, give us the definition of what it is that he should work with us on. Tell us that. We don't want to vote for his things because nobody trusts him anymore. When you lose trust you have a hard time negotiating or making a deal. It's kind of like the Palestinians lobbing a bomb on the Israelis and then the next day calling up and saying, 'Gee, and we'd like to talk to you about peace.' Well, forget that noise. That's not going to happen. Keep it up and see what happens. I don’t see how he can expect any of us to take a phone call or get out there and work with him on anything. Send us off driving on the worst traffic weather of the week… of the week in a 4th of July weekend, keep our staffers with small kids working. Ya know, insult your own Leaders, insult our Leaders, insult our intelligence, and then expect us to negotiate to an end. Ya know what? I don't think so."

Speaker Madigan: "Mr. Stephens."

Stephens: "Well, thank you, Mr. Speaker. We… here we are again. The Democratic Leader says that we have a crisis. The Gentleman from Madison says, well, no, it's… let's better describe it as a really big, big problem. And I will tell the Gentleman from Madison, you are right there. You've got a really big, big problem, and it is one of your making. We… we have tried to work with you this Session. We have tried to be part of the process. But we have some rules by which we like to operate. We don't want to sell assets to pay for operations. We don’t think that makes good sense in any financial endeavor. We don't want to raise taxes and ignore the burgeoning spending budget that we have. You have a… you have a Governor that has not quite lived up to his claim for fame. But let's remember, he is a Democrat Governor. A Democrat, working with a Democrat Legislature, Democrat House, and a Democrat Senate. You had everything that the political world could give you and you have squandered it. You have squandered it at taxpayers' expense. You have failed with a budget. You Democrats, in both chambers and on the second floor, have failed in the budget process. You have failed on the utility issues. People are crying out for relief from utility bills and you've given them nothing. And I understand next week a Democrat plan will give them little more than nothing. You have not even addressed property tax, the scourge of our community. Paying taxes for what you have and not what you earn. It is an abomination that with all the power you have, you have failed us in education funding. Democrats in the House and the Senate and on the second floor have failed to provide prison guards enough protection for themselves so that they don't live in danger. And as I speak, there's a threat at one of our facilities that a man or woman guard will be killed this weekend. And we can't do anything about it because Democrats with all the power that people could give them have failed the people of Illinois. Governor Blagojevich, grow up. Get up here and work with us. Governor Blagojevich, I'm reminded of my Army days. Ya know, in the Army it's… it's not a perfect world. You don't have all perfect players, so you have to come to some accommodation. When a battle breaks out you either lead, follow, or get out of the way. Governor, it's time for you to lead, follow, or get out of the way."

Speaker Madigan: "Mr. Pritchard."

Pritchard: "Thank you, Mr. Speaker. Ya know, like many of you, I was raised by parents that instilled respect. They said you're supposed to open the doors for elders, like Jim Sacia. You're… you're supposed to be mindful of those that do good things and give them credit. So, when one of the previous speakers said the Governor wants credit for paying thirteen billion dollars ($13,000,000,000) down in our pension payments, I took note. Out of that thirteen billion (13,000,000,000), as I remember, ten billion (10,000,000,000) of that was in borrowed money. Money that wasn't paid in its service fees until the end of the term, so that future generations are going to have to pay for that obligation and that privilege. I also was here in this chambers back in 2004 and 2005 when we passed a budget that didn't seem to earmark any crisis in our pension system.

And as previous speakers has pointed out, we really have never heard of this crisis until this year. So I'm a little bit surprised that we now have this crisis. And next year are we going to hear about a crisis in Medicaid or a crisis in education funding that many of us have been pushing and talking about this Session. It's interesting that the Governor and some other Members have stated that we need to work together and look at other alternatives if we don't like this alternative. Well, we certainly have been here since January willing to meet. In the last two (2) days we held a hearing here in the House where the Governor was invited to engage in dialogue with us. We're still waiting to engage in that dialogue. Still waiting to look at better ideas than selling off an asset and not using the money for really the intended purpose. Because as I read this Bill, the money isn't going to go into the pension system, isn't going to pay down our liabilities. It's going into the General Revenue Fund. And when you look at how money has been used for other ways than what this Body appropriated dollars by the administration, I don't have a great deal of confidence that we can trust the money is going to make it from the General Revenue Fund over into our… paying our pension obligations. So, until we can sit down and talk about better ways at solving this problem and solving the Medicaid problem and solving the education problem, I think we're going to continue to just deal with superfluous cures that really don't address the issues. And I would encourage your 'no' vote on this Resolution."

Speaker Madigan: "Mr. Joyce."

Joyce: "Thank you, Mr. Speaker. I move the previous question."

Speaker Madigan: "The Gentleman has moved the previous question. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The previous question is moved. Representative Currie to close for about ten (10) seconds."

Currie: "Thank you, Speaker and Members of the House. I'd like to spend a little more money on education and health care, too. We've heard about the Taxpayers Federation. I want to remind you of one sentence from the Taxpayers Federation's testimony today in opposition to this plan, 'It appears that the annual contribution will underfund the pension plans by as much as one billion dollars ($1,000,000,000) in 2008.' The Civic Federation, we're told they're interested in this kind of thing. They said in opposition to this plan, 'No properly managed company would sell an asset to fill a hole in its current operating budget. Selling assets to meet current operating shortfalls is always a bad idea, bad economics, and bad policy.' That's exactly what the proposal in House Bill 2055 is. I urge your 'no' vote."

Speaker Madigan: "The question is, 'Shall this Bill pass?' Those in favor signify by voting 'yes'; those opposed by voting 'no'. Have all voted who wish? Mr. Leitch. Leitch. Record the Gentleman as 'no'. Record Mr. Leitch as 'no'. Is Mr. Riley in the chamber? Okay. The Clerk shall take the record. On this question, there are 6 people voting 'yes', 78 people voting 'no'. The Bill fails. Mr. Clerk, how is Mr. Leitch recorded? Mr. Leitch is recorded as not voting. The Gentleman clearly intended to vote 'no'. He was motioning to the Chair that he wished to be recorded as 'no'. Mr. Bost."

Bost: "Thank you, Mr. Speaker. Earlier today when reporting the absents, since that time we've also had three others that we'd like to be on the excused list for today, and that's Dunn, Pihos, and Schmitz, please."

Speaker Madigan: "Let the record reflect those excused absences. Ladies and Gentlemen, we are prepared to adjourn the First Special Session until 10 a.m. tomorrow morning, then we shall convene the Second Special Session. So first, Representative Currie moves that the House stand adjourned until 10 a.m. tomorrow morning. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The House does stand adjourned until 10 a.m. tomorrow morning, and that relates to the First Special Session."