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 by Lee Crawford, the Pastor of the Cathedral of Praise Christian Center in Springfield."

Pastor Crawford: "May we pray. Most gracious and most kind God who art the author and the finisher of our faith, we pray that You would bestow Your most precious blessings upon this august Body. We pray for its Leader, we pray for all of its Members, Members that You have chosen to serve here. Father, may they serve well, may they serve as good stewards. I pray that You will grant them this day wisdom to make wise decisions, grant them the knowledge to know, to know You and to know all of Your ways. May they know the ways of Your spirit. May Your spirit lead them, may it guide them, may it instruct them throughout this day. We pray in Your Son's name, amen."

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

Mautino: - 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.": "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 reflect that Representatives Arroyo, Burke, Collins, Feigenholtz, Flider, Fritchey, Graham, Harris, and Jakobsson are excused today."

Speaker Madigan: “Mr. Bost."

Bost: “Good afternoon, Mr. Speaker. Let the record reflect Representatives Bassi, Pihos, Dunn, Lindner, and Durkin are excused today on the Republican side of the aisle."

Speaker Madigan: “The Clerk shall take the record. There being 97 Members responding to the Attendance Roll Call, there is a quorum present. Mr. Clerk, read the Proclamation of the Governor."

Clerk Mahoney: "Proclamation 2007-228.

WHEREAS, the State of Illinois supports five retirement plans covering State employees, university employees, teachers, judges, and members of the General Assembly; and

WHEREAS, many retired employees rely on these benefits plans to help pay for daily necessities, including housing and healthcare; and

WHEREAS, during his first term, Governor Blagojevich invested $13.3 billion in the State’s pension systems, which is more than any governor in Illinois’ history; and

WHEREAS, the State’s $13.3 billion investment increased funding from 48percent up to 60.5percent of liability from Fiscal Years 2003 through 2006; and

WHEREAS, despite recent efforts, due to thirty years of underfunding the pension systems, the State of Illinois is faced with a crushing $41 billion pension debt; and

WHEREAS, this gross underfunding will cause the debt to increase each year at a drastic rate, threatening to consume new revenues at the expense of other needs facing the State, including healthcare and education; and

WHEREAS, to adequately fund and secure pensions, reduce long-term interest cost, and more effectively manage pension obligations, the State must pay down its pension debt; and

WHEREAS, the Governor has proposed to lease the State Lottery to a private operator and to issue $16 billion in pension obligation bonds; and

WHEREAS, the $16 billion in pension obligation bonds would allow the State to refinance its existing pension debt, which grows at an interest rate of 8.5percent annually, with a lower interest rate; and

WHEREAS, the $16 billion in pension obligation bonds would build upon the State's $10 billion pension obligation bond issued in 2003, which allowed the State's pension system to increase their funding ratio over the last three years; and

WHEREAS, much work remains to address the pension underfunding in Illinois, and it is critical that the General Assembly convene to address this issue and take action to stabilize the State's pension systems;

THEREFORE, pursuant to Article IV, Section 5(b) of the Illinois Constitution of 1970, I hereby call and convene the 95th General Assembly in a special session to commence on July 5, 2007, at 12:00 p.m., to consider any legislation, new or pending, which will address the pension crisis."

Speaker Madigan: “Mr. Clerk, introduction of Resolutions."

Clerk Mahoney: "Special Session… House Special Session Resolution #1 and House Special Session Resolution #2, offered by Representative Currie, are introduced."

Speaker Madigan: “Representative Currie."

Currie: "Thank you, Speaker. I move for the immediate consideration and suspension of the applicable House Rules so that we may adopt First Special Session House Resolutions 1 and 2."

Speaker Madigan: “You've all heard the Lady's Motion. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it and the Motion is adopted. Representative Currie."

Currie: "Thank you, Speaker. Would the Clerk please read First Special Session House Resolutions 1 and 2."

Clerk Mahoney: "First Special Session House Resolution #1.

RESOLVED, that the Rules of the House of Representatives of the Ninety-Fifth General Assembly be adopted as the Rules of this First Special Session, so far as the same may be applicable, and that the Committees of the House of Representatives of the Ninety-Fifth General Assembly, shall constitute the Committees of the House during this First Special Session.

First Special Session House Resolution #2.

RESOLVED, that the Clerk inform the Senate that a majority of the House of Representatives has assembled, pursuant to the proclamation of the Governor, convening a First Special

Session of the General Assembly, and are now ready for the transaction of business."

Speaker Madigan: "Representative Currie moves for the adoption of the First Special Session Resolutions 1 and 2. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The Resolutions are adopted. Mr. Clerk, Rules Report."

Clerk Mahoney: "Rules Report. Representative Barbara Flynn Currie, Chairperson from the Committee on Rules, to which the following legislative measures and/or Joint Action Motions were referred, action taken on July 05, 2007, reported the same back with the following recommendation/s: 'approved for floor consideration and referred to the Order of Second Reading' is House Bill 2055 and House Bill 3755."

Speaker Madigan: "Representative Currie."

Currie: "Thank you, Speaker. I move that the House of Representatives now resolve itself into a Committee of the Whole for the purpose of a subject matter hearing on the Governor's proposed lease of the state lottery and the issuance of new pension obligation bonds for the state retirement systems in accordance with guidelines established by the Speaker."

Speaker Madigan: "You've all heard the Lady's Motion. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The Motion is adopted and the House hereby resolves into a Committee of the Whole and we'll proceed under the agenda referenced by the Lady's Motion. Is there leave for the Attendance Roll Call to be accepted for purposes of establishing a quorum in the committee? Leave is granted and a quorum is established. Representative Jack Franks is appointed as the Chair of the Committee of the Whole and he is recognized for the purpose of conducting the hearing."

Chairman Franks: "Thank you. Thank you. Thank you all for coming today and I hope everyone had a pleasant 4th of July. We are here convened in an emergency Session at the behest of the Governor. I would like to thank Speaker Madigan for convening the Committee of the Whole and for inviting the Governor here today. I'd also like to commend the Speaker for finding a new way to conduct the state's business in a more open and transparent manner. At stake today is the fate of our state's lottery system. This far into summer several proposals have already been made by the Legislature and the Governor's Office. Our job now is to sift through these proposals and openly debate their feasibility. Only then will we really know where we stand. In May, the State Government Administration Committee held a hearing on the sale of the lottery and I think it's now appropriate for the entire House to be involved in this issue. Even though the Governor declared an emergency and called the General Assembly into a Special Session, the Governor has declined to be here today. I hope that the Governor changes his mind and appears with us today. We need to get serious and get down to business. We must stop the childish nature of the process that has led us to this point. Today is an opportunity to show how we are serious about solving problems and we're not interested in finger-pointing. If everyone would be willing to compromise, we should be able to quickly create a budget, much as we have done in other years. It's difficult to take the Governor's claim of an emergency seriously since he will not even attend the Session he called. The Governor is certainly free to dream of raising billions more in tax revenue from the working men and women of Illinois, but meanwhile the General Assembly must proceed with the serious business of crafting a budget. This issue is too important to dismiss based on one person's action or inaction. We are here now to take the Governor's proposal seriously and debate the fate of the state lottery. I would like to thank all of those who have come here to testify today. And for my colleagues, all of whom who are as committed as I am to finding a fair compromise on the budget, we must remember that we were elected to lead and make the difficult choices to move Illinois forward. Today, we can show the people of our great state that if the Governor fails to lead us to a solution, we are prepared to lead him. I'd like now to recognize Speaker Madigan."

Speaker Madigan: "Chairman Franks and Ladies and Gentlemen of the Committee, my purpose is, number one, to welcome all of you to the Committee of the Whole. In addition, as you all know, I did invite the Governor to join us today as an active participant in the deliberations of this Committee of the Whole. He has declined my invitation to join with us in an active discussion concerning the purpose of the call of the Special Session, which is a proposed lease of the lottery and the condition of the state pension systems, in addition to the issuance of a second pension obligation bond. My purpose in inviting the Governor related to meetings that I've had with the Governor over several weeks. And on several occasions in meetings with the Governor and the four Legislative Leaders in the Governor's Office, the Governor has expressed a desire for including more of the Members in the meetings. He has consistently said to those in the meeting, 'I would like to invite more of the Members of the Legislature to join us in these meetings.' In addition, on several occasions, he has said in those meetings that he would like to invite the media to join the meetings in the Governor's Office. So for those two reasons I thought it appropriate and desirable that he join us today. But, as I said, he has declined the invitation. I'd like to quote directly from the Governor on several occasions. Governor wrote a letter to the Members of the General Assembly, I presume you all received the letter, it was dated June 29, announcing his decision to call the Special Session and I want to read three quotes from that letter. Number one, direct quote, 'I am ready to work closely with you to complete a budget and am eager to receive input from all of the Members. Indeed, I am anxious for a real dialogue.' Next, 'I believe that if we broaden and widen the debate, if we have input from Members on an ongoing basis, if you are here to provide ideas and insights, I believe progress can be made.' Next, 'I also believe, as we move from budget issue to budget issue to budget issue, those with expertise or creative ideas should join the Leaders as we create a wider working group.' From the Governor's press conference on June 29 announcing his decision to call a Special Session, 'We can't pass a budget, we'll never get a full-year budget unless all the Members of the General Assembly are here and actually play more of a role in the budget process.' There was a question from a reporter, 'Governor, are you going to have proposals on the table for Legislators to act on while they're here?' The Governor, 'Yes, very much so.' At the same press conference, 'I also suggested to the Legislative Leaders that I would like more of the Members to come to the budget meetings so they can see what's going on, so they can hear from me, so they can hear the discussions.' Also, 'I suggest that they have an open mind about bringing you guys, the media, to the budget meetings.' And on the Governor's website, as of July 4, is a reference where the Governor has invited Legislators to share their ideas with the Governor. All of that would've been made very easy, very efficient if the Governor would have joined us today, but he's chosen not to be here. My suggestion is that we discharge our duties as Members of the House of Representatives called into Special Session by actively participating in this discussion and this debate under the Chair of Representative Jack Franks. Mr. Franks, thank you very much."

Chairman Franks: "Thank you, Mr. Speaker. Leader Cross."

Cross: "Thank you, Representative Franks. And we, too, on this side of the aisle, welcome the opportunity to participate in this process, as have we welcomed that opportunity from day one and we will continue to be part of this process as long as it takes to get a realistic, reasonable, practical budget passed in the Illinois General Assembly. I want to just point out a few of the issues that I think we're going to confront today that I think are worth noting before we get started. We will, I suspect, hear a lot of discussion from the Governor's Office about the need to put more money into our severely underfunded pension system. Well, we have an agreement with the Governor. The pension system is underfunded. And I would remind everybody in this chamber, maybe I don't need to be… need to, that one of the reasons this pension system is so underfunded is because we just experienced several years ago the passage of Senate Bill 27 whereby the General Assembly changed the payment schedule and decided, under the direction of the Governor and his party, to severely underfunded this pension system by three and a half billion dollars ($3,500,000,000) probably the worst thing we could do to already one of the worst funded pension systems in the country. So when we sit here today and listen to the Governor's Office tell us that we need to find ways to make this pension system stronger and to put money into the pension system, I would suggest that perhaps there's a little bit of hypocrisy being practiced because the Governor's Office is responsible, along with their party, for severely underfunding the pension system over the last three (3) years. And I would add that the schedule they enacted in Senate Bill 27 actually carries on for another (3) years. It was underfunding (sic-underfunded) two (2) years ago at 1.1, last year at 1.2, and so on until we end up continuing to underfund the pension system by almost three and a half billion dollars ($3,500,000,000). An absolutely horrible, irresponsible act by the General Assembly and those that voted for it. We will then hear of the need and the benefits of leasing the Illinois lottery system. We find several problems with that. And, you know, it's good that we're here today and it's good that we have this debate and the Speaker was right in calling a Committee of the Whole. But I think many people in this chamber already know what the issues are and they've examined the pros and cons of leasing the lottery and have examined the pros and cons of deciding whether or not there's merit to another pension bond deal. I think one of the underlying concerns that we have as Republicans is that the lease of the lottery and handing over the lottery system to a private entity will mean this state will lose approximately six hundred and thirty million dollars ($630,000,000) a year. Six hundred and thirty million dollars ($630,000,000) a year that goes into the Common School Fund. That is six hundred and thirty million dollars ($630,000,000) that we won't have to fund our schools. Six hundred and thirty million dollars ($630,000,000) that we won't have to fund public education. Six hundred and thirty million dollars ($630,000,000) is a huge hole that we cannot afford to create by leasing the lottery. The second problem that we find in leasing the lottery is that it is, quite frankly, a bad deal. A private entity is going to come around, come along and offer us ten billion dollars ($10,000,000,000) to have the ability to run our lottery system for the next seventy-five (75) years, for seventy-five (75) years. We will, by all estimates, by independent sources, end up leaving on the table approximately sixty billion dollars ($60,000,000,000). It doesn't take a mathematician, it doesn't take an economist, it doesn't take anybody with a Ph.D. to understand that is not a good deal for the people of the State of Illinois, leaving sixty billion dollars ($60,000,000,000) on the table. Is there a need, perhaps, to run our lottery system a little more efficiently? Sure. Can we… can we make sure it… it runs in a way that maybe we could optimize or do better in profit making? Sure. And the idea of privatization is not one that we run from. We actually like that idea and would be willing to entertain that piece of legislation and entertain dialogue on that issue, but not, we believe, in the way the Governor's talking about, of leaving sixty billion dollars ($60,000,000,000) on the table. The other issue that we will hear much about today is the concept of a pension bond deal, one that we participated in three (3) years ago, much to the chagrin of some Republicans. I voted for it. I thought it was the right thing to do three (3) years ago. At the time, though, the market was ripe for a pension bond deal. You were able to sell bonds or borrow money at a fairly low rate and end up with a higher rate as the market climbed where we actually… it made financial sense. This to me is not a political discussion, it is a numbers discussion. And just about everybody in the market would suggest that now is not the time to do a pension bond deal, to sell bonds and infuse sixteen billion more dollars ($16,000,000,000) into the pension system. There may be a time down the road where it makes sense. There may be a time where the market spread is better, where the arbitrage is better, where the delta is better, and you'll hear all kinds of terms today, but right now it doesn't make sense for a state… for us as a state to go sell bonds. It doesn’t make financial sense. It's not a political decision. One of the other concerns that we have on this side of the aisle is it will increase the amount of outstanding bonds that we have as a state from twenty-two billion ($22,000,000,000) to almost thirty-eight billion dollars ($38,000,000,000). That would mean as a state we would have thirty-eight billion dollars ($38,000,000,000) in money that we owe to bond houses. Thirty-eight billion dollars ($38,000,000,000) in bond indebtedness. And that's before, Ladies and Gentlemen, we would start talking about a capital Bill that we all know is something we need to do in this state. We need to take care of mass transit, we need to take care of roads, we need to take care of higher ed, community colleges, schools. We need to do a capital Bill. Speaker and I have been working on a capital Bill and when… I think when we believe the time is right we'll move forward on that. But we've talked about a five billion dollar ($5,000,000,000) capital Bill. That would raise our debt then to almost forty-three billion dollars ($43,000,000,000), bond indebtedness. I don't know what that does to our bond rating, I don't know what that means in terms of our ongoing obligation on debt service on an annual basis, but it would mean we would owe a lot of money, and money we don't have. So, pensions clearly need to be looked at. And I know we're going to hear from people today about reforms and I think we need to keep an open mind on that. But we start today with an open mind, we will remain open, that is the tenor of our caucus. But we certainly have some reservations about a bond deal and reservations about a lease of the lottery. I think maybe what we need to accept as a state and as a Governor and his four Leaders is that we don't have access to a lot of money to implement all of the programs that the Governor wants to enact. Programs that make some sense, perhaps. Programs that have some merit, yes. But we have a responsibility to taxpayers to make sure that we don’t continue this further digging of a hole that we have as a state that we can't soon, perhaps, get out of. And I think we have to accept the realization that the revenue streams to enact the Governor's programs aren't there. GRT is not going to pass. Income and Sales is not going to pass. I think today or tomorrow or Saturday, whenever, we will probably see a vote on a pension bond deal, probably see a vote on a lottery system, and they probably will not be votes that will be favorable. That leaves us with very few options. The gaming Bill came over to the House from the Senate that had a gaming location in three or four different cities. It died in committee. There's nowhere else to go. We have to accept the fact that we have a limited amount of money, seven hundred and twenty million (720,000,000) in new revenue, some other potential sources. We passed some closing of loopholes several weeks ago. We have maybe eight hundred, nine hundred million (800-900,000,000) to work with and I don't see it getting any better. We are not, on this side of the aisle, if there's any doubt about it, for a tax increase. We believe we can live within our means. We believe we can balance a budget with the existing available new revenue. We have a budget on file, I know you have passed one out, and we are willing to work with you on your side of the aisle in a practical way. We're willing to do some compromising. We want to be flexible. We've said we are principled on our pledge to not raise taxes and we will remain that way. But we understand we need to get out of here and we will be open to other suggestions, but not when it comes to raising taxes. We will not do that. We will not be for that. So, Representative Franks, thank you for your… I think and I believe will be a very informative afternoon and perhaps evening on this very important issue. We appreciate you, Mr. Speaker, giving us all an opportunity to participate and we look forward to, as I said, an informative afternoon. Thank you."

Chairman Franks: "Thank you. Call Minority spokesman for the State Government Administration Committee, Representative Pritchard."

Pritchard: "Thank you, Mr. Speaker. And taking the opportunity today to lead this Session, we appreciate your thoughtfulness, your leadership. And certainly the discussions we've had in committee, they have been very directed at some of the issues that face our state and I think it's appropriate that you're chairing this Session today. Certainly from my side of the aisle, we would also like to thank Speaker Madigan for calling this Committee of the Whole today. This is the third time that we've had such a hearing, which as I understand it being relatively new in this Body, is not very typical. But I think his leadership style has been a breath of fresh air, where we are more inclusive of all Members of the chamber, where we look at the transparency of discussing issues in the open rather than in backdoor discussions, and where we're leading the discussions. And I want to compliment the Speaker for… for leading us and for giving these opportunities. It's unfortunate that the Governor couldn't be with us today because I think the difficult issues that are facing our Body and the State of Illinois are… are issues that we have to work together on. And unfortunately, the Governor has set a different tone than the Speaker has this year where we're not approaching the issues in an inclusive nature. In fact, he has gone out of his way to indicate that he doesn't want bipartisan discussion or participation in the issues that face this state, that he's not looking for solving the issues with creative discussion. The policies that he's set forward are really policies of selling assets, of shorting annual payments, taking pension holidays that don't really help us move forward in catching up with some of the debt that we owe on our pensions. And I think the third area that's so important to these important discussions is the area of trust. We have to have trust in each other that when we say something or when we agree to something we can take it to the bank. That's part of the political process. And when that trust isn't there there's always suspicion about, well, if you agree to fund something or not to do something, will you really follow through with your word? And unfortunately, the example that the Governor has given us has not helped us have more confidence in his leadership or in his words. All of us have come to Springfield with sets of priorities that we've heard our constituents concerned about. I think all of us have talked and last fall we came together in forming an Education Caucus, saying that was perhaps one of the most important issues, all the way from early childhood through college education. Certainly, we have concerns about health care and making it affordable and accessible to all of our citizens. But the policies that we have been funding and following in not funding the already obligations we have for health care have made that accessibility less available to our citizens. Given the priorities that we have, we find that we can't really address them given our current fiscal situation. That with the debt that we have and the annual payments that we have to make, with the concerns we have for new spending proposals, and with a pension obligation that's going to continue to ramp up over the next forty-five (45) years, we're going to struggle to fund the real important issues that we hear from our citizens across this state. So we need to… to look at those priorities and to solve some of the more difficult issues facing us today that will take some creative solutions, and that's where we need to come together. As we hear about the proposal for selling an asset, I hope we will all be attuned to the important hole that Representative Cross has already mentioned, six hundred and thirty million dollars ($630,000,000) that won't be available for education funding, and many of the other pressures that that shift in funding might create. As we look at the bonding issue, another idea that in and of itself might be very worthy, I think we have to raise concerns about how we're going to service that debt. Are we going to transfer liability to the various pension systems to come up with another billion ($1,000,000,000) or two billion dollars ($2,000,000,000) in addition to their annual payouts? The Governor, I think, very wisely formed a Pension Commission back in… early in his administration and that commission came forward with recommendations in 2004 and 2005. I would challenge this Body as we debate the issue that we go back to those recommendations and have a sincere real debate on many of those issues for reform. We heard earlier today in a press conference from a number of business groups, made up of both Democrats and Republicans, conservatives and liberals, indicating the very important nature of reform. It's somewhat akin to our friends who may have been out in the lake over the past holidays in a boat. If that boat starts leaking and taking on water, you have to be able to bail. And if you can't bail it out as fast as the water's coming in, your future is very dismal. And I think that's the way our spending policy in this state is right now. Our spending is well beyond our ability to raise revenue. If we don't come to terms with reform on very important issues, like education and Medicare and other health care issues and pensions, we're not going to be able to continue to fund the essential services that this state demands and is entitled to. I think the state wants some predictability in how we as a Body are going to raise that revenue. They need to be able to predict what their costs of doing business are, and taxes are an important part of that cost of doing business. We need to send a signal of stability rather than one that has been really wavering all over the board, from the gross receipts tax to sizeable income tax to expansion of sales tax and now payroll taxes, as well. If we're going to keep our boat afloat, if we're going to continue to meet the needs of the citizens that elected us to come and solve solutions rather than to continue to shirk our responsibilities, we're going to have to work together. Our side of the aisle is certainly willing to engage in that honest debate, that transparent debate, that inclusive debate that will lead to solutions. Thank you, Mr. Speaker."

Chairman Franks: "Thank you. Before we begin with our first panel, we're going to have ten (10) groups of panels speak and I just want to tell you what's going to happen so you'll be prepared. After the presentation, each caucus will get equal time to ask questions. The Republicans please sign up with Representative Pritchard if you'd like to ask questions of the panel and the Democrats please sign up with Vice Chairman Dugan who will put you on the list and get you to ask questions. Also with the panelists, I'd ask each of them to introduce themselves so it'd be easier when this is being transcribed. I'd like to start now with the first panel, be from the Governor's Office with Chief

Financial Officer Filan; Deloitte Consulting Senior Manager Lance Weiss; the Illinois State Board of Investment, the Executive Director Bill Atwood; and former Comptroller and Attorney General Roland Burris. If they'd please come to the table. We thank you for being here today and when you're ready, Director Filan… or Chief Financial Officer Filan, please proceed. Chief Operating Officer."

John Filan: "Chairman Franks, Ladies and Gentleman of the House, thank you very much for having us here today. I know we have a long day ahead of us. And so, we look forward to your questions. And with me today are to my immediate right Lance Weiss, who is a senior actuary with Deloitte & Touche and has worked with the state and the budget office since 2003 on working through the pension issues facing our state. To Lance's right is William Atwood. William Atwood is the executive director for the last several years of the Illinois State Board of Investment. That is the body that oversees the pension fund investments of the State Employees' Retirement System, the General Assembly Retirement System, the… and the Judges' Retirement System and reports to a board representing all those bodies. To Bill's right, I'm sure you all recognize Roland Burris. Roland is a former Comptroller of the… Illinois for (12) years, Attorney General, and also chaired the Governor's Pension Commission and Advisory Commission referred to earlier in remarks. I'm going to open up briefly with a few remarks followed by Lance Weiss who… Lance Weiss who will help us define the problem as we understand it; Bill Atwood, will talk about how the retirement systems, in particularly his case and the three he works for, deal with this issue and how they deal with proceeds and investment. And Roland, from his experience on the Pension Commission, also as Comptroller, talk about the issue he's faced and watched over the years. Once again, thank you very much for having us here. We'd ask all of us, and ourselves included, to focus very much on solutions to what clearly is the greatest financial challenge Illinois has, both now and looking forward in its recent history. I think that any… any solution will require a major revenue. The pension systems as of June 30, '06 are forty-one billion dollars ($41,000,000,000) of debt the state owes to those pension systems. All solutions will be expensive, very expensive, and will require major new revenues. By example, we refer to the current pension debt of about forty-one billion dollars ($41,000,000,000) as of that last official measurement in June of '06. This year's scheduled payment on that debt is about 2.6 billion dollars ($2,600,000,000). If we were to pay the interest on that forty-one billion dollars ($41,000,000,000), just the interest alone, that's 3.6 billion dollars ($3,600,000,000), a billion dollars ($1,000,000,000) more than the scheduled payment. In addition to that, the annual expense earned this year by state employees, teachers, and university employees is about 1.3 billion dollars ($1,300,000,000). So, just to stay even, just to not have liability growth, we should pay the pension systems 4.9 billion dollars ($4,900,000,000). But the scheduled payment is 2.6 ($2,600,000,000). That means we'll be 2.3 ($2,300,000,000) short and we'll go that much more in debt. To go forward just in the very near term to 2011, if we continue down that path, the forty-one billion dollars, ($41,000,000,000) according to the retirement system actuaries, will not be forty-one billion dollars ($41,000,000,000), but in four (4) short years will be fifty-three billion dollars ($53,000,000,000). And in that year, even though the payment will have increased to 4.2 billion dollars ($4,200,000,000), the interest and annual expense will be 5.9 billion dollars ($5,900,000,000). So, we'll be 1.7 billion dollars ($1,700,000,000) short then. So, even with this highly accelerated growth in the annual pension payments, we continue to fall further and further behind. And once again, by 2011 the debt will be fifty-three billion dollars ($53,000,000,000) rather than forty-one billion dollars ($41,000,000,000) if we don't act on reducing this debt. As most of you know, the debt has grown from about twenty billion dollars ($20,000,000,000) in 1995 to forty-three billion dollars ($43,000,000,000) in 2003 and is now about forty-one billion dollars ($41,000,000,000). We need to place immediate large revenues into the system due to the size of that debt and the fact that it carries an eight and a half percent interest rate. That means that every dollar we… we do not reduce the debt by, charges us eight and a half percent a year in terms of budget costs. So, those earlier examples, the extent to which this year if we make the scheduled payment that we pay in 2.6 billion dollars ($2,600,000,000), when I mentioned that would be 2.3

billion dollars ($2,300,000,000) less than required, that 2.3 billion dollars ($2,300,000,000) will get added to the debt, as will eight and half percent interest on that debt as well. So, basically, one of the things you have to look at is how do we finance this debt cheaper than eight and a half percent? Looking forward to fiscal '08, fiscal '09, and fiscal '10, pensions will take up about 75 percent of the increase in new revenues referred to earlier by Representative Cross. That means that three-fourths of our new money, assuming we still have growth in the economy, will be assumed by pensions. That'll leave 25 percent, or maybe two hundred million dollars ($200,000,000), less than 1 percent for everything else: education, health care, law enforcement, and the like. By 2011, although the growth will be less, we'll be further in debt. We'll be fifty-three billion dollars ($53,000,000,000) in debt, not forty-one billion dollars ($41,000,000,000) in debt. So, we believe somehow we have to focus on solutions to start to bring this debt down rather than to have it to continue to increase by the billions and billions of dollars. We proposed a lease of the state lottery as one solution. And that would infuse ten or more billion dollars as a principle payment to reduce the forty-one billion dollars ($41,000,000,000) by ten billion dollars ($10,000,000,000). We recognize this is a difficult choice. But once again, when we're this far in debt, the choices to reduce the debt will be expensive, will require new revenues, it will be difficult. We also proposed another pension obligation bond in the amount of approximately sixteen billion dollars

($16,000,000,000). Once again, this is a difficult and expensive choice but one we think is wise given the way markets react. And Bill Atwood will talk about how the state investment board is able to exceed the interest rates of the cost of the pension bond in today's market. That market won't always be there, but it's a good market today, in doing so. But that is just… our proposal, okay? We are open to all other proposals to make this pension debt go down. But the goal we're trying to achieve here is to reduce the debt and not have it increase year after year for the next forty (40) years and… beyond on to generations beyond us. Others have proposed a reduction in benefit… a… a reduction in… in benefits to state employees, teachers, and university employees. That proposal is something that's been proposed before. It was a few years ago, some were adopted. But at the same time, that proposal will not reduce this liability. This liability is money we already owe. So, as important as that recommendation might be to some people, it will not reduce the forty-one billion dollars ($41,000,000,000) and it will not reduce the fifty-three billion dollars ($53,000,000,000) we'll owe four (4) years from now if we don't act and bring down this liability. The third alternative, of course, is other sources of major revenue that'll require great expense in order to cause… cause major cash infusion into the pension system. If we keep making partial payments on interest and partial payments on everything else as we have for decades in this state, we will only make this debt grow by billions and billions of dollars a year. So, it is… it is very,

very difficult to do, but any way we do it will require major new revenues to reduce this debt. We think the lottery is an approach that advances revenues to us based on bidder's belief of growth in revenues and giving us the money now. We think the pension bond is a cheaper way to finance this eight and a half percent debt. But once again, those are proposals we've put out there. We are very open to ideas that focus on reducing this overwhelming debt that we believe will… will… will tie up this state for the next several years and restrain our ability to do anything for education or health care or other important investments in the state. I also want to acknowledge that we recognize in the lottery lease that there will be a loss of revenue for what it currently generates. We believe as part of the budget negotiation that should be replaced. And we certainly don't want to leave here in any way and will not without having an increase for education. So, we recognize that has to be part of the solution, part of the new revenues. There's a variety of ways to approach it. Some… some have… have proposed in budgeteer meetings to annuitize or have an annuity of part of the lottery proceeds to do that. There are other ways to do it with other revenues, but it has to be part of the overall negotiation. Under no circumstances would we support a reduction in education and don't want to leave here without an increase in education. So, once again, thank you very much for having us here. I'll ask my colleagues to offer their comments and… and we want to very much focus on solutions that actually bring this debt down and don't have it grow any more than it already has. Thank you very much."

Lance Weiss: "Mr. Chairman, Mr. Speaker, Ladies and Gentlemen of the House, thank you for having me here today. My name is Lance Weiss. I'm a consulting actuary with Deloitte Consulting. Although you're already all very familiar with the pension funding problem facing the state today, I believe it's vitally important to revisit, to review, exactly how and why the problem developed in order to craft a solution that meets the challenges facing the state today as well as in the future. Now as you know, statutory funding requirements did not exist in Illinois until 1995. During the '70s, '80s, and the first half of the 1990s, state contributions were inadequate to keep the unfunded liability from growing during good economic times and were reduced even further when times were bad. Finally, in 1994 the state enacted statutory pension funding requirements. That was Public Act 88-593, which first became effective in fiscal 1996 and is typically referred to as the 1995 Payment Plan. Public Act 88-593 established a fifty-year payment plan for the five state pension systems. The basic principle of this fifty-year payment plan is to attain a 90 percent funded ratio by the end of fiscal 2045 and maintenance of that 90 percent funded ratio thereafter. The 1995 Payment Plan included the following basic provisions: Again, the overall funding objective is to reach 90 percent funded by the end of fiscal 2045. And again, that's the basic funding principle and the ultimate funding goal. The contribution… the state contribution for fiscal years 2011 through 2045 should be equal to the level percentage of payroll required to reach a 90 percent funding goal by 2045. The state contribution for the interim years from the enactment of the law through 2010… so, for fiscal years 1996 through 2010 is equal to the increase in amount expressed as a percentage of payroll that grades up, or ramps up as is typically referred to, from the 1995 contribution level in equal annual installments up to the level percentage of pay required by fiscal year 2011. Then the state contribution of fiscal years 2046 and thereafter is the amount sufficient to maintain the funded percentage at 90 percent. Now, even with the enactment of this 1995 payment plan, the unfunded liability of the state pension systems more than doubled from just under twenty billion dollars ($20,000,000,000) as of June 30, 1995, one (1) year before implementation of the fifty-year plan, to forty-three billion dollars ($43,000,000,000) as of June 30, 2003. That's more than doubled from twenty billion ($20,000,000,000) to forty-three billion ($43,000,000,000) between '95 and 2003. And… and at the time in 2003 when the unfunded liability's forty-three billion dollars ($43,000,000,000), the funded ratio was 48.6 percent. Now, the primary drivers of the increased and the unfunded liability between '95 and 2003 included state contributions determined in accord… in accordance with the fifty-year plan that called for underfunding of the normal cost and interest on the unfunded liability each and every year, thus increasing the total liability. In addition, investment losses incurred during the three (3) fiscal years ended June 30 contributed to the problem. And last but not least, unfunded benefit improvements adopted between '95 and 2002 also contributed to this doubling of the unfunded liability. Now, as you're all aware, in 2003 the state issued pension obligation bonds. And those bonds… the proceeds of those bonds plus associated earnings brought the unfunded liability now down as of June 30, 2006 to just over… it's about 40.7 billion dollars ($40,700,000,000). So, just under forty-one billion dollars ($41,000,000,000). And raised the funded ratio from 48.6 percent in '03 to now a little over 60 percent… 60.5 percent. Even with that inflow of additional cash, the 60.5 percent funded ratio still leaves Illinois with one of the worst funded state pension systems in the country. Now, adopting a statutory payment plan for the state pension systems was clearly needed. However, this is really important to understand that the… the 1995 Payment Plan is not based on any underlying actuarial principles. It's also not based on any federal or IRS funding requirements. Instead, the 1995 Payment Plan is simply that. It's a payment plan designed to attain a 90 percent funded ratio by the end of 2045 and maintenance of that 90 percent funded ratio each and every year thereafter. Now, although the 1995 funding plan was very well-intentioned when it was first enacted, unfortunately it was structurally flawed. First of it all, it incorporated what I referred to earlier as this fifteen-year ramp up period, which increased contributions over a period of fifteen (15) years from 1995 through 2010 from a starting level that was significantly less than the amount needed to keep the unfunded liability from increasing, thereby guaranteeing that the unfunded liability would in… increase each and every year. Thus, the state was guaranteed to experience a growing unfunded liability from 1996 to at least 2010. And, in fact, this actually had the result of deferring the entire 1995 unfunded liability into future years. The contributions for years after 2010, although determined as a level percentage of pay, are also not sufficient to even paying normal costs plus interest on the unfunded liability until approximately 2034. So therefore, the net result is as a result of the fifty-year funding plan or fifty-year payment plan, the unfunded liability is actually projected to more than double from the current 2006 level of just under forty-one billion dollars ($41,000,000,000) to as much as eighty-four billion dollars ($84,000,000,000) by 2034. That's an astounding number. The fact that the fifty-year payment plan calls for continued underfunding for forty (40) years until 2035 with the underfunding being paid back at an eight and a half percent interest rate has caused the annual state contributions needed to pay down this increasing unfunded liability to become unaffordable today and certainly unaffordable in future years. To give you some perspective on just how large the pension contributions are and will become, based on the latest actuarial evaluation of the state pension systems completed as of June 30, 2006, if no new changes are made to the schedule, contributions required to the pension systems are expected to increase by approximately seven hundred million dollars ($700,000,000) each year for the next three (3) years remaining on the ramp up period. In other words, from 1.9 billion ($1,900,000,000) for 2007, to 2.6 billion ($2,600,000,000) for 2008, to 3.3 billion ($3,300,000,000) for 2009, to four billion dollars ($4,000,000,000) for 2010, and then all the way up to an astounding 15.4 billion dollars ($15,400,000,000) by 2045. Given these contribution projections, it's going to be very, very difficult for the State of Illinois to afford the annual contributions required to ever attain the ultimate 90 percent funded ratio goal. To summarize, funding the state's pension debts accumulated over three (3) decades now represents one of the greatest financial challenges for the State of Illinois. One way to lessen this decades-long structural problem is to reduce the unfunded liability of the pension systems via an immediate cash infusion. In that manner, the high interest cost of the unfunded liability is reduced and the required contributions are reduced to a much more affordable level. However, it's very important to remember that these problems were not created overnight and any solutions will not be met without making tough choices along the way, such as finding additional sources of revenue to infuse into the pension systems and also reforming the pension payment plan. Thank you."

Chairman Franks: "I'd like to add two witnesses who have filed slips. It would be Jodie Winnett. She'll be ready to answer questions. She's the acting superintendent of the Illinois Lottery. And Bob Greenley, Deputy Chief of Staff, Office of the Governor. I'd also ask you to keep it down. I can hear a din and show these folks the respect they deserve. Please proceed."

Roland Burris: "Thank you very much, Mr. Chairman, Speaker of the House, Members of this august Body. It's certainly an honor and a privilege for me to be able to make a presentation before you this afternoon. My name is Roland Burris and as Chair of the Governor's Pension Commission Reform Program and, of course, a former State Comptroller and former Illinois Attorney General, I am intimately familiar with the crisis that is facing our state's pension system. It calls for immediate action by this Body for many reasons. The pension system has been underfunded year after year for decades. And despite a lot of progress that has been made in recent years to pass pension reform and infuse the system with billions more in funding, Ladies and Gentlemen, we still have a much, much longer way to go. The onus is on this Body, the Legislature, working with the Governor of this state to address this crisis here and now. We cannot wait for such a situation that we're facing in this great state today. In 2005, the General Assembly passed notable legislation that led to significant pension benefit reforms. These reforms developed over the course of the yearlong process that included the business community, State Senators and State Representatives from both Parties, civic groups, and union leadership. The Governor embraced many of the… of our reforms, which he proposed in legislation. And several of them were adopted this past year by this General Assembly. Yet, there is much more the General Assembly must do to bring the pension costs under control and bring new dollars into the system. As part of the Governor's Pension Advisory Commission, there was significant review and discussion about additional strategies to fund the pension systems. I led this commission and we developed many recommendations. In my testimony today I would like to read a couple of these recommendations. Number one, the commission recommended that if the state sells certain assets then 100 percent of the resulting revenues would be dedicated toward reducing liabilities, including the pension fund's unfunded liabilities as a component part of a broader plan to reduce unfunded liabilities of this state. Number two, the commission recommends that the General Assembly consider the issue of pension obligation bonds as quickly as practical as a financial instrument to reduce the state's pension costs. As long as number one, there are favorable market conditions and number two, the issuance of such POBs is a component part of a broader plan to reduce the pension system's unfunded liabilities. And these two recommendations developed by the commission that laid the foundation for the Governor's pension funding solutions. The Governor has proposed a plan to eliminate a significant piece of the state's current pension debt. In doing so, he is following the recommendations outlined by our Pension Funding Reform Commission. Issue another round of pension obligation bonds or sell assets that combined will dram… dramatically reduce the debt. My address… Why do I address this issue now? The state's unfunded pension liability continues to grow and is not getting better with time. Even now, the state isn't providing enough funding meet current demands, which means this problem is compounding even as we speak. And we are paying 8.5 percent interest on this debt, Members of this august Body. Leasing the lottery is a solution that will bring billions of dollars to the state's pension system. And we've seen the success of the previous pension bond obligation. You saw how it reduced it from a forty-four billion dollars ($44,000,000,000) underfunding and took it down to about thirty-eight billion ($38,000,000,000). But because of not enough revenue growth coming in, in those years and we got a… and the Governor got accused of underfunding the pension. But they did put… this Legislative Body, put 1.8 billion dollars ($1,800,000,000) into the pension fund when the plan under the '95 law called for 2.4 billion ($2,400,000,000). You couldn't afford to do it because other programs would not been able to be funded. We can have similar success with the next transaction to shore up our troubled pension systems. So, I urge you to act this summer by passing significant legislation to address a significant, structural, fiscal challenge. And Members of this Body, I've been around government for a long time. I was a State Comptroller for twelve (12) years. When the Body… when I reviewed the pension condition in 1983, I issued an immediate alarm and said that the pension funds were nine billion dollars ($9,000,000,000) underfunded. What are we going to do about it? Well, over the years, guess what we did? We underfunded it over the years and it became forty-four billion dollars ($44,000,000,000). We cannot, as responsible public officials of this great state, allow this situation to exist. Excuse me for getting emotional, but I am emotional because this is a crisis. And by the way, for public disclosure, I am a pensioneer. I want to thank you all for listening and thank you all for allowing me to testify. God bless you."

Bill Atwood: "Mr. Speaker, Chairman Franks, Members of the General Assembly, for much of my adult life I've had some professional involvement with State Government. So, as… as… as Attorney General Burris just referenced, I have a personal interest in these… in these discussions as a vested member of the pension system. But I'm also aware of the… the singular nature of the meeting of the Committee of the Whole. And I'm… I'm… I'm appreciative of the opportunity to discuss this matter with you today. Thank you very much. My name is Bill Atwood and I'm the Executive Director of the Illinois State Board of Investment. I was selected by the board as its Executive Director in March of 2003. As John Filan referenced, our responsibility is to manage the 12.4 billion dollars ($12,400,000,000) in pension assets for the State Employees' Retirement System, for the Judicial Retirement System, and of importance to the 118 Members of the House of Representatives, the General Assembly Retirement System. I'm here today to testify in support of the Governor's funding proposal, specifically the ten billion dollar ($10,000,000,000) lease… long-term lease of the lottery and the sixteen billion dollars ($16,000,000,000) of issuance of new pension bonds. Echoing John Filan's earlier observations, I don't believe there's any greater threat to the long-term fiscal condition of the State of Illinois than the looming calamity of pension funding. Continued accrual of pension obligations coupled with inadequate participation in the financial markets are methodically eating away at the stab… of the stability, not only of the pension system, but… but of the state's overall fiscal health. As I think we all agree, there's been identified no simple or painless solution. However, implementation of the Governor's proposal would be a meaningful step toward adequate funding of… of our pension systems. Under the Governor's proposal, we would have a manageable and understandable risk return scenario. We would have a knowable cost of capital in the… in the issuance of the pension bonds somewhere on the order of six to six and a half percent. Coupled with that, can be reasonable expectations regarding the long-term investment returns of the State Board of Investments and the sister platforms long-term investment returns. Barring unforeseeable exogenous events, going forward, it is reasonable to assume that the Illinois State Board of Investment and I believe the other state investment platforms, TRS and the State Universities Retirement System should experience returns over the long term consistent with that actuarial assumed rate of return of eight and a half percent. Since 1970, the board's portfolio has generated 9.2 percent. I think it's critical that we… we… we apply the same discipline that investors the world over have to apply and be cognizant of the difference between near-term returns and long-term returns. And with a fair degree of certainty I can… I can testify before you today that over a length… lengthy time horizon, ten (10), fifteen (15), twenty (20) years, it's my opinion that we can achieve investment returns at or above eight and a half percent. Further, our historic returns bear that out, the ability to achieve long-term investment returns in excess of our actuarial assumption. Further, I think that interpretation has been validated by the investment professionals retained by the Governor's Office to advise them regarding these matters. The… the figure I saw was a 98 percent likelihood that the investment returns over the long term would exceed the cost of capital. That interpretation is consistent with my testimony today. That being said, there is obviously an element of risk of this or any other proposal. However, the course of action with a higher level of risk and the greater assurance of… of the outcome is continued inactivity. Failure to act on the part of policymakers will increase the magnitude of an impending fiscal calamity, inadequate assets for constitutionally mandated retirement benefits, inadequate resources for state operations, and a funding crisis of historic proportions. Adoption of the proposal before the General Assembly today will not be easy but will be bold and a dramatic initiative in the right direction, in the direction of good government. The sooner that meaningful action's taken the greater the ultimate amelioration of fiscal stress. This proposal will take a meaningful step towards solving the problem and should contribute to the stability of the state's pension system and to the overall fiscal health of the State of Illinois. Thank you very much. And I'd be happy to answer any questions."

John Filan: "Excuse me. Thanks to my colleagues for adding to the comments. And just in closing, as mentioned at the outset, according to the state's retirement systems, if we continue to not infuse major new revenues… major amounts of cash against this pension debt, the pension debt today of forty-one billion dollars ($41,000,000,000) will grow to fifty-three billion dollars ($53,000,000,000) by 2011. That's even with a four billion dollar ($4,000,000,000) payment that year. By 2020, with a six billion dollar ($6,000,000,000) payment that year the pension debt will be seventy billion dollars ($70,000,000,000). By 2034, with a payment of 10.2 billion dollars ($10,200,000,000) the pension debt will be eighty-four billion dollars ($84,000,000,000). That is the first year, 2034, is the first year if everything comes true on that schedule and all the assumptions comes true, 30 years hence, that we'll make the first principle payment on that pension debt. And at that point it would eighty-four billion dollars ($84,000,000,000). So, I think we need to ask ourselves, is that the kind of risk we want to further take for the state to let this debt more than double and not make a principle payment until 2034? But according to the retirement system actuaries, that's exactly what will happen if we continue to follow this schedule. And I think one of the reasons of that is that the pension debt grows at a much faster rate, given the interest rate, than our payroll does. So, if we have a funding schedule that's based on percent of payroll and growths of payroll, but if payroll grows slower, which it will, than the cost of the debt, we'll just fall further and further behind no matter how much that tries to catch up. But once again in closing, I think that the enormity of this debt and the cost of it in terms of the annual interest rate is so great that it'll require a major, major new revenue source and it will be very, very expensive. We think solutions that are efficient in terms of the cost of interest and ones that infuse real cash into the system are ways that will make this debt actually go down. And our… our… our request is to look at all solutions. And we're open to all recommendations on how do we reduce this debt that's already enormous and not let it get any bigger than it already is. And with that, Ladies and Gentlemen, thank you very much and be very pleased to answer your questions."

Chairman Franks: "Mr.… Mr. Greenley and Ms. Winnett, if you'd like to come to the table to be available to answer questions. What we're going to do is we're going to turn it over to the Republicans to ask questions and then the Democrats. And then for each panel we're going to flip flop. Before we do though, I'd like to ask just a few questions if I may of Director… Chief Operating Officer Filan. I'm sorry. When… when this first proposal came up for the sale or the lease of the lottery, at that time the Governor had… had thought that the money should go to education and subsequently changed his mind to have it go towards the pensions. What funds do you propose to substitute for the approximately six hundred and fifty million dollars ($650,000,000) in lottery profits that currently go to the Common School Fund? I know when we first talked about leasing the lottery, he… he thought the solution was GRT. I'd like to know what… what revenue source you're looking at now for the schools."

John Filan: "Well, I think it's certainly part of the overall budget negotiation and certainly a very good question. As I mentioned in my remarks, that I think a combination of things as part of the budget negotiation would do that, but certainly we would not support anything that would result in less money for education. We don't want to leave here without more money for education. I think there are a variety of things, as I mentioned in budgeteers, some people had proposed that we consider taking part of the lottery proceeds and putting it in an annuity to fund all or some of the lottery revenues. There's other loopholes to possibly close. There are recurring profits that the other funds have demonstrated over the years that can contribute towards the Common School Fund. Certainly spending controls. So, I think it's part of any budget negotiation. Number one, we will not let education go down. And… and number two, I think it's very much part of… thank you… the… the overall budget negotiation in doing so. I think the key to this is that the… the size of this pension liability is so great that when we give some thought to the fact that if we generate ten billion dollars ($10,000,000,000) or more in cash to put against this very expensive liability, six hundred million dollars ($600,000,000) to do that is not very expensive. And what I mean by that, finding six hundred million dollars ($600,000,000) to enable us to produce ten billion ($10,000,000,000) against this very expensive debt is one of the least expensive solutions we could look at, because once again, fixing this debt will be an expensive solution and… but we once again look forward to any other ideas that might get us there."

Chairman Franks: "Does the administration still believe that the GRT is on the table?"

John Filan: "Pardon me?"

Chairman Franks: "Does the administration believe that the GRT is still on the table?"

John Filan: "I think our… our proposal is to look at the entire budget and to look at any number of ways of generating revenue that not… that do not put taxes on working people. And there's different ways for business taxes to be considered. Our proposal was one of them, but there are other alternatives such as loopholes to consider."

Chairman Franks: "I'm going to follow up… you came to our committee back in May and you indicated at that time that we had some documents evaluating the lease, some that you couldn't share because of confidentiality. But unfortunately, we haven't received any of those. Are… are those going to be made available to the Members of the General Assembly? We did meet with the budgeteers as well as the appropriation directors of the four (4) Caucuses and went through those documents with them a few weeks ago, some of the more confidential documents and on that basis we'd be happy to share with them, as well."

Chairman Franks: "Well, would all the Members of the General Assembly get those or just are you talking about the four (4) Leaders?"

John Filan: "As… as long as it's understood that they're confidential documents, certainly."

Chairman Franks: "Okay. And… and also in that committee we had talked about a study on best practices as we talked a way… about ways to making the lottery more efficient. Was a study ever conducted and if so will we… when will we… we get those results?"

John Filan: "Yeah. I think Jodie Winnett and Bob Greenley may have mentioned something this morning. We have called both the lottery association in a number of other states that have somewhat different ways of operating their lotteries. Texas being one example, Georgia, Tennessee, among others. And we are gathering information and we'll be happy to share it with you upon completion to see if it's resulted in any demonstrable differences in their lottery's success."

Chairman Franks: "And the last question from our committee was at that time you told us the annual report would be available before the end of the fiscal year. We have not received that annual report of the lottery. Is it available?"

Jodie Winnett: "I'll check on the status, Representative, to make sure it's available as soon as it's published or even before it's published. I'll get that status to you before the end of the day."

Chairman Franks: "Okay. And the last question. We talked about this briefly in our committee rehearing. And I asked you at that time what assumptions you were using for… for inflation to determine the lottery's long term potential value. And at that time you said you hadn't thought of a variable and I'm wondering whether you have at this point, because I'm not sure how we can use 2007 dollars in a revenue sharing mechanism when we're talking about a seventy-five-year lease."

John Filan: "The… the studies we've had provided for us, you know, look at different growth rates. One is looked at about a 4 percent growth rate for the next ten (10) years and then lowered it after that since any projection beyond seven (7) or eight (8) years is… is more guesswork than it is a projection. Another one used eight and a half percent. But the idea of the state sharing in the growth and lottery revenues going forward is one that the bidders have informed us in the back and forth of the preparation that they have not asked for an inflationary factor. So, the extent to which the lottery grows, the state would share in the growth of those revenues over the life of any lease."

Chairman Franks: "Thank you. Representative Pritchard, I know you have a number of Members who would like to speak. Could you please let us know which ones and how long each will have allotted? You… your Caucus has 30 minutes."

Pritchard: "We'll… we'll begin with Representative Black for 10 minutes."

Chairman Franks: "Please proceed."

Black: “Thank you very much, Representative Pritchard. Thank you, Representative Franks, Ladies and Gentlemen of the House. I can't find my glasses. I want to thank the Governor for being with us today. I'm sorry, that's not the Governor. You have wonderful hair. You look like the Governor without my glasses. Let me just ask a few questions. First of all, the Honorable Roland Burris, Attorney General, Comptroller, a gentleman that I go way, way back with in the Illinois JC's when we were both very, very young men. You look a lot better than I do considering all the years that have passed. You mentioned that there were many recommendations that you had made to the Governor… the Pension Reform Commission had made. How many of those recommendations have actually been put into legislation?"

Roland Burris: "Representative, I would have to yield to one of the persons who really have those… has those data. I know that the House passed some of them. I don't have the specific ones in front of me, but I'm pretty sure Mr. Filan or someone on the staff can tell you, but out of that Pension Commission came the recommendation. Representative Beaubien was… was there. And… and we had a very, very involved and engaged sessions and some recommendations. I'm trying to think as I talk, but I can't accurately point out to one."

Black: "I… I understand that. I… would it… would it be safe to assume that the vast majority of those recommendations have not been put into Bill form?"

Roland Burris: "That… that would be safe to assume, yes."

Black: "All right. That… that's what I… that's what I had thought. Thank you very much. Is it Mr. Weiss? Mr. Weiss, may I ask you a question? You had mentioned that the 1995 plan that Governor Edgar had proposed was fatally flawed. Did you or any of your contemporaries ever bring that up? I had never heard that."

Lance Weiss: "I… I was not involved in the development of that plan. So…"

Black: "Well, you didn't have to be involved in it to comment. In… in your position, if you thought it was fatally flawed didn't you ever bring this to anyone's attention?"

Lance Weiss: "Yes. We brought it to the Governor's Office… their attention when we were first hired to work for the…"

Black: "To Governor Edgar?"

Lance Weiss: "I did not work for the state at that point in time."

Black: "So, you have brought this to the attention of Governor Blagojevich?"

Lance Weiss: "Correct."

Black: "I see. But you have no record of stating the fatal flaw in the '95 legislation until you were working for Governor Blagojevich. Would that be a fair statement?"

Lance Weiss: "That's correct."

Black: "Okay."

Lance Weiss: "I was not employed by…"

Black: "All right."

Lance Weiss: "…the state at that point."

Black: "Well, I've pointed out for thirty (30) years things that I thought was wrong with State Government long before I was in State Government. But be that as it may. Mr. Filan, let me ask you, are there any states that have sold or leased their lottery, those who have a lottery?"

John Filan: "There are several states that have it under consideration or proposed. California among them, I believe New Jersey. Texas is considering it, but no one has done so in this country yet. It's a common practice in Europe and Australia."

Black: "I… I thank you very much for that because none of them have done so. I asked the Legislative Research Unit to give me a little chronograph on a history of lotteries. And I was fascinated by this very short paragraph, if you'll bear with me. Let me quote, 'In the early and middle 1800s, private and state run lotteries were common in many states. However, they were not closely regulated and were often corrupt.' I was shocked by that. 'For example, Congress authorized a private lottery in 1823…' I remember it well. I played… played the game often, never won. '…with proceeds to be used to beautify Washington, D.C., but the lottery owners absconded with all the money.' Some things never change. 'As a result of such scandals, by 1878 all states except Louisiana prohibited privately owned or run lotteries.' I'm not sure anything has changed since that. Let me ask you another question, Mr. Filan. Are there any American companies that you are aware of that are in the business of running or purchasing or leasing a lottery? I could only find one company."

John Filan: "Many of the businesses that have approached us on this are American companies. One operator that comes to mind is, I believe, Scientific Games is a… a American-based company, if you will. GTECH has been an American-based company, was originally… was recently required by Lottomatica, an Italian company that runs the Italian lottery. By the way, I… I'd like to add on your question on the… Chairman Burris's commission, that all but one of the recommendations was put into Bill form in 2005 and four of them were adopted into law."

Black: "How many… how many of those Bills? How many were there? Ten (10)? Twelve (12)?"

John Filan: "Well, it was I believe originally… I… I think I'm right. I… I believe it was all in one Bill."

Black: "All in one Bill."

John Filan: "I… I think that's correct. I… I may be mistaken about that. And there were I want to say eight (8) or nine (9), thereabouts."

Black: "Okay."

John Filan: "Maybe… And then, ultimately, four (4) were adopted."

Black: "But all of the provisions of that Bill… many of them were stricken. Would that be a safe assumption?"

John Filan: "Some of the proposals were not agreed to…"

Black: "Okay."

John Filan: "…in the course of the legislative process."

Black: "Okay. I assume you're aware that Goldman Sachs was given a contract to study the feasibility and the financial remuneration, shall we say, of… of selling or leasing the lottery. That was done, I believe, in late 2005. Is it a matter of public record how much… how many tax dollars were given to Goldman Sachs to make that study?"

John Filan: "Actually, they… they were not given a contract as we often do with many of the firms that work with the office. They did that on a no-fee basis."

Black: "Very… very… very kind of them. They did that pro bono?"

John Filan: "That's correct."

Black: "Well, bless their heart. I wish you could convince a few law firms that I know to do that."

John Filan: "Me too."

Black: "I cannot find that that report has ever been made public. In fact, the Chicago Tribune editorialized in… on June 2 of 2006 that the Governor refused to tell the Chicago Tribune how Goldman Sachs arrived at a ten billion dollar ($10,000,000,000) figure. The Governor said that financial estimates prepared by Goldman Sachs is proprietary information. Do you still regard their report as proprietary information?"

John Filan: "Well, that was the first point of view, but I will add that if and when the… a formal bid document is put out, the basis for that calculation, you know, would then be public."

Black: "Okay."

John Filan: "That was with the first position. I… I… I would add though in a number of conversations I had indicated that by one example they used several measures to arrive at is… is they used a… a multiple of… it's called price earnings ratio, the earnings of the lottery at a certain price level. And that price earnings ratio was consistent with by example, the recent purchase of John Nuveen and Company here in Illinois. They sold for thirteen (13) times their earnings. This estimate of ten billion dollars ($10,000,000,000) or more would be about fifteen (15) times the earnings except lottery is a monopoly as opposed to John Nuveen, of course, is not. So, that gives you some context of the reasonableness or conservativeness of their estimate."

Black: "I… I thank you for that. An RFP was prepared back in '06, was posted on July the 12th of 2006. Was that RFP sent out or was it simply prepared?"

John Filan: "If… if what you're referring to is a RFP and Q to higher financial advisors to assist us with this. If that's the case… if that's what we're referring to the answer is 'yes'."

Black: "Let me see if I have the title sheet here. I've got the position overview, reference number 22011048, Financial Advisory, The Governor's Office of Management and Budget, Request for Proposals coversheet. So, if that was sent out did you get any response from that request for proposals?"

John Filan: "Yeah. I think we had about ten (10) or twelve (12) firms respond."

Black: "So, ten (10) or twelve (12) firms have responded. Is that a matter of public information how they… what the RFP would show?"

John Filan: "In terms of who responded and certainly the RFP itself is public. I think certain sections of their proposals are proprietary, but I believe parts of them are not."

Black: "Okay. Thank you very much. Mr. Atwood, in reading your letter from the Illinois State Board of Investment signed by you, commencing with the 2007 State of the State Address and continuing through the Legislative Session, Governor Blagojevich has presented a proposal under which a significant and meaningful level of funding would be provided. Have you seen this proposal?"

Bill Atwood: "No."

Black: "Do you… do you know of anybody that has a copy of the proposal?"

Bill Atwood: "Off the top of my head, no."

Black: "So, you haven't seen the proposal, but you write a letter that's very similar to all the other letters we have, saying it's a good proposal."

Bill Atwood: "The notion of funding… of providing twenty-six billion dollars ($26,000,000,000) of new funding to the pension systems is a very good idea."

Black: "Yeah. Regardless of the debt service, it's a good idea?"

Bill Atwood: "Assuming we have a meaningful or manageable cost of capital, which is my understanding that we do."

Chairman Franks: "Mr… Mr. Black, we'll need you to bring your remarks to a close."

Black: "I thank you. I… I think you're last statement was very accurate. Assuming we have a meaningful revenue stream of repayment, et cetera and I think that's the key. But I'm fascinated by the number of letters that are very, very similar. Been in this business a long time and I can recognize a form letter at thirty (30) feet. These letters are form letters."

Bill Atwood: "Representative Black, with all due respect, I drafted that letter myself."

Black: "Did you draft it for everybody else, because they used basically the…"

Bill Atwood: "No, but I wouldn't blame them if they copied mine."

Black: "Well, I was going to say, they must have, because they're all basically the same. Well, it's… I'll tell you what, I… I'm pleased and proud that you take pride of authorship. That's very rare in these days. Thank you very much, Gentlemen. Thank you for being with us. Mr. Chairman, thank you very much."

Chairman Franks: "Thank you, Mr. Black. Representative Beaubien, I think you'll be recognized for 4 minutes."

Beaubien: "Yes, thank you. My first request would be to ask Representative Franks to notice that the sound level in the room is gradually going up. We've brought these gentlemen and ladies here today to testify. I think we ought to, as a Body, at least have the courtesy if you need to talk go in the back room."

Chairman Franks: "Thank you. I agree. Please keep the noise down."

Beaubien: "So, it's happening on both sides of the aisle, by the way. I have a question of John Filan. What's the status of the RFP for the lottery?"

John Filan: "The RFP is basically drafted, not… not to the exact form, but basically drafted but not issued."

Beaubien: "Wasn't it anticipated that it'd be drafted by this point? Is… is this taking more time than we thought or…"

John Filan: "It's… it's taking a little more time. You know, there's been a lot of feedback. We do not talk to perspective bidders directly, but the financial advisors do. And trying to get a RFP in a form that maximizes competition that parties will all… will all propose bids takes some time. But it's… it's… it's not far behind where we'd like to be."

Beaubien: "Does the RFP include… allow for Internet lottery?"

John Filan: "No, it does not."

Beaubien: "It does not. What is the status of the legislation? Doesn't that legislation say that if they do expand we have to approve it?"

John Filan: "I'm sorry again, Mark, pardon me."

Beaubien: "A legislation… the Bill that we've seen, I believe, says that if they're going to change the lottery in any way they have to get legislative approval. Is that correct…"

John Filan: "For the inter…"

Beaubien: "Of a new form. Say, if they wanted to go Internet lottery they'd have to come to us."

John Filan: "Yeah… I'm sorry. On… on the follow-up to your first question to the Internet?"

Beaubien: "Yes."

John Filan: "Yeah. If they wanted to engage in the Internet, the General Assembly has to give their approval. Absolutely."

Beaubien: "If you're a bidder wouldn't that affect your bid if you realized you've got to go to the General Assembly to… to expand your gambling in terms of Internet or other forms?"

John Filan: "Well, I think what they've told us on that and other things they may or may not want to pursue is they're in the risk-taking business and they take their view of the marketplace and make investments accordingly. But we've been abundantly clear in the documents that Internet lottery is not part of this bid and requires the prior approval of the General Assembly in the State of Illinois."

Beaubien: "Do you believe that the General Assembly needs to approve the sale of the lottery?"

John Filan: "Yes."

Beaubien: "Thank you. Do you know if the Governor's going to attend any of these hearings?"

John Filan: "I'm sorry?"

Beaubien: "Is the Governor going to attend any of these hearings that we have of the Committee Of the Whole? Do you know if he is or is not?"

John Filan: "I… I know he's… he's in Springfield. I know that he has attended many in the past. I can't speak for all his future plans. I know he… he declined to attend this particular committee."

Beaubien: "Well, I… I guess the reason for my concern is I think we'd like to have him before the Body to tell us what he would, in fact, do with the proceeds of these two proposals so that he cannot later come back and say, 'Well, I wasn't there and that somebody misspoke on my behalf.' That's just a statement. I'd like to address my good friend, Roland Burris, who I spent many a Friday with over several months coming up with this wonderful report. Rather than ask you a question, I'll try to answer something you stated before. I thought it was an excellent report. As you know, it took an awful lot of time to put together. There were some… some great alternatives and so forth. To my knowledge, although I think Represent… Filan might disagree with me, I think of all the proposals, we passed two (2) of them. And one (1) of them the following year dealing with educational salaries at the end of the… of the tenure, that was the following year he took it back, basically. So, we ended up with virtually no reforms at all. I just want you to… to know that."

Roland Burris: "They took it back?"

Beaubien: "Yeah, they did. In… in a… one reform or another. They made a whole lot of exceptions to how you could get an increase in your salary if you took on additional classes or if you did something of that nature. It basically eviscerated the purpose of the Act. I guess my question with you… I do have a question. Wouldn't it be… in your opinion, wouldn't one of the things we want to do before we do a pension bond issue is reform the pensions somewhat along the lines we talked in this… in this report?"

Roland Burris: "Well, Representative Beaubien, my assessment is that the commission made several recommendations."

Beaubien: "That's correct."

Roland Burris: "And we will then… and we submit those recommendations to this august Body and certainly have the prerogative to do the selection. We did not do a prioritizing of those recommendations. So, you know, in terms of what we're dealing with now in terms of immediately trying to solve this problem. You know, my… my fiscal conservative certainly lead me to say that there's probably some issue, but we have to do something now and that… that bond deal that was passed by the Governor in 2003, it… it helped. So, now another bond deal, as you know, was recommended, assuming that the climate is right. Something is going to have to take place immediately or else this hole is going to get so deep. And this is a former state official speaking, that I think the public is going to be becoming very concerned because there's not going to be any revenue for anything else if the pension fund is not solved… if the pension underfunding is not solved. So, the recommendations… I think if you look at them now, you got to find some type of solution to deal with that constant under… annually underfunding the pensions."

Lance Weiss: "Representative Beaubien, as you know I was the consultant to the… to the commission. I believe there were four (4) of the commission's recommendations that were adopted and were included in Public Act 94-4. With regard to your question about the… the teacher pay increases, there were some positions that the following year were accepted from those requirements. But my understanding from the pension systems is that they had their actuaries analyze that. And I believe the actuaries came back and said it… it… it wouldn't be a material increase. Just my understanding."

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

Reis: "Thank you, Mr. Chairman. We're a little over an hour into our proceedings here. I… The Governor's usually late. I thought maybe he was… be showing up by now. But, Director Filan, the Speaker asked for legislation that we could consider today after hearing testimony and stuff. And is the Resolution that was given to us, is that the legislation that's… that we're supposed to consider?"

John Filan: "I think the Resolution is among the documents. There have been a…"

Reis: "Well, I just want to say, you know, you…"

John Filan: "I… I'm trying to answer your question. Pardon me. There are… there is a pension Bill that was delivered to all the caucuses sometime ago, that the caucuses already have. All four (4) caucuses had a full briefing on it. And there is, I think, a… a new draft of the lottery Bill. But prior lottery Bills have also been given to all four (4) caucuses and fully briefed sometime ago. So, they've… the Bills are present."

Reis: “So, there is a specific lottery Bill that spells out how the… the lottery would be leased in draft form for us to look at?"

John Filan: "That's correct."

Reis: “So, what's the Resolution that we have that was handed out at the beginning of today's Committee of the Whole?"

John Filan: "I believe the Resolution delivered to both chambers addresses much as what we said this morning, in particularly Chairman Burris, regarding the urgency of dealing with the pension debt and not allowing the debt to increase anymore and find a way to reduce that debt in this General Assembly."

Reis: “Well, and I know many of us are… are confused. You know, we've been talking about the tragic condition of the state's pensions for a couple years now. We were against the shorting of the pension by 1.1 billion ($1,100,000,000) two (2) years ago, by 1.2 billion ($1,200,000,000) last year. We had signs up that said we had the worst funded pension system in America and everybody pooh-poohed us. But why is it all of a sudden so bad now?"

John Filan: "I… I don't think it's all of a sudden at all. We’ve addressed this in 2003, 2004, '5, '6, and now '7. The funded ratio of the system is 60.5 percent. That's not good, but it is a full 10 percent greater than when we came into office and 10 percent greater than the existing plan would've produced. Any… by any measure, the systems are more secure and better off than they were four (4) years ago. There's twenty billion dollars ($20,000,000,000) more in cash and investments than there were four (4) years ago.

So, I… I know you've asked the question, but the facts are the facts."

Chairman Franks: "We're going to move on. Representative Bellock, please, 4… you'll be recognized for 4 minutes."

Bellock: "Thank you very much, Representative Franks. Mr. Filan, I'd just like to ask over the last couple of days there was a national report that I heard over the news regarding that there are only five (5) or six (6) states left in the United States since 9/11 that are suffering with financial difficulties, one being Illinois that they represented it. I'm thinking that over the last four (4) years I wanted to ask you how many billions of dollars have we put into new programs?"

John Filan: "I don't… I would not say for new programs it's been billions of dollars. I'd be happy to try to get the information for you, but I think that when you look at the number of things that constrained, I know, as an example, in the 2007 budget there were still thirty (30) departments that had lower budgets than the 2003 budget. The ones that have gone up are certainly education and health care. And that's where the major spending increases have been. But Illinois certainly is one of whatever number of states it might be with great financial difficulties. And the single biggest issue clearly is this pension debt."

Bellock: "Well, I'd like… if you could get that for us, how many billions? I think we have spent close to one and a half billion dollars ($1,500,000,000) in new programs over the last four (4) years. And I think that if some of that money… and I'm sure some of the panelists would agree. If the money could be reserved from some of the new programs and maybe some of the new programs proposed for this year could be used instead as a pension payment. I think we have spent over six billion dollars ($6,000,000,000) in the last four (4) years in new programs. And I think that the main thing that we should do is reduce our spending, not increase the taxes, not increase the payroll taxes, even though there are some laudable new programs on the books for this year, too. But as you have said and the other three (3) panelists have agreed, that this is the dire straits we are in with the pension funding. That has to be a number one focus. Our Medicaid payments, as we've talked about before. We need to pay the people in Illinois who have Medicaid bills before we go on with any new programs. So, I think the pension funding and Medicaid bills are the most important priorities here today that we should be discussing. Don't you?"

John Filan: "I think the number one issue in our budget and the single biggest financial problem without a doubt is the pension funding. I think Medicaid bills are important, also. We've made considerable progress. We want to make more progress. In the budget there are proposals to reduce that payment cycle further. So, I'd agree. Both of those are critically important to the state."

Bellock: "So, would you say that's more important than putting new programs on the books this year in 2007 and 2008?"

John Filan: "I think reducing the pension liability is critically important to the state. If we do that, that is what allows us to invest in education and health care, which is a big part of our responsibility to citizens of the state to do so. But it's the pension debt that gets in the way."

Bellock: "I agree. That's why even though I think some of the programs that we have put in are laudable, I have not supported some of them because I think six billion dollars ($6,000,000,000), which I think is what it comes to over the last four (4) years, is money that could've been put into paying our pension systems down, paying our Medicaid bills. And then maybe next year we would be able to join the other forty-five (45) states in the United States that are now putting more money into their pension systems, putting new programs in place, and putting more money towards education and health care. That's what I hope that we could do. Thank you."

Chairman Franks: "Thank you. Representative Sacia, you're recognized for 4 minutes."

Sacia: "Thank you, Chairman Franks. Ladies and Gentlemen of the panel, let me applaud each of you for recognizing the need for a long-term perspective, which each one of you have inasmuch as you went to school, you obtained advanced degrees. You certainly are extremely competent. Many of you are actually brilliant. And I applaud you for that. And that's why I am so literally boggled with this proposal that we do something as similar as a sixteen-year-old high school boy quitting school so he can buy a car and get a minimum wage job and go out there and have money, real quickly, upfront. By doing what we're doing with this proposal of selling the lottery or long-term leasing it for ten billion dollars ($10,000,000,000) and giving up six hundred and thirty million dollars ($630,000,000) a year in this cash cow that comes to this great state. The question that I absolutely must ask is why do we have a figure of ten billion dollars ($10,000,000,000)? I am a businessman. I understand that if something brings in six hundred and thirty million (630,000,000) clear a year and you're going to give that up immediately for ten billion dollars ($10,000,000,000), it seems absolutely ludicrous to me. Over the seventy-five (75) years, we are going to give up sixty billion dollars ($60,000,000,000). That is a tremendous give-up for a quick gratification, much like the high school boy buying the car and quitting school and ending up dead end forever. To do that to this great state I think is just shameful. If I may offer the suggestion, and I'm sure it's perhaps already been debated, why don't we put it out on… on bid? Why don't we ask for sealed bids? As a businessman I absolutely have to believe that the lottery is worth thirty, forty billion dollars ($30,000,000,000-40,000,000,000) in ready cash. Mr. Filan, if I might address you, Sir. You and I started here at the same time; I was elected when the Governor was. I think that's when you came in to State Government here in Illinois. I know you inherited a monster and I know you worked very hard to arrive at where you're at. But one of the things I heard you say today and I heard it from the Governor, previously, 'we're not going to put the onus on the working people of this state.' I believe you made reference to that when Mr. Franks asked you about the Gross

Revenue Tax. My comment to you, Sir, many of us have started corporations as working people. I take it as a great insult to be considered a corporate fat cat because we did things such as go a step beyond and create a corporation. And that's why when you mentioned that the Gross Revenue Tax is still on the table, it is such an affront to business in this great state. If I may close in just a comment. Would you, please, recognizing that we do have an immediate crisis and I agree with each and every one of you on that, why do we take the greatest cash cow this state has and give it away for a paltry sum of ten billion dollars ($10,000,000,000)? Thank you."

Chairman Franks: "Thank you. Representative Winters, you'll be recognized for two…"

John Filan: "Thank you very much. Let… if I could answer his question…"

Chairman Franks: "Okay."

John Filan: "…please he just asked at the end."

Chairman Franks: "Go ahead."

John Filan: "One other point of clarification regarding the process. The propose… the process we'll proposing is indeed a sealed-bid process. We're not suggesting, you know, to award to any one company, but it'll be a completely sealed-bid process in doing so with world-wide interest. Secondly, I wasn't suggesting the Gross Receipts Tax was still on the table, I was just saying there's other types of taxes on business entities that could be considered. But I was not suggesting that. And finally, I think your points are very well taken, it is a valuable asset. But we have this almost out of control pension liability. If we weren't here with being forty billion dollars ($40,000,000,000) in debt, I don't know that we'd be proposing this, but we are. We owe forty billion dollars ($40,000,000,000) and if we stopped the pensions tomorrow, if we said pensions went to zero tomorrow, that wouldn't affect that forty billion dollars ($40,000,000,000). So we unfortunately have to find some things that otherwise we may not want to do because we owe this money. So I… I concur with your concerns, but our choices are difficult, expensive ones in order to pay forty billion dollars ($40,000,000,000) 'cause ultimately the only way we pay off forty billion dollars ($40,000,000,000) is with forty billion dollars ($40,000,000,000). And your points are well taken, but we're in a situation that we have to find a way to deal with it."

Roland Burris: "John, just one point to the Representative. I don't think the Governor of this state is going to reduce education funding by six hundred million dollars ($600,000,000). That is not going to happen. As a matter of fact, we're just trying increase, even if we pass this pension Bill… this Body will have to work with the Governor to find the resources so that education in addition to the six hundred million (600,000,000) that the lottery would swap out would be replaced with more dollars. So please, for those who are saying that education is going to lose six hundred million dollars ($600,000,000), I'm pretty sure Mr. Filan would back that up, but that's not going to happen."

John Filan: "Yeah. Just one thing. I personally concur with you, I think it's worth more than ten billion dollars ($10,000,000,000). Hopefully, if we do this, the sealed bids will prove that out in doing so. A number of Members, including your caucus, have indicated they think it's worth more than that and that's where the sealed-bid process would certainly do. Thank you."

Chairman Franks: "Representative Winters for 2 minutes."

Winters: "Thank you, Mr. Chairman. I'm holding the history of pension underfunding for the last thirty three (33) years. I believe that was distributed by the Governor's staff. I think these are the best numbers that we have year by year of the underfunding, and it is a sad commentary on this State Government that we haven't ever been able to fund our pensions each year compared to the obligations that we owe to the employees of this… of this government. The one note that I want to make is if you look at the last three (3) years, those are the only years on this where we have over two billion dollars ($2,000,000,000). In fact, each one of these years is over two and a half billion dollars ($2,500,000,000) of underfunding each of the last three (3) years. When you total up all thirty three (33) years, we owe about twenty-two billion dollars ($22,000,000,000). Our unfunded obligation's about twenty-two billion (22,000,000,000) according to this analysis. Out of that, the last three (3) years has added 7.8 (7,800,000,000). So, over a third of our pension shortfall has been under the leadership of this Governor. My comment is, and that's all it is, where is the Governor? Why is the Governor not here? When we see this State Government, he is the skipper of the ship of state. I think this Governor, under his leadership, is acting just like he's a drunken admiral of our ship of state. There are rocks ahead, there are icebergs ahead and his response is full steam ahead. Let's add health care for everybody in the state. Let's add more education funding. Let's add new programs year after year. There's no money available. This is speaking more to the budget, specifically, than the pensions, but the Governor has to realize that he has to be in a leadership role. He can't send you in his place and then complain that the Legislature is not working. He needs to be at the table with us. I urge him to be a little bit more responsible. He is the skipper of this state. Join us in trying to find a solution to this. Thank you."

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

Mulligan: "Thank you, Mr. Chairman. In May, the Treasurer's Office gave me the figures of 21.9 billion (21,900,000,000) as to what the debt was for the pension bond, ten billion (10,000,000,000) of that being interest. In the sheets that you put out you put down money but you certainly did not break out exactly what was the interest and what was the debt that you incurred as you supposedly paid these fundings. The other thing is during the Edgar administration when they underfunded pensions they paid down the Medicaid bills. This has never been the practice of this administration. You have gone ahead and done whatever you wanted and then borrowed still from other sources to pay Medicaid bills. Currently, there are some people around the state who are owed a lot of money. I have one provider in my district who's owned… owed almost one million dollars ($1,000,000) and the only thing they have been paid is five thousand (5,000) in interest during May. When I asked the agencies for a estimate or some kind of a reasonable fact of how much interest we're paying on our Medicaid debt, I cannot get an answer. The last time you appeared before us, Director Filan, I asked you for answers to questions that were for the whole Body. When I did not get them after a reasonable time and I indicated that I was going to mention it on the House Floor, you responded with such an immature set of answers that it was embarrassing to me and I did not put it out to the rest. When I asked you on things for property tax you gave me only my district, not the whole Body. I think part of the problem we're having is there seems to be a lack of ability to give you any credibility in this administration anymore because no matter what we do you do not seem to understand what the dollars in this state function for people, what we pay for, human services and other issues. You do not seem to know where we're going with the pension debt except to continue to expand programs, as Representative Bellock said. There is no doubt in my mind that the only reason you're discussing this now is an expansion of a program. And besides that, the lottery is…"

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

Mulligan: "As far as selling the lottery, what will happen… and the only way anybody that… that sells or leases that lottery can make money is to go to online gaming. Online gaming, particularly video poker games, are the most addictive type of gaming there is, particularly to women. To consider to do that, to me, seems to be a very difficult thing. I do not think it will pass the General Assembly and I think you're wasting our time and your time. And to see these bills at this time, instead of when you presented your budget, is an insult to all the Members that were here all these months that should've been going over them. I really find that to be a really difficult thing in order to support you in anything you're saying you're doing or the Governor because it never turns it out that he does… that he follows through on what he says he's going to do. It seems to be all a bunch of baloney."

Chairman Franks: "Representative Watson, 2 minutes."

Watson: "Basically, just a question that I think gets to the crux of the entire overtime situation. And… and I would appreciate, Mr. Burris, given… your role as the statesman here and… and, Mr. Filan, your role in setting state policy, if you could give me a direct answer to this. The challenge we face is that our pension issue, our pension crisis, threatens future obligations down the road, whether we can meet those… those obligations that we will have, whether we will leave a legacy to our followers and to our children, whether we can meet those… those things that we deem necessary. Is that… would you both agree on that?"

Roland Burris: "Yes."

Watson: "Yes. And… so then the question comes, and I think it's the crux of the entire overtime situation, how can we…

how can we possibly be having all this noise about a three billion dollar ($3,000,000,000) health program or any other type of expansion program, how can we do that when we know we've got this monster facing us? Is that sound policy?"

Roland Burris: "I'm collecting my thoughts. But, Representative, in terms of the overall fiscal situation, there has to be a solution to it. If you don't solve the pension problem then you can do what has happened in the past. When I was down here as a constitutional officer crying as a babe in the wilderness, we got to solve the pension problem. It has gotten bigger and bigger and bigger and if you don't solve it this year… you know, I admire the Governor for putting before to the General Assembly, let's tackle it, let's don't pass it off to another… another legislative year or Session. Don't pass it off. He is seeking to try to tackle the problem of the fiscal matters, the health care matters, the educational matters, and it's all about money. And if the Legislature… it cannot be done without you all. So it has to be done with the cooperation of this august Body. And all we're saying is, is I'm saying, this is not the Governor. This is a former constitutional officer and a person who really enjoyed his twenty (20) years of Illinois government. I am saying to this Body, it is in your hands. The Governor has proposed but you have to then legislate. And if you don't legislate, guess what's going to happen? The same thing that happened under the previous Governors. The pension fund is going to grow, the funding is going to be dried up for education, for health care, and we're going to look at a… at a tax situation that is going to be astronomical in order to solve."

Chairman Franks: "Thank you. We'll now start with Representative Lang. You will be recognized for 7 minutes."

Lang: “Thank you, Mr. Chairman, and I thank all the panel members for being here. First, let me suggest that there's no way I will get through all of my questions. So, Mr. Filan, I will be providing within one hour after the end of Session a list of questions to the Governor's Office and I'll hope to get an answer for those questions by tomorrow if possible, which I will distribute to the Members. Having said that, let me start with this. We've been here for quite a while already and of all this time we've had… spent maybe 1 percent of our time talking about why the sale or lease of the lottery is the proposed solution to a problem and 99 percent of the time trying to educate Members of the House on both sides of the aisle that there is a problem. My suggestion to all of you is that every Member of this House and every Member of the Senate and every pensioneer and everyone who will ever get a pension from the State of Illinois knows there's a problem and we don't need all of you to teach us about the problem. We're aware of the problem. So it would've been better if we spent a good deal of time hearing from you about why this is the appropriate solution to this problem. We don't need anymore spin. We don’t need anymore explanation about how we got where we are. What we need is a good, solid answer as to why the proposal you make is the one that will resolve this problem. And I don't know about anybody else on this floor, but I haven't heard it yet. And I think we… we should expect from you more than we've gotten today. Having said that, let me ask a few questions. So, Mr. Filan, you've indicated that you would prefer a lease rather than a sale of the lottery. Why is that what you want to do?"

John Filan: "I think the state maintains ownership of the asset. It maintains oversight rights of the asset, regulation of the asset, and a continuing interest in the growth in revenue so that the extent to which the lottery grows as a result of these operators, they would share in the benefit of those gross revenues."

Lang: "I don't understand. If we get… if we lease… so if we lease the lottery for seventy-five (75) years we still don't get the benefit of those increased revenues, do we?"

John Filan: "The… the way the bid documents are spelled out is that what they are acquiring is the existing level of sales, if you will, in the state lottery. Those are roughly two billion dollars ($2,000,000,000) of… of gross sales, so to speak. The extent to which they grow the state lottery beyond two billion dollars ($2,000,000,000), the state would share in those new… those additional revenues beyond that."

Lang: "To what extent would we share? How would we share?"

John Filan: "They would share as a percent of the revenues after gaming. So, as an example, if the lottery grew over the… and I don't think it would be seventy-five (75) years, probably less than that. But if it grew over the next ten

(10) years, say from two billion ($2,000,000,000) to four billion dollars ($4,000,000,000), that would result in about eight hundred million dollars ($800,000,000) roughly of new revenue. And… and…"

Lang: "Well, how do you know that if we haven't bid this out yet? How do you know what the number is going to be?"

John Filan: "I'm saying by example, okay."

Lang: "By example you can pick any number, Mr. Filan. So, what actuarial data have you relied on to draw this conclusion?"

John Filan: "We had a study performed by consultants that indicated what the possibilities were. But since… not…"

Lang: "And of course… and of course all 118 Members of the House have a copy of that study. Is that correct?"

John Filan: "I'd like to answer your question, if I could."

Lang: "Well, I only have 7 minutes, so if you could proceed."

John Filan: "Okay. We're protecting the state's interest by saying as and if revenues increase, 'cause revenues could go down in the lottery as they have this year in other states. If they increase, the state would share in a percent of the growth of that revenue and that percent would increase over the life of the lease."

Lang: "Are you prepared to tell us what specifications you're going to put in your bid notice that would convince us that that percentage would be substantial enough for us to sign on to your program?"

John Filan: "Those are in bid documents. And as I mentioned before, we'd be happy to share them with people. They are in a confidential basis since it is in a bid document. But people are cer…"

Lang: “So the answer to my question is 'no'."

John Filan: "No, the answer to your question is 'yes'. People are welcome to look at it, like any bid document, but we don't want to tell the bidders what's in a draft document until it's absolutely final."

Lang: “So… but you know what that number is."

John Filan: "Pardon me?"

Lang: “You know what that number is."

John Filan: "I do. I do. That's correct. I do."

Lang: “All right. So you indicated in the State Government Committee on May 30 that you thought a bidder in about ten (10) years would recoup its initial investment. So why are we giving them sixty-five (65) years of free money after they get their initial investment back?"

John Filan: "We're not intending to give them sixty-five (65) years of free money. We expect the lease should be considerably less than seventy-five (75) years. But they are at risk. As mentioned, if ten billion dollars ($10,000,000,000) were the price, and many believe it's greater than that, they are paying fifteen (15) times the annual earnings. That is… that is an aggressive price to pay. I had mentioned earlier, John Nuveen and Company in Chicago just sold for thirteen (13) times earning, so they're paying on the hope that they can build it to a more profitable enterprise. And, you know, getting your money back in ten (10) or twelve (12) years is totally at their risk."

Lang: “Are you prepared to tell us here and now that you will prohibit any of the firms that were involved in the consulting on this project from getting the final contract?"

John Filan: "Absolutely. They know that and it's a strict understanding."

Lang: "And are you prepared to tell us now that as part of the bid you will make sure that no one that's ever made a contribution to the Governor will get this bid?"

John Filan: "I don't have that kind of information to know one way or the other."

Lang: "You telling me this hasn't come up in any conversations as you've talked through what your bid would look like?"

John Filan: "No, it has not."

Lang: "And so, you're… you don't believe that we should hear from you today that there will be certain ethical standards that we will abide by in the… in the letting of this contract?"

John Filan: "We have told all of the prospective bidders that they are prohibited from hiring contractual lobbyists as part of this transaction. We have indicated that they at no time can contact directly members of the state administration once the bid is out on the street, if you will. And this… those are a couple of examples of the provisions that are there. But we're treating this like any strong, strict, sealed bid competitive process."

Lang: "What level of state oversight do you expect to have as to the running of these private entities with our lottery over the next any number of years, fifty (50), seventy-five (75), whatever that number is?"

John Filan: "It's very much drafted comparable to the existing Gaming Board that regulates the licenses or concessions of the nine (9) casinos. We adopted… or looked very closely at what they have there and all the provisions are as strong or stronger in terms of probity, responsibility, reporting. The Auditor General would still audit them. The lottery trust account would still report to the Treasurer. So we think it has very stringent requirements in that regard."

Lang: "Well, how do we ensure, for instance, that this private company won't over aggressively market in minority communities who are already skewed in terms of the… the percentage of lottery tickets that they purchase?"

John Filan: "There are… the… there's a Lottery Control Board, similar to the Gaming Board. The Gaming Board has oversight on the kinds of advertising casinos do and I think from time to time have exercised that. The Lottery Control Board in a similar vein, has approval rights over any and all games or advertising that the operator would do."

Lang: "And… and you'll be proposing then that while we have an Illinois Gaming Board that oversees all riverboat licenses, there are nine (9) today, there may be more in the future, we're going to have an Illinois Lottery Control Board whose sole function it is to oversee one private company that gets this business?"

John Filan: "Well, it'd be… it'd be…"

Chairman Franks: "Mr. Lang, you'll need to bring your comments to a close."

John Filan: "It would likely be a consortium of companies, but it would be a pretty vast statewide operation."

Lang: "I didn't understand that answer, Sir."

John Filan: "It'd be probably a consortium of companies, as is typical in Europe and in Australia when they do this, but they would be overseeing a statewide operation whereas a casino is in one location."

Lang: "Well, as… again, I have many more questions. They'll be submitted in writing and I hope to have an answer within 24 hours. Thank you, Mr. Chairman, and thank the panel members."

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

Granberg: "Thank you, Mr. Chairman. First of all, I welcome Roland Burris, the pride of Centralia, back to Springfield, my ex-constituent, and thank you for attending today. Mr. Atwood, if I may direct a couple questions to you. Bill, I've worked with you on the State Board of Investment. You're well respected in the financial market so let me just ask you point blank. Is there a viable market to issue pension obligation bonds in today's market? Now, the Minority Leader said 'no'. If that's the case, why is that… why is that? And if there is a market, why is that as well?"

Atwood, Bill: "First, if I'm not in the business I'm underwriting public debt, but I do interact on a pretty regular basis with… with firms… LaSalle Street firms that do issue that debt and my understanding is that the bonds are in the… in the parlance of the street, sold. That upon the issuance of the bond… upon the issuance of the bond the… the bond underwriters will have no problem selling the bonds. I mean, the… the market's very strong for them."

Granberg: "I'm sorry, the market's very strong."

Atwood, Bill: "Very strong for… for taxable sovereign debt."

Granberg: "Okay. And how long do you anticipate the market having that condition?"

Atwood, Bill: "Again, that's a… that's a tough question. I would… I would anticipate the bonds being sold sooner rather than later."

Granberg: "Okay. And, Bill, I had introdu… legislation introduced to sell… if we sold the lottery all the proceeds would go to pension funding, all the proceeds. And the Taxpayers' Federation testified basically in favor of the Bill and one of the reasons they stated was that if the State Board of Investment had those funds to invest it would had a approximately 8.5 percent return on investment. What is your benchmark?"

Atwood, Bill: "Eight point five percent."

Granberg: "Eight point five percent. Could be higher, could be lower, but it…"

Atwood, Bill: "And it… and it… there's a… in the near term that… the return is highly unpredictable. The longer term you look out, the more predictable the return comes."

Granberg: "So, assuming you get an 8.5 percent return based on your benchmark."

Atwood, Bill: "Yes."

Granberg: "I think currently, and Mr. Filan might be able to address this, I think the lottery, which has a return of about 4.3 percent in their revenue for the state. That's what the Taxpayers' Federation stated."

John Filan: "Yeah, I think the av… the average annual growth has been in that vicinity. That's correct."

Granberg: "So if the… if the lottery, the proceeds, were given to the State Board of Investment then that difference of approximately 4 percent… over 4 percent, that would, I would assume, amount to hundreds of millions of dollars. Is that a reasonable assumption?"

John Filan: "That's correct. The… the net impact of that over the life of the funding plan of the… of the pensions, the net impact of infusing ten billion dollars ($10,000,000,000) as a result of this is a little over a forty billion dollar ($40,000,000,000) savings in contributions by the state to the three (3) retirement… the five (5) retirement systems."

Granberg: "John, what I was trying to think of in terms of if we had that four hundred million dollars ($400,000,000) or five hundred million dollars ($500,000,000) per year that we would gain from the 8.5 percent ROI, then could that possibly… any portion of that be used to fill the hole on education funding that would be taken away by the lottery?"

John Filan: "Well, I think someone proposed different allocations of the proceeds from the lottery lease, and one of them goes along that line where they're putting part of the proceeds of an annuity and use those kind of earnings… earnings differential to fund all or part of the… of the six hundred million dollars ($600,000,000) you referred to."

Granberg: "Yeah, 'cause I'm assuming we're going to lose six hundred million dollars ($600,000,000) annually and I'm just trying to determine how we can fill that hole. So I appreciate you being here and what I do appreciate is someone coming up with an idea, because we need a huge infusion of capital for our pensions. I've worked on this since 1987. Governor Thompson told me then no one cares about it. I was the Chairman of the Pensions Committee. We passed… I was the Sponsor of the '95 law to fund the pensions. We had to address it. We reached a compromise with Governor Edgar. Unfortunately, we wanted to frontload the payment schedules, Senator Madigan, my Republican counterpart, and I, the Governor did not want to do that. So that's why the decrease in pension funding during the… Governor Edgar's term and that's why we have this fifteen-year ramp. We wanted to do it with ten (10) years and have more cash upfront. The Governor did not want to do that while he was in office so that's what we are faced with this. And with my friend from Vermilion, we talked about this last year. Ladies and Gentlemen, if we don't address this and reduce the principle, if we don't do this now we are perilously close to having all new revenue go to two sources: pension funding and Medicaid. And that is going to be untenable with our constituents."

Chairman Franks: "Thank you. Representative Hamos, you're recognized for 1 minute."

Hamos: "Thank you. And that may be sufficient 'cause I think some… some of my questions have been answered. I guess I'm confused about some facts that have been thrown around now.

When Leader Cross first stood, he and several other of our colleagues mentioned this, they talked about sixty billion dollars ($60,000,000,000) being left on the table. You've talked about forty billion dollars ($40,000,000,000) in savings. And then we have a chart here that says sixty billion (60,000,000,000) in savings over thirty-eight (38) years. Can you help explain what this all means?"

John Filan: "Sure. Thank you. That's a good question for clarification. The analysis that Deloitte has run on the combination of both the pension bond as well as the lottery lease would produce a contribution savings of over sixty billion dollars ($60,000,000,000). The actual… over sixty billion dollars ($60,000,000,000). Over forty (40,000,000,000) of that comes from the lottery portion of it and roughly twenty (20,000,000,000) of it, in that vicinity at least, comes from the pension obligation benefits. So the two together exceed over sixty billion dollars ($60,000,000,000) in savings."

Hamos: "So what did some of our colleagues mean when they said sixty billion dollars ($60,000,000,000) would be left on the table? They were talking about the six hundred and fifty million (650,000,000) a year times some number of years? Is that what they were referencing?"

John Filan: "Yes. When you go out to 2045 and you compare the effect of what these two trans… of what the… of what these two transactions, that is ten million dollars ($10,000,000) from the lottery and sixteen (16,000,000) from the pension bond, that twenty-six million dollars ($26,000,000), the effect of putting that in today would reduce our contributions by sixty billion dollars ($60,000,000,000) between now and 2045; versus if we followed the existing schedule, we would disperse sixty billion dollars ($60,000,000,000) more, primarily in high interest costs, than if we did this alternative. Does that answer your question?"

Hamos: "Well, I… I think we need to have a simpler way of explaining it to our constituents, et cetera, back home."

John Filan: "Okay."

Hamos: "So I… I think it's something I want to mull over. One more question because I know my minute's going to be up in a second. I think there was some reference, not yet today discussed, but I've heard around some talk, especially on the part of the Senators about a different option, which is a way to not exactly lease it but to form some kind of a public/private partnership with one of these companies or a consortium of companies and maybe not yield ten billion dollars ($10,000,000,000) but maybe five billion dollars ($5,000,000,000) is a different way of maybe making some money over the long… keeping some of the asset and being able to reap some of the profits over the long term if technology changes, et cetera. Have you considered that? And we haven't had much discussion yet but I wanted to get a chance to ask you about that."

John Filan: "It has come up from time to time. Some of the firms indicated that they would only be open to a small minority interest by the state in terms of their incentive to raise this kind of money and take that kind of risk. One particular group proposed a 50/50 kind of concept. We…

we think that would produce something less than half of the ten billion dollars ($10,000,000,000) because of the, ya know, less opportunity for them. And the state, of course, we'd still have to replace half of the six hundred or three hundred. And so, it's a different kind of concept, but an interesting idea nonetheless and … and is the kind of thing that's solution focused on how we deal with this that's its… its major concern is it doesn't produce as much money, of course, to affect this big pension problem. If I could add one thing that might help that, and I'll be happy to give you some documents on it. If we take the… on your earlier question, if we take the current plan, we'll pay out three hundred and ten billion dollars ($310,000,000,000) in contributions between now and 2045. Under the proposed plan, we pay out two hundred and thirty-five billion dollars ($235,000,000,000) in the same period of time. So that's what results in the savings. The difference there is about 75 billion (75,000,000,000), but because we're putting ten billion dollars ($10,000,000,000) in from the pension bond proceeds, if we were to do that the net savings is 65 billion (65,000,000,000). So, it's… rather than spend three hundred and ten billion dollars ($310,000,000,000) between now and 2045, according to the actuaries in the retirement systems, we'd spend two hundred and thirty-five billion dollars ($235,000,000,000)."

Chairman Franks: "Representative…"

John Filan: "And that's where the savings is."

Chairman Franks: "I'm sorry to cut you off. Representative Scully, 4 minutes."

Scully: "Thank you, Mr. Chairman. Mr. Filan, do you recall what the projections were in terms of interest rate yields when we did the pension obligation bonds in the spring of 2003?"

John Filan: "I think… I think fairly well. Yes."

Scully: "My recollection is the projected rev… return on investment that we used at that time was 7.3 percent on the funds invested."

John Filan: "I think there was a variety of estimates. My recollection at least was the assumption we used was 8 percent, I think in most of our presentations. But certainly 7.3 may have been one of the ranges."

Scully: "Mr. Atwood, you suggested that… you stated that on a long-term basis you believe that the pension funds can yield 8.5 percent on any funds that are contributed to the fund right now. Is that correct?"

Bill Atwood: "Yes, Sir."

Scully: "What's the basis for that statement?"

Bill Atwood: "Understanding of the capital markets and how various asset classes work. And so, my general experience, but then specifically, the experience of the State Board of Investment for the past thirty (30) years."

Scully: "Over the past thirty (30) years?"

Bill Atwood: "Yes."

Scully: "Do you recall would your projections would… were you on this board in 2003?"

Bill Atwood: "Yes, Sir."

Scully: "Do you recall what the projections you were using at that time were?"

Bill Atwood: "Eight point five percent."

Scully: "Eight point five percent. Okay, thank you. Just for clar… it's my understanding that 7.3 is a more realistic projection of long-term yields on a properly blended portfolio. We differ on that issue, but I don't think that's going to be…"

Bill Atwood: "It's not a matter… it's not a matter of right or wrong. We've established the… the systems have established an actuarial that's in rate of return, and it's our mission to meet that… that goal. So we… we structure the portfolio to achieve that rate of return."

Scully: "Thank you. Mr. Filan, I'm still not confident that I have heard an answer to the question, how do we replace the six hundred and thirty million dollars ($630,000,000) of revenue generated annually for the purpose of funding schools in the State of Illinois if we sell that lottery?"

John Filan: "I think it's like most new revenues, we have to find the right mix to do so. Once again, you know, some of them could be from anuitizing part of the proceeds, some could be from other tax sources or fee sources, some could be from the recurring profits that I think are demonstrably in the other funds. But whether we put it towards replacing that revenue or towards the pension debt, we have to get big, new revenues to infuse money into the pension system, otherwise the debt keeps going up. So it's… it's many of the common things we often look at, tax revenue, fee revenue, fund transfers, and so on, sometimes spending controls as well, to produce that money."

Scully: "Thank you. Gentlemen, on the issue of selling the… the lottery or leasing the lottery, a long-term lease is functionally the same thing as selling it. In my opinion, the lottery serves one basic function, it produces six hundred and thirty million dollars ($630,000,000) a year, plus or minus twenty billion… million dollars ($20,000,000). Using that 7.3 percent return on investment, the value of an investment that produces six hundred and thirty million dollars ($630,000,000), the present value of that investment is about 8.8 billion dollars ($8,800,000,000). Now, I support the basic concept that if we could get a price for this investment, substantially in excess of its present value, then it's a good idea. But we must use those funds to replace the dollars that are being generated on an annual basis, that's six hundred and thirty million dollars ($630,000,000) a year in order to be fiscally responsible. And to use that six hundred… to use the proceeds of the sale of that asset that's presently earning six hundred and thirty million dollars ($630,000,000) a year, to use those proceeds for anything other than replacing that investment in a manner that will reproduce that six hundred and thirty million dollars ($630,000,000) I think is fiscally irresponsible. I do support the concept of selling an asset if you can get more than what it's worth. But second, we must not sell off long-term capital investment assets for… to address a short-term funding problem. You have to… if you're going to sell those assets, you have to replace those assets, with long-term investments. Mr. Filan, would you like to respond?"

John Filan: "Yeah. I just… I… one, I completely agree that the sealed bid process, hopefully, would produce a number much greater than what you're suggesting in the present value basis, and some people have suggested it might be fourteen billion (14,000,000,000). You know, we all have opinions, of course. But whatever the sealed bid process would produce, the General Assembly of the state has the right to reject it if it's not sufficient and say this is not good enough for us to forgo what you're mentioning. Under no circumstances do we want… do we not want to replace that six hundred million dollars ($600,000,000) that's currently funding education. That is an absolute precondition to doing so and hopefully the seal bid process would produce, as I believe and many believe, a considerably higher amount than that. So I completely agree with you."

Chairman Franks: "Mr. Scully, we'll need you to bring your remarks to a close."

Scully: “Yes. So you agree that it's critical that we replace those… that six hundred and thirty million dollars ($630,000,000)?"

John Filan: "Absolutely."

Scully: “And you also said that you would… the replacement would come through increases in fees or taxes. Isn't that what you just told me?"

John Filan: "I'm just saying among the options could be increases of that. It could be the approach you're suggesting, it could be putting part of the proceeds into an annuity. It could be any number of revenue sources, including the ones you mentioned."

Scully: "Okay, thank you. Until we would know how you would replace that, I would not support the sale of the lottery for the funding proposals that you have made. Thank you."

John Filan: "And we're completely open to suggestions on ways to do that. Hundred percent."

Scully: "Thank you. Thank you, Mr. Filan."

Chairman Franks: "Representative Mendo… Mendoza, 2 minutes."

Mendoza: "Thank you, Mr. Chairman. Mr. Filan, couple questions for you here. Primarily, has your office or the Governor's Office received any bona fide offers from the private sector to either purchase or lease the state lottery? If answer to that is 'yes', if you could please identify the offers and what the purchase amount would be and the particulars of the offer."

John Filan: "We have not. We only received the early indicative value estimate that was referred to earlier from Goldman Sachs a couple years ago. And otherwise, the financial advisors deal exclusively with the prospective bidders. We have had no contact with them in that regard."

Mendoza: "Okay. And then also, who would decide what constitutes what the best offer would be and what mechanisms are currently in place to determine who or what is the best offer?"

John Filan: "The… they would all be… they would all be proposing on a uniform contract, a uniform lease, and uniform guidelines. So the highest price would dictate and that would be the winner, they would be subject to probity standards. So as long as they were successful at meeting the probity standards in terms of who the owners were and background checks, similar to other things in gaming, the highest price would be the winner. So it's basically one number. Very similar to the Skyway transaction in Chicago and the tollway transaction in Indiana."

Mendoza: "Okay. And then, just to wrap up my questions here. I know my time is dwindling. Finally, I guess, will the Governor's Office… or is the Governor's Office prepared to publicly disclose the terms of all of the offers as well as publicly identify who those offerees are and what those specific terms are?"

John Filan: "I… I think… I think once we receive bona fide offers and they're received, I think… I think we would disclose the… all the proposers, what their bids were, and so on. I don't see any reason why not."

Mendoza: "Thank you."

Chairman Franks: "Thank you. Representative Monique Davis, you have one minute."

Davis, M.: "Thank you, Mr. Speaker. And I really do appreciate the Governor's Office representatives being here to answer questions and to speak to us about your proposal. Is the lottery still the fifth largest revenue producer in the state?"

John Filan: "You got to give me a moment here. I'm trying to think what the bigger ones are. Yeah, I… I think it's tied with… I think it's tied with the casinos. They both produce about six hundred million dollars ($600,000,000). So I'll say tied for fifth."

Davis, M.: "So they're both at the level five of being producers of income for the State of Illinois."

John Filan: "That's correct."

Davis, M.: "Okay. And, you know, when the lottery was passed and the public of course supported and approved that, many people who are opposed to gambling did support the lottery because they were told these dollars will go towards education and education funding. And because they were to be used for education, people did support the lottery. So, now how do we garner public opinion or how to we get their support for such an issue and not have them mistrust the Legislature? If we decide to do something different with lottery money, that's opposed to what it was originally passed for."

John Filan: "I'm going to stop moving this because I've been told that it makes a lot of noise. It's probably annoying. Pardon me. That's a very good question. Ya know, over the years, as you mentioned, the lottery has gone through a lot of questions as to whether the money actually ended up in education. I think it's incumbent on all of us to make clear that all this money is going to reduce pension debt, including teachers' pension debt, which is around three-fifths of the debt, as a result of this. And it's going to allow us to finally have pensions not get in the way of every budget year so we can focus on funding for education and health care. That's a very good question."

Chairman Franks: "Thank you. Representative Patterson. Yeah, you can finish up."

Davis, M.: "Complete my thought, even though I know I'm not on Representative Black's clock. My final point is the Chicago Teachers' Pension Fund will not benefit from this pension money that you pay down. It won't help the Chicago teachers. It'll be for the downstate teachers."

John **Filan**: "That's correct."

Davis, M.: "Thank you, Sir."

Chairman Franks: "Thank you, Representative. Representative Patterson, you'll be recognized for 1 minute."

Patterson: "Okay. Thank you, Mr. Chairman. Mr. Filan, I have one question for you. What… who is drawing up the lease… the language of the lease agreement?"

John Filan: "I'm sorry, I didn't quite hear that. There was some noise in the background."

Patterson: "What entity is drawing up the language of the lease agreement?"

John Filan: "We had a combination of, I think two… actually three law firms have been engaged: Pugh Jones being one, is a lead, along with Bell, Boyd & Lloyd."

Patterson: "Does the state have any say in the language of the lease agreement?"

John Filan: "Yes."

Patterson: "If so, then why should the education system lose any money at all? If the… if the lottery dollars were originally intended to go toward school funding then why should it be lost because of a lease agreement?"

John Filan: "Well, we're very committed to not having that amount of money be reduced or go down for education, without a doubt. That's a very valid point. We're trying to find a way among many difficult choices to reduce this huge debt this state has built up over many, many years. And it's a…"

Patterson: "I understand."

John Filan: "…it's a tough choice."

Chairman Franks: "Comptroller Burris, if you… or Attorney General, would you like to say something on that?"

Roland Burris: "I'm sorry?"

Chairman Franks: "Would you like to answer that question?"

Roland Burris: "(Inaudible)"

Chairman Franks: "Oh, okay. No problem. Are you done, Representative Patterson?"

Patterson: "Yes, I am. Thank you, Mr. Chairman."

Chairman Franks: "Thank you. Representative Washington, you'll be recognized for 1 minute."

Washington: "Mr. Chairman, thank you, but my question's already been answered. Thank you."

Chairman Franks: "Thank you. Representative Nekritz, we're… 1 minute."

Nekritz: "Thank you, Mr. Chairman. Mr. Filan, did… we have this chart that I believe that you… that you put out. There's been a lot of discussion about how we're going to make up the six hundred million (600,000,000) from the… and this shows savings under the Governor's plan of seven hundred million (700,000,000). Does that not make up the six hundred million (600,000,000)?"

John Filan: "I'm sorry, what… what… what it does do is save that much money in the revised payment plan that year. So that… that would make…"

Nekritz: “I'm sorry, save that much money when?"

John Filan: "It would save that much money in '08…"

Nekritz: “Correct."

John Filan: "…in terms of total dollars. Not all of that's General Revenue Fund, but the vast majority is. Six hundred million (600,000,000) to seven hundred million (700,000,000) is General Revenue Fund."

Nekritz: “So is… so then part of it is from the 2003 pension obligation bonds? Is that… or what… what's the other part of that then?"

John Filan: "The… I want to make sure the right… I'm looking at the right document."

Nekritz: “I guess the question is could the seven hundred million dollars ($700,000,000) in savings pay for the six hundred million dollars ($600,000,000) in education?"

John Filan: "Well, in… in the totality of the budget, yes. But there's other things happening in the budget as well. So in totality, by doing this transaction it negates the increase in pension payment because of the infusion it casts."

Nekritz: “Right."

John Filan: "So in terms of dollar for dollar matching, the answer would be 'yes'. But then there's still the rest of the budget to deal with as well, whether it's health care, education, and so on."

Nekritz: “And then, I have one other question. In terms… I had gotten some numbers from the Commission on Government Forecasting and Accountability about what would happen if we infused ten billion dollars ($10,000,000,000) and how much that would save on our pension pla… pension payments, assuming the same payment schedule as under the 1995 law. Those numbers differ a little bit from yours, so I'm wondering what the assumptions are behind this."

John Filan: "Okay."

Nekritz: "If there's any differ… if it's just that this continues under the 1995 law."

John Filan: "Yeah, I… I don't know that I have that report from… from CGFA. We'll be happy to look at."

Nekritz: "Okay."

John Filan: "Did you indicate a difference of a little or…"

Nekritz: "No, there's… there is some. It's like a couple… ya know, maybe a couple million (2,000,000) here… ya know, maybe thirty million (30,000,000) the first year and then… but the difference does grow over time."

John Filan: "Yeah, it… I'm not sure. It might be assumptions on how fast the money flows in or something like that. We'll be happy to look at it, though."

Nekritz: "Okay. I'll get you those numbers then. Thank you."

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

Flowers: "Thank you, Mr. Chairman. I would like to just try to get an understanding about what we're doing here. We're talking about leasing the lottery to fund our pension and other pensions. Am I correct?"

John Filan: "Yes."

Flowers: "Okay. Now, the pensions, just to be sure, are for working people that we're talking about funding. Am I correct? People that have worked and that are working."

John Filan: "That's correct."

Flowers: "Okay. The lottery in itself is a risky game. Am I correct?"

John Filan: "I think people would certainly… certainly concur with that."

Flowers: "And so, we're going to play a game with our pension by using this risky proposition of leasing the lottery, anticipating something to happen that's going to fund our pension, which would make it even more riskier."

John Filan: "Well, I think the very point you raise is among the reasons that we think leasing it is… is helpful, because it is a risky asset and passing the risk on to people in private industry in the risk business takes the state out of the risk of that risky asset going up or down."

Flowers: "Well, I'm glad you said that because I'm… I'm trying to figure out how will it take the state out of the risk, because the people who will be playing the lottery are usually the poor and the working minorities. And so… and sometimes they may have drinking problems and gambling problems and other type of mental illness or just problems period because they got laid off their jobs. And so, when these people spend all of their money on this risky proposition that this private firm now have, who's going to pick up the bill for these people who's lost their homes, their mortgages, their jobs, in jail, need counseling? Who's going to pick up that tab?"

John Filan: "I think those are all very valid points and I think that's currently… exists with the current lottery and…"

Flowers: "I understand that."

John Filan: "…and may continue going forward."

Flowers: "So, but… but my point is we are going to try to fund our pension off the backs of poor people when there's… the CEOs are making more moneys than this country has ever seen before and the average working person's salary has gone down, despite the fact that we raised our minimum wage up to maybe $7.50 an hour. But yet, our national minimum wage has not caught up with the state. So my point to you, Sir, again, what do we gain by having the poor people of this state to fund our pension and why is that we don't have the tenacity, because this is our game, to expand this lottery so more people can be involved? And…"

Chairman Franks: "We have to wrap it up, Representative."

Flowers: "Okay. There was one more thing. I want to know… my final question. In regards to education, if these dollars are going to be taken out of the educational pool, how are we going to fill that hole? Again, another risky proposition."

John Filan: "I think most definitely we have to fill the difference so education funding goes up, not down. I think the Governor's record on education funding has been a strong one and we want that to continue. So, we completely agree on that. You know, as you said, it is a risky business, but it's this pension debt of forty billion dollars ($40,000,000,000) that's the very thing that prevents us year in, year out from investing in education, health care, and other things for the poor and middle class in doing so. So, until we get out of this debt we'll be hamstrung going forward."

Chairman Franks: "Representative McCarthy, 1 minute."

McCarthy: "Thank you, Mr. Chairman. Mr. Filan, I think in response to Representative Black, I just wanted to make sure I got it… heard it correctly, did you say there's no states that have sold their lottery as of yet?"

John Filan: "As of yet, that's correct."

McCarthy: "Okay. And in response to Representative Beaubien, I think you said as far as for the sale of the lottery, that would need General Assembly approval. Is that true for a lease of the lottery as well?"

John Filan: "Yes, it is."

McCarthy: "Okay. And if either of these things went through… but let's say, first of all, the issuance of the bond, sixteen billion dollars ($16,000,000,000). Has your staff looked at it and said when would the structural deficient be corrected instead of going all the way to 20, 30… if we stay with the, ya know, the payment plan as is, would the structural deficit be reduced or eliminated much earlier than 2034?"

John Filan: "Yes. I think in our original presentation, which we'd be happy to send over, this transact… 'cause it's the pension liability and the growth of the liability that is the heart of the structural deficit in Illinois, that these two transactions combined and the resulting infusion at task genuinely gets rid of almost all the structural deficit, if not all. I think we can show that demonstrably for 2011 and so on."

McCarthy: "Okay. So almost… that's for either the 16 to 10 or the 26? They'd all be different numbers of course."

John Filan: "I'm sorry, I didn't quite get that."

McCarthy: "Well, I'll ask a different question 'cause this is the last question, Mr. Chairman."

Chairman Franks: "Okay."

McCarthy: "Thank you for you tolerance. As far as… there's been many pieces of legislation affecting different funds in our state over the course of the last year and almost every time the discussion comes up about sweeping of the funds. What guarantees would your office or the Governor's Office give us that if either of these operations go forward, that all of the proceeds from them would be used to reduce our pension liability?"

John Filan: "I think we can assure you that our proposal is in the budget and remains so that the… a hundred percent of the proceeds from the pension bonds and from the lottery go towards the pension debt to reduce the pension debt."

Chairman Franks: "Thank you. Representative Jefferies for 1 minute."

Jefferies: "Thank you. I would like to know with the leasing process, how many jobs would be at stake?"

John Filan: "I believe there's a hundred and twelve (112) positions at the state lottery in Illinois and we've indicated to the bargaining unit that we'd expect and require actually all the people there to be… to be interviewed by the… the winning bidder. In the extent to which they don't accept job offers, we've assured them we would provide job offers to the employees that do not accept jobs with the winning bidder. And I think we're proposing to put that in legislation, as well."

Chairman Franks: "Thank you. Another housekeeping measure. Representative Pritchard, since we're going over on time, it seems that some people have more questions. If your side of the aisle would like another 15 minutes, you'll be granted that. And the House Democrats, as well. Representative Yarbrough for 1 minute."

Yarbrough: "Thank you, Representative. Mr. Filan, this question is for you. I'd like to know, how will leasing the lottery effect the specialty causes such as breast cancer funding, and the two proposals, Senate Bill 764 and Senate Bill 774, both of which create new scratch tickets, one for multiple sclerosis and HIV and AIDS."

Chairman Franks: "We've indicated to the perspective bidders and in the documents themselves that they would be required to continue those games or other games, you know, adopted in future years, it would be required to operate those on behalf of the state."

Yarbrough: "How could we know that they would not, I mean under the current laws, especially for the one for breast cancer, because the other two measures have not been enacted yet. How can we be sure that they would not lessen the advertising for those particular games?"

Chairman Franks: "That's a good question. I think that would be the job of the Lottery Control Board, number one, to ensure that. And secondly, I think we'd require them to report on those games, in terms of the amount of sales and the level of effort they made, and what it produced. So we'd have information to see whether or not they were underperforming compared to how they're doing now and current years. That's a very good question."

Yarbrough: "Thank you."

Chairman Franks: "Mr. Lang, you'll be recognized for 3 minutes."

Lang: "Thank you, Mr. Chairman, for you indulgence. Mr. Filan, would the Governor's Office support legislation prohibiting companies that have contributed certain thresholds of dollar amounts to the Executive Branch from getting any of these contracts?"

John Filan: "I think we treated this procurement to be as… a competitive processed like all others. And I believe issues like that are being addressed to other legislation, so I don't know that it would be, you know, germane to the bidding process here."

Lang: "Well, germane to me. So you don't have an answer to that question."

John Filan: "I fully respect your question. I'm just saying, I think that it's addressed in another Bill pending on the General Assembly. And I think, I don't know that we'd single out any one process versus the other, but we have, as I've mentioned before, have prohibited firms from engaging contractual lobbyists on their behalf."

Lang: "Can you tell me what guarantees there would be that there would be minority participation in these… in the contract with the outside vender?"

John Filan: "Yes, we have provided for it and informed them that… I believe it was 20 percent, it's either 19 or 20 percent that the contracting of the winning bidder would be required to in total have 20 percent of their various business contracts go to minority firms. The only exception to that would be the technical operators themselves. You know, since they're… you know, that actually runs the games themselves. But all other services advertising legal supplies, et cetera, would be accounting… would be under that requirement."

Lang: "So would this be a mandatory provision of the bid or a goal?"

John Filan: "It's a mandatory requirement of the bid that not less than 20 percent of the business would be awarded to minority venders."

Lang: "Thank you."

John Filan: "And be WB."

Lang: "One question for the Department of the Lottery. We haven't heard anything from you, they want to steal your department from you. They want to steal the lottery from you. You must have some opinion about this, could we hear from you?"

Jodie Winnet: "Certainly."

Lang: "Could you speak into the mic, please? Thank you."

Jodie Winnet: "I will. They're not… at all stealing the lottery. We are very… we are part of the government and we are a very small part of a large government and what we do is very different than what the rest of the government does. And we've built a strong business, we're proud of that business, and we're very pleased that there's so much private sector interest in the business that we run. So, we also take a broad view and a long-term view of this government and if this is in the best interest of the government, we support that."

Lang: "Have you done any personal studies? Has your department done any studies on its on, relative to the efficacy of this proposal?"

Jodie Winnet: "We have looked at what goes on in other countries, as it's been said, this is a very common practice in other countries. We look at… I'm also the associate director of the Department of Revenue, which also oversees the Gaming Board. We see a lot of parallels between the way that the Gaming Board regulates gaming licenses and the way the Lottery Control Board would regulate lotteries in the future."

Lang: "Mr. Chairman, one additional question. Thank you. If it's true that the revenue for the lottery has been going up recently and if it's also true that creative minds in the Department of the Lottery can grow the lottery even further, perhaps internet purchase of tickets, perhaps other creative ideas, don’t you think we'd be giving up an asset of the state without having completely vetted what it could actually mean to the State of Illinois?"

Jodie Winnet: "The lottery is a two billion dollar ($2,000,000,000) business that's run by the government and we don’t believe that the government is in the best position to optimize that business in the future. Certainly, entertainment businesses are changing greatly.

Technology is changing greatly. What consumers want to play is changing. And our question is can the government keep up with those changes?"

Lang: "So why not hire a private firm to help you do that work?"

Jodie Winnett: "I believe in the grand scheme that is what we're proposing. The lottery… there would still be an Illinois lottery staff, there'd be an Illinois Lottery Control Board and we are hiring a private operator to operate this for us."

Lang: "Well, just…"

Jodie Winnett: "That's essentially what we're doing."

Lang: "Thank you. I'm going to give up the rest… anytime I have left. But just so you know, we may have some questions in writing for you, too. Thank you very much."

Chairman Franks: "Representative Dunkin, you have 1 minute."

Dunkin: "Real briefly, this is for Lance Weiss, of Delloitte & Touche. Twenty-six million dollars ($26,000,000), that's a lot of money to raise especially when we have a forty billion dollar ($40,000,000,000) pension deficit. Do you feel that it is necessary to do both? You know, the sixteen billion dollars ($16,000,000,000) in pension obligation bonds and ten billion (10,000,000,000) from the lottery lease? If we were to do one or the other, what impact would it have on the state? If you've expressed it before…"

Lance Weiss: "Yeah…"

Dunkin: "Can you break it down to me in lay-persons term?"

Lance Weiss: "Sure, I think John Filan sort of answered the question. In total, if you do both, the lottery and the pension obligation bond, it's about a sixty-five billion dollar (65,000,000,000) savings to the state in contribution requirements between 2008 and 2045. If you do the just the lottery, John, I think it was around forty billion (40,000,000,000). Does that sound about right?"

John Filan: "It's over forty."

Lance Weiss: "It's over forty billion (40,000,000,000) and the remaining twenty billion (20,000,000,000) or so is due to the pension obligation bond deal. So that kind of gives you, you know, an allocation of the total savings between the two. Whether you should do both or not, is a question the Legislators in here are going to have to answer. Do you need to do both to be able to afford the pension plan? I can tell you the pension plan, you know, the schedule of contributions, as I said earlier, it's scheduled, if you make no other changes, it's scheduled to be 2.6 (2,600,000,000) billion in 2008, 3.3 (3,300,000,000) in 2009, four billion dollar (4,000,000,000) contribution in 2010. Then as I said, it goes up from there all the way up to fifteen billion dollars ($15,000,000,000) by 2045, if you do nothing. You have to do something to bring those levels down. How much you do is up to you."

Dunkin: "Sure, last question. Can you explain again how the pension obligation bond performed in 19… excuse me, in 2003? Explain the financial impact."

Lance Weiss: "Basically… Yeah, the overall savings were about nine billion dollars ($9,000,000,000) over the life of the bond."

Dunkin: "Nine billion (9,000,000,000)."

Lance Weiss: "That’s about three billion dollars ($3,000,000,000) in present value savings. We thought the bond would sell at 5.8 percent. It sold for less than that, just the way the market went. And we were assuming at the time that there would be an 8 percent return over the life of the bond. So far the returns have been greater than that, but it's just the first few years. So, you know, the game isn't over yet, so to speak. And so, far it is performing better than expected, but we are assuming a 5.8 percent interest rate, which coincidentally is about what the market is now, a little bit higher than that, but we ended up doing better, and we assumed an 8 percent return on the money invested."

Dunkin: "Thank you."

Chairman Franks: "Representative Boland…"

Lance Weiss: "Can I… can I… can I just add…"

Chairman Franks: "…we will rec… Representative Boland will be recognized for 1 minute. Then I think you'll have a chance to follow up. Go ahead."

Boland: "Thank you, Mr. Chairman. And thank all of you for coming and testifying with us today. A couple questions, I guess, now, is the time limit… is this for the lease of the lottery? Is this seventy-five (75) years, is this a definite, or is this something just to be… yet to be negotiated, you're thinking? Or have you pretty much solidified the seventy-five (75) year?"

John Filan: "In the Bill we proposed, we indicated with some perimeters that we would, the state would not except less than ten billion dollars ($10,000,000,000), as a suggestion, and not more than seventy-five (75) years. Our feedback is that it seems to be acceptable in the market to be more like fifty (50) years. That going the additional years, beyond fifty (50), we wouldn't get that much more in big price, so it wasn't really worth it."

Boland: "And secondly, on the ten billion dollars ($10,000,000,000), is this… again, what your feed back is, is this the general feedback you are getting or is it more, less, or what?"

John Filan: "The general… pardon me, the general feedback we've been getting is with all but one of the bidders indicated in their words that they felt that they were comfortably north of ten billion dollars ($10,000,000,000). Is there expression, but what they mean by that is their starting point is something greater than ten. And I'm not trying to suggest it's 10.1 or 14 or any points in between. But I think that if we have the competition from several bidders that’s what'll really help us, as was mentioned earlier about having a sealed bid process."

Boland: "And do you feel there are going to be… there is going to be a competition for this?"

John Filan: "Yes, very much so."

Boland: "Have you gotten indications?"

John Filan: "Very much so."

Boland: "I guess, you know, I like a lot of what you've been saying today, but I guess, one prob… have two problems. One, is so much of this is still up in the air. I mean it seems like if there was a solid, you know, years, solid amount of money, it might be much easier for some of us to support that then kind of… it's still kind of cloudy to me. The second thing is, in the lease of the lottery. If a private company can afford to pay ten billion dollars (10,000,000,000) or more and still make probably 15 percent, would you say? What are they going to do that we could not do? I guess is the question. I mean, I recently came back from a trip to…"

Chairman Franks: "We need you to bring…"

Boland: "…Indianapolis. Let me finish here."

Chairman Franks: "Please, finish up."

Boland: "And it just… as I was thinking about this issue riding along in the car, I thought of how many more places we could have those lottery, I'll call them boxes, whatever their sales things are called, where they sell the lottery tickets. I mean, why aren't they already in, you know, Wal-Marts, you know, in our rest areas? I just don’t understand if a private company can do this, why we can't. So that'd be my final question if somebody can…"

John Filan: "Okay, it's a good question. It came up quite a bit actually in presentations we had made several months ago to perspective bidders. On the first question about how do we get our arms around what's the real number here? You know, one alternative is for the sealed-bid in process to continue and see what actually it produces. And as was asked earlier, I think by Representative Scully, you know, if the number is high enough over what he called the present value, then it's worth it, and if it's not, it's not, and so the right to say 'no'. On your second question, on big-box retailers, and the like, Illinois now has a little under eight thousand (8,000) lottery retailers. So it is very much a retail business, and as Jodie said, an entertainment business and it's one of the issues of how well equipped are we to run a vast network of retail stores, this competing with casino's and online gaming from Mexico and so on. And I think, that's one of the fundamental questions, is how do we grow it, going forward and are we equipped to do that as a government? And the bi- box ones have been real challenges. How do you make the right kind of presentations to their CEOs to get into hundreds of Wal-Marts that are out there. Where so much of the volume of retail business is Starbucks and the like. And I think its aspects of the kind of professional marketing that corporations know how to do, better than possibly we do. And the compensation, frankly, they pay their senior management is four (4) and five (5) times more than what we're able to pay here in State Government."

Chairman Franks: "Representative Dugan, you will be recognized for 2 minutes."

Dugan: "Thank you, Mr. Chairman. I really just have a couple questions and they are just 'yes' and 'no' answers. Mr. Filan, I'm over here. Thank you. And a lot has been talked about but I just wanted to ask you again and confirm. The administration did research on our lottery and how we're running it now to, you know, look at better management, maybe better marketing, more games, may… was it taken into account when you determined how much the asset that we have, that we're thinking about leasing is worth? Was all that taken into account?"

John Filan: "I'll try to answer part of that and ask Jodie to answer it, as well. You know the… I think there's forty-two (42) lotteries in this country, and they have an extremely active lottery association that publishes a great deal of information, more so than most industries. And I think we have extensively analyzed over several years, the lottery in particular, on how well we performed to the more successful ones and less successful from Massachusetts and Texas and so on, and I think we have learned a lot from that. They also share information on what games are successful and what are not and how they expand. And I think what we found is that most lotteries around the country operate pretty similarly in types of games. Some of the differences are in how constraining…"

Dugan: "And Mr. Filan, I don’t want to cut you off."

John Filan: "I'm sorry."

Dugan: "I guess my, again, my question just is, we did all the research, we came up with a ten billion dollar ($10,000,000,000) figure. That’s the figure that you're comfortable with because we did the research. 'Yes' or 'no', that's all I'm asking."

John Filan: "The answer is 'yes'."

Dugan: "Okay. And so if the ten billion dollar ($10,000,000,000) valuation, I'm assuming, because we're looking at the value of it, you know, as far as projected higher annual revenues. Okay, as we look at that ten billion ($10,000,000,000). Do we think that the state, you believe, or I'm assuming the administration believes that we… when you said, we don’t believe or someone up there said it's a two billion dollar (2,000,000,000) business that we don’t think, as a state that we really are capable of handling. And I guess I have a little bit of a concern with that if we're saying what, our staff isn't… to where we can't build on something that we think is going to project higher revenues and we're going to give it away because we don’t think we can necessarily do it with better management, maybe? Or be more efficient?"

John Filan: "Yeah, I'm going to pass to Jodie on that."

Dugan: "Okay."

John Filan: "But just quickly, I think the lottery today is a very different business than it was in '74 when it was first adopted. There's much more competition. And with that…"

Dugan: "And I'm just asking for the question. We don't believe that we can handle the lottery in the state? That's all I'm asking, by being more efficient. Jodie."

Jodie Winnett: "I would say it's not really a matter of efficiency, is it risk? I mean, again, this is a retail and entertainment business. What government is… what we can do is talk about best practices and changing management. What we are not very good at is assessing risk, especially in those industries that we don’t really act in. Again, the government trying to anticipate what's going to happen in the future in entertainment and retail businesses and then reacting quickly to those changes. That's the risk that we face with the lottery."

Dugan: "And this administration believes then that it is best to not look at the profits that we do make. And the fact that it continues to grow every year, instead just…"

Jodie Winnett: "Well, actually our profits have not grown or did not grow from '06 to '07."

Dugan: "And we know the reason for that? Or we don't?"

Jodie Winnett: "Well, a shift… and again, it's a shift in what players want to play. It's a shift from online games to instant games, which are…"

Dugan: "Okay. And… okay, that's why I just wanted to make sure I was clear. The administration believes that it's… they believe that it's better to lease the lottery to a private investor…"

Jodie Winnett: "Yes."

Dugan: "…who for some reason believes that he's going to… they are going to invest ten billion ($10,000,000,000) for something that they believe is profitable. Yet, we don't believe that it will be. So I guess that's just my only concern is that I look at it to give away an asset that's shown to be profitable and someone believes it's profitable enough to invest ten billion dollars ($10,000,000,000). I'm just a little bit concerned to give away that kind of asset. Thank you, Chairman."

Chairman Franks: "Thank you. I'd like to follow-up on a logical follow-up on that Representative Dugan. In the years 2003 to 2005 the lotto revenue increased by about 15 percent, isn't that correct? About 15 percent?"

Jodie Winnett: "The sales or the price?"

Chairman Franks: "The revenue."

Jodie Winnett: "Revenue, okay."

Chairman Franks: "Okay. And we were able to pull out about six hundred and fifty million dollars ($650,000,000) dollars a year for education. Okay. Now how did the revenue trends of Illinois Lottery compare to those of other states?"

Jodie Winnett: "We are a very profitable lottery compared to other states."

Chairman Franks: "Okay. Now, we're very profitable compared to other states, but I was going through some numbers and I see on a per capita average, we are much below the national average. We are at a hundred and fifty-four dollars ($154) per capita, and the national is average a hundred and ninety-three ($193). Is that a fair statement?"

Jodie Winnett: "I believe those are sales figures that your…"

Chairman Franks: "Correct."

Jodie Winnett: "Okay, versus profit."

Chairman Franks: "Correct. Those are the sales figures. We are much below the national average,"

Jodie Winnett: "Yes."

Chairman Franks: "Even though, despite the fact that we are one of the highest per capita incomes in the country."

Jodie Winnett: "It's true."

Chairman Franks: "Okay, could you speak in the microphone?"

Jodie Winnett: "Yes. I'm following you. Yep."

Chairman Franks: "So there are… we've one of the most profitable, yet, our per capita sales aren't very high compared to a national average. You've determined that we can do better in the sales, correct."

Jodie Winnett: "I'm sorry."

Chairman Franks: "You have determined there are ways, there are numerous growth opportunities to increase per capita lottery spending."

Jodie Winnett: "Yes."

Chairman Franks: "Okay, so we've determined that, we've determined we're very profitable, but you made a statement earlier that you don’t think we can run this profitably. And I'm concerned that, like Representative Dugan was saying, that we are giving away the store here. When we have an appreciating asset that’s generating six hundred and fifty million dollars ($650,000,000) a year, and we know that we bring up the per capita sales to only, which will only increase our profit exponentially. Wouldn't it make more sense to bring in a new management team to be able to unleash the real potential there in our lotto?"

Jodie Winnett: "Again, I guess, I would argue in some ways that is what we are proposing, is to bring in a new management team."

Chairman Franks: "We are, but we're giving away all the upside. What your saying is, we can't do it well enough, we're going to sell it up front and we're not going to share in the upsides."

Jodie Winnett: "Well, and again, I wouldn’t say that we can't run it well enough, but we definitely see risks ahead, and we understand that running this business is not a core competency of the government. And our question is, can we respond quickly enough with the faster and faster changes in technology and consumer spending habits and entertainment trends to keep this business growing and profitable? I think those are serious questions that we face in the years ahead."

Chairman Franks: "Well we've only spent…"

Jodie Winnett: "And we believe that taking the benefits now, is the right thing for the state, given its financial situation. But we've also set up in the concession agreement and the legislation a profit… some state going forward. And a growing state, if the game changes in dramatic ways through the Legislature's authority and those revenues and sales grow greater than we can perceive today."

Chairman Franks: "Well, we only spend about 1 percent on advertising, and I look at what other states, such as, lets use the example of Georgia, which is a state that’s about half the population of Illinois, yet they have 50 percent higher lotto sales. Why can't we look at their best practices and increase our revenue the same way?"

Jodie Winnett: "I would mention that Georgia is a private lottery corporation. It's a board that hires a director, but it greatly runs outside of the government."

Chairman Franks: "Well, I know that Virginia, for instance, has a per capita spending of over two thousand dollars ($2,000) a year. Are they private, as well?"

Jodie Winnett: "Virginia? Virginia is not. No, it's not."

Chairman Franks: "And Rhode Island is second and they are over sixteen hundred dollars ($1600), are they private?"

Jodie Winnett: "Second in terms of?"

Chairman Franks: "Revenue. In revenue per capita."

Jodie Winnett: "No, they are…"

John Filan: "If I could add, when we're comparing Illinois that has a lottery and nine (9) casinos to a national average, many of those states that are higher than Illinois, do not have casinos. So, consequently, they are going to achieve a considerably average sale because of the number of gaming alternatives. I think a comparison of states with casinos and lottery would be more precise and I think we'd find some different results."

Chairman Franks: "Okay. Well, I'd like to see those as well. I wanted to ask… follow-up on one question that was answered… that was asked earlier, 'cause our next panel is going to be up here in a few minutes, is the civic committee of the Commercial Club of Chicago. And in their report that they put out earlier in the year, they indicated they would only be for the sale of the lease of the lottery if there was pension reforms mandatory. Has this administration put together the reforms requested by the civic committee?"

John Filan: "I think as Chairman Burris mentioned, he's head up two commissions and proposals were made a couple years ago. Several of them were adopted, several were not. We made our proposal this year regarding pension funding, trying to focus on a solution on with all these tough choices, even with the lottery as valuable as it is, is how do we get this pension funding liability huge debt down, and we'll need valuable revenues or valuable assets to do it. So I think that we're open to all ideas on all sides of the equation and welcome to hear their thoughts."

Chairman Franks: "Thank you."

Roland Burris: "Mr. Chairman."

Chairman Franks: "Yes."

Roland Burris: "In the commission report, there are several reforms that, I do not remember the dollars that would generate should those reforms be put into place, but there were several reforms that were recommended in our report. And of course these are just two of the recommendations. We just said that we needed to get some type of revenue in enhancement process that would, if you sold an asset that would be solely attributable to the lottery underfunding. And that's what the Governor, evidently, is trying to follow from the recommendation from the commission."

Chairman Franks: "Well, I look forward to hear what the commission has to say in the next few minutes. But before that I'd like to call on Representative Rosemary Mulligan for 4 minutes."

Mulligan: "I'd like to go back to the lottery. I think Representative Yarborough asked and I had asked at the briefing for the budget when this was first brought up on the lottery. I had said what would happen to the statutory requirements that we have passed if the lottery were sold? At that time, we weren't talking about leasing. So sale or lease, there are several statutory requirements on the lottery. One of them is the new breast cancer, the other one is the veterans and the other is the disclaimer and the hotline for problem and compulsive gambling, which is legislation that I passed years ago. And I'm pretty sure it was Mr. Filan who said to me that the statutory requirements would remain and would be the obligation to be fulfilled by whoever purchased or leased the lottery. I don’t know if you responded to Representative Yarborough when she asked about the breast cancer check off, how… what would happen with that? Is there an answer to that?"

Jodie Winnett: "I'll follow up on what Mr. Filan did answer, and that yes, it's part of the agreement in the contract we'd have with the operator to continue to offer those tickets, both tickets and any tickets offered in the future or authorized by the Legislature."

Mulligan: "They would still continue to be obligated. Okay. There's two statements I want to make to that. Number one, one of the reasons I think a private entity can make more with the lottery is because the things they would do you could not pass through the General Assembly. It would be considered a bad practice as far as gaming goes. As to what Legislators who are not pro gaming would be able to pass. But if you pass that off, what you are doing is your taking it out of the Legislator's hands. The other issue I have is, what the current amount of those obligations would be? The lottery tickets for the veterans, a year ago, there were many more tickets that were produced and the game was much more patriotic-looking. In the current year it came to us that you produce less tickets and you took away the patriotic face of the ticket. My guess is having done Human Service of Approp Budget for a long time, and whatever, is that what you were doing was you were intentionally undercutting what the veterans tickets would make, so that in the sale of any lottery it would presume that the statutory obligations that they would have to fulfill would be less. And that was called to the attention, I guess, of the lottery and so, I guess, there was something that was supposed to be done about it, you were supposed to put together more tickets. It's this kind of general overall business practice, I think, that makes us reluctant to believe figures that are produced, such as they are, for the simple reason that that kind of game playing is interesting if you are a big business, but not necessarily if you’re a State Legislator that wants that money to go into things for veterans. I think that’s kind of duplicitous. But I also have a problem with… this money has been spent once on education, once on health care, and now for pensions. It's just kind of like the tobacco money. We spend it whatever year we want, for however we want, so if you say we're going to pass a Bill that says the money is going for X, Y and Z, how do you determine that it actually will? Director, I always like when you look up at the ceiling and you ignore me, it tells me that I'm probably on point and that you don't like answering the questions. For the simple reason I have been told repeatedly on things that you have passed, you do not like legislative questions. By selling or leasing someone that we have no oversight, you eliminate the ability to have to answer questions on how its run, at least, not until it gets down to the really bottom line of it. And this proposal is not new, it did come out after we gave you an extra month on your budget and it never has been pinned down to what it should be where we could actually discuss this in open committee, in rooms where we have that latitude. I think it's really interesting that we're being challenged to be here day after day to discuss proposals that have had been out there for months if you wanted to quantify them into actual proposals that we could've been discussing all this time."

Chairman Franks: "Thank you. Representative Eddy, you will be recognized for 2 minutes."

Eddy: "Thank you very much, Mr. Chairman. Mr. Filan, I just have a couple of real easy questions, and if you could, could you give me a direct answer. How do you plan to replace the six hundred and thirty million dollars ($630,000,000) in the General Revenue Fund to the Common School Fund, if the lottery is leased?"

John Filan: "I think it's up to all of us."

Eddy: "I didn't ask… I asked you, you bring us the proposal. The proposal is to sell this, that produces this much money. I agree it's up to all of us to come up with an answer. My question is what is your specific proposal as to how we replace six hundred thirty million dollars ($630,000,000)? It's the Governor's proposal."

John Filan: "Our first proposal was not accepted by this chamber, so I suggested earlier the accommodation, I think, of putting part of the proceeds into an annuity to replace that. Possibly some other…"

Eddy: "How much of the proceeds would it take in an annuity to replace the six hundred thirty million dollars ($630,000,000)? If you sell it for ten billion dollars ($10,000,000,000), how much of that would be needed in an annuity?"

John Filan: "It depends if you want to replace the entire amount or not."

Eddy: "Well, we want to replace six hundred and thirty million dollars ($630,000,000). How much of it?"

John Filan: "My point is you can replace part of it with an annuity, part of it with some other taxes, part of it with other fee or tax income, recurring members other funds. It's six hundred million dollars ($600,000,000) that we have to come with revenues."

Eddy: "So the answer is… the answer is possibility of loopholes, you mentioned that earlier,"

John Filan: "Possible loopholes, correct."

Eddy: "Do you still hold out hope that somehow, there's going to be some type of gross receipts tax that's going to replace some of the six hundred thirty million ($630,000,000)? As you sit there, do you believe that is a viable way to replace the money?"

John Filan: "I think what I propose is other types of loopholes and other types of business taxes, fees, or whatever it might be, as well as recurring profits from some of the funds."

Eddy: "Well I appreciate that answer. That's honest, that's what we need to hear. What is… because you can't just have six hundred and thirty million dollars ($630,000,000) fly out and nothing to come in. Otherwise, there is an incomplete proposal here. The second thing I have…"

John Filan: "Yes. I think one example, there's about four hundred million dollars ($400,000,000) of loopholes have to be closed, is one possibility, is one component of that."

Eddy: "Do you have specific language as to what those loop holes are, how much they would produce, and whether or not we could…"

John Filan: "We certainly have a list of those. Yes, we do."

Eddy: "Okay. I mean, for us to be asked to make a decision regarding how we replace three hundred (300) or six hundred thirty million dollars ($630,000,000) without having specific lists of what those loopholes are and whether or not we could… I mean, it's difficult to jump to support something without knowing specifically what the revenue replacement is. The second question I have about…"

Chairman Franks: "We have to wrap it up."

Eddy: "A very quick question regarding the lottery. Can you tell me specifically what changes would be allowed in your assumptions in order to sell the lottery, or lease the lottery, excuse me, for ten billion dollars ($10,000,000,000)? How will it look differently then it does right now?"

John Filan: "I think the lottery documents we proposed has said, assuming you're placing your bid in based on the existing lottery statute, without internet, without video lottery terminals and that it's up to your view of the future industry and gaming to base your bid based on that. Any of their game proposals, any of their advertising would require the approval of the Lottery Control Board. Same as the gaming model is now for casinos. If you wanted…"

Eddy: "No expansion, no internet, the game would look essentially as it does now for that ten billion dollars ($10,000,000,000)."

John Filan: "That's correct. It's explicit that internet and video lottery terminals are not included in this bid."

Eddy: "So the efficiency would have to be made up some other way by the company that bought it. It would look exactly the same as it does today, essentially…"

John Filan: "Basically."

Eddy: "Okay, thank you."

Chairman Franks: "Thank you. Representative Myers, 2 minutes."

Myers: "Thank you, Mr. Chairman. Director Filan, you made the statement that until we retire this debt we will not be able to put any funding into the other programs and you specifically referred to education and health care and all of those that we are currently funding, that there is no new money available for those programs? Is that correct?"

John Filan: "I think I said that in the next three (3) years that with our existing base revenues that about 75 percent of those revenues will be required to make the increasing pension contributions. So it would be very difficult to put any new money in education or health care with almost none of the base revenues left. So we need new revenues to do both."

Myers: "Okay. If we sell these bonds, if we sell another ten billion dollars ($10,000,000,000) in bonds, we still have principal and interest payments to make. Is that correct?"

John **Filan**: "That's correct."

Myers: "So those bonds aren't free. There's still a principal and interest payment to make on those and in addition to that we will, according to the chart here, we still have to make an annual payment, that goes from 1.86 billion (1,860,000,000) to 2.69 billion (2,690,000,000). So we… the current… the debt that we have in the pension system that we're making the payments on, are we making principal payments or are we making interest payments?"

John Filan: "Other than the 2003 pension bond that went into the pension funds that year, the State of Illinois has never made a principal payment on the pension debt."

Myers: "Okay. So how are we going to be generating revenue when we now are going to be paying a principal and interest payment and we're going to be making our annual payment, based on the certified level that comes from the pension plans? Where… and we don't know what interest rate these bonds are going to be making when they're getting invested by the pension plans, where are the savings, where are we retiring the debt to the state?"

John Filan: "On the pension bonds, with the existing pension debt of forty-one billion dollars ($41,000,000,000) we owe that principal and interest of those funds, no different then to a bank or to a bond holder. The bonds would carry an interest rate of roughly 6 percent. So the principal and interest on paying 6 percent on say, 10 billion dollars ($10,000,000,000) of bonds would be less than paying principal and interest on paying 10 billion dollars

($10,000,000,000) to the pension funds because their rate is eight and a half percent."

Myers: "But we're not making a principal payment now anyway."

John Filan: "Pardon me."

Myers: "You just said we're not making a principal payment now."

John Filan: "The state's never made one, but the state is accumulating the debt, though. The debt keeps going up, because we don't pay all the interest and we don't pay the principal."

Myers: "But if we make that… if we sell those bonds and as you said we sell them at 6 percent, and the goal is to return the eight and a half percent. That's a goal, that's only a two and a half percent spread, compared to the bonds that were sold previously. Is that two and a half percent guaranteed?"

John Filan: "Two and half percent difference on the example, of ten billion dollars ($10,000,000,000), it's about two hundred and fifty million dollars ($250,000,000) a year, if you will, forevermore. It's not guaranteed, but what is guaranteed, if we don't act, is the pension fund will charge us eight and a half percent day in and day out for every nickel we don't pay them in principal. That's guaranteed. So if we don't take some step to stop them charging eight and a half percent, and try to find a cheaper debt, we will be guaranteed to be charged eight and a half percent interest by the five (5) retirement systems."

Chairman Franks: "Thank you."

Myers: "But my point is that that debt is still there. Whether it's…"

Chairman Franks: "Representative…"

Myers: "…principal and interest on the bond payments or… and the annual payment that we make or whether it's the payments that we're currently making on an ongoing basis, the debt is still going to be there, and it's increasing our state's debt… and state's indebtedness that doesn't help our bond rating at all."

John Filan: "It's really not increasing the debt…"

Chairman Franks: "That's it."

John Filan: "The debt is there whether it's bonded out in bonds or whether it's in the pension systems, it's still the same debt. The difference is if you bond it out your paying the bond holders at around 6 percent versus than paying into the trust… the pension trust fund at eight and a half percent. So it's very similar to refinancing your mortgage."

Chairman: "Thank you. Representative Mathias, 2 minutes."

Mathias: "Thank you. Thank you and good afternoon to everyone. I know it's getting late on this panel. But let me just ask a couple quick questions. One, as we all know and back in 1995, there was a restructuring of the pension system at that time, as far as the payments. And that, I believe, was over forty-five (45) years? Is that correct?"

John Filan: "Fifty."

Mathias: "Fifty years (50). Okay. And how is that… did that work? Did that system work? In other words, from that time, I guess obviously for the next ten (10) years, those payments were in place, and were we on track, and was that working?"

John Filan: "It was a payment plan."

Mathias: "Yes."

John Filan: "There was no magic to it. There was no science to it. It was a payment plan that the state deemed to be affordable, it was obviously well-intentioned, but that is all it was. It was flawed in that it was the payments themselves were not sufficient to keep the unfunded liability from growing. So while it added discipline to the state, in that it required the state to make some contribution to the pension systems that the state hadn't been doing in the past, it wasn't sufficient."

Mathias: "So… but had we continued on that mode over the fifty (50) years, what would have… I'm sure there were projections at the time, what would've happened at the end of the fifty (50) year period?"

John Filan: "You would've reached 90 percent funded."

Mathias: "So in a sense it would've worked over that period of time, even though in between there may have been more debt, or less debt or whatever, eventually…"

John Filan: "If you could afford those increasing payments. And that's the problem, the payments were planned to increase so dramatically that at some point in time and because of this fifteen (15) year ramp, even sooner they were going to become unaffordable. So it was well intentioned…"

Mathias: "Right."

John Filan: "but it was planned to be unaffordable."

Mathias: "So then three (3) years ago, when we restructured it again…"

Chairman Franks: "You'll have to bring your remarks to a close."

Mathias: "…and lowered those payments or made less payments into the system, wouldn't you say then that would've been even less feasible that the plan would've worked in the long term, whether it was another thirty (30) or forty (40) years?"

John Filan: "No, actually the changes that were implemented just a couple years ago, in Public Act 94-4, actually reduced the cost to the state."

Mathias: "But didn't it reduce the payments?"

John Filan: "Yes."

Mathias: "So if you reduce the payments, doesn't that mean that you have more you have to pay at the other end?"

John Filan: "No, because your total costs were reduced as a result of the actions of Public Act 94-4."

Mathias: "And how were the total costs reduced?"

John Filan: "They were reduced as a combination of funding changes, changes for the funding structure of the 95 plan, as well as changes to the benefit levels."

Mathias: "So let's say under that structure, in five (5) years would our payments have been less than the under the original 95?"

John Filan: "Yes. Yes."

Mathias: "It wouldn't have gone up higher?"

John Filan: "No. No, the changes that were implemented as a part of Public Act 94-4 reduced total costs, because they reduced benefits for future hirers."

Lance Weiss: "I would just add that according to the retirement system actuaries, those changes had a reduction in the 2045 liability of eighty-three billion dollars ($83,000,000,000). So, they're all enormous numbers but what would've been a sixteen billion dollar payment ($16,000,000,000) due in 2045 ended up being a little under fifteen billion dollars ($15,000,000,000), you know, by example in do so."

Mathias: "Okay. Thank you."

Chairman Franks: "Thank you, Mr. Mathias. I want to thank the members of the panel for answering these questions. We appreciate you being here. I know that you're going to be getting some written questions and we look forward to receiving those responses. So again, thank you for being here. All right, thank you. We can bring up the Civic Committee of the Commercial Club of Chicago. We have Mr. Martin and Mr. Msall, and they will give a brief presentation and then we'll open it up to questions. So Gentleman, thank you for being here. We appreciate what you've provided to us before and we look forward to hearing your statement. Please identify yourself and proceed."

Eden Martin: "Good afternoon. My name is Eden Martin, I'm president of the Commercial Club of Chicago and its civic committee. Commercial Club is the oldest business and civic organization in Chicago. Civic Committee consists of seventy-five (75) of the CEOs in the Chicago area."

Chairman Franks: "Excuse me. Can we keep the noise level down? These gentlemen have traveled down to give us their expertise. We'd like to hear what they have to say."

Eden Martin: "The issue that is before you, I think, today according to the notice, is does it make sense to sell assets or lease assets where you up-front the money or borrow money as a way of solving the state's recurring annual budget problems? And somebody on the Governor's panel said that the Civic Committee was in favor of selling or leasing the lottery. Here's what we said, 'we do not believe that one-shot sales of state assets, such as the lottery, are workable long-term solutions to the state's budgetary problems… not.' Now, we got about 15 minutes and I'm going to tell you in a little more detail why we're here and what we think. But I want to give you a summary, a 30 second version of why we are not in favor, and it's this: unless you know what you're going to do with the money that you've got from the sale or the up-front lease, and unless you know that you can beat a market rate of return, then you are no better off when you sell an asset or when you lease it with up-front money. The asset is the future money. What you've done is to swap two things of equal value. You give up the future income in order to front end load it… at a discount. Also, you're no better off when you borrow long term. You obligate yourself to pay in the future in order to get the money today. Selling assets, leasing assets with up-front money, borrowing long term, they are all different ways of front-end loading the money and back-end loading the pain. Now, in December of

2006, the Civic Committee issued a report on state finances. We sent copies to all of you at the time and it's on our Website. In our report, we made the following findings: first, the State of Illinois is in a big, fiscal hole, much bigger than anything you've heard about so far today. And the hole is getting deeper every year. In particular, every year we create bigger, unfunded pension obligations and bigger, unfunded obligations to pay the future health care costs of our employees and retirees. That's one nobody is talking about. But the present value of that obligation could be bigger than the unfunded pension obligation. And it's going to have to start getting recognized on the state's financial statements in fiscal '08. We estimated last December that the present value of the total of these unfunded obligations was in the range not of forty billion dollars ($40,000,000,000), but a hundred billion dollars ($100,000,000,000. Nobody knows for sure. And we also are not keeping our commitments to fund education at the foundation level. These holes amount to an annual budget gap in the order of five billion dollars ($5,000,000,000), annually. Allowing this shortfall to get bigger every year is not fair to our state employees and retirees, and it isn't fair to future generations of taxpayers who are going to have to pay the costs that we're pushing off into the future. Economists talk about this using a fancy term, they call it intergenerational equity. But that's just a fancy term for the notion that it isn't fair to give our generation a benefit and make some later generations pay for it. A second finding: we should reduce the size of the annual unfunded hole by cutting expenses and reforming the programs that helped create the hole. Specifically, we should reform our state's pension programs and health insurance programs to the extent permitted by existing contracts in the State Constitution. Some pension reforms may have to be made prospective only for new employees. Now, given the matters that are before the Committee of the Whole today, this is not the time or the place to go into details on pension and health care reform. You can find those in our report, which we've sent out, and you can find them summarized in a white paper that was issued earlier this morning by a group of eight (8) statewide business and civic groups. Our basic point is that there is no reason why these programs should be more generous than those available to most employees in the private sector. It is unfair, and it is unsustainable in the long term, for taxpayers to have to pay for benefits for state employees and retirees that taxpayers cannot enjoy for themselves. Nobody pretends that making these reforms will be politically easy, but the state's financial health depends on doing it. The Chicago CTA is showing that with leadership and willpower it is possible to make serious progress. A third finding: some people may think we can solve these budget problems simply by cutting expenses. We don't see how that is possible. Fourth, any new funding from cost savings or from natural revenue growth or from any other source, we believe ought to go first to meeting existing commitments rather than creating new ones. Fifth, and that gets us to the point of today's Session. Some people think we ought to try to solve our budget problems by selling assets or borrowing more money, and as I summarized earlier, we don't believe that's correct. The Governor's letter to Speaker Madigan yesterday says he proposes to fix the underfunding by selling the lottery, issuing more bonds, and infusing the system with twenty-six billion dollars ($26,000,000,000). But the Governor's option wouldn’t come close to fixing the problem. The total underfunding is much closer to a hundred billion (100,000,000,000) than to twenty-six billion (26,000,000,000). The unfunded pension obligation alone is over forty billion (40,000,000,000). And the Governor's plan does not address at all the totally unfunded liability for retiree health care. More over, sixteen billion (16,000,000,000) of the solution doesn't fix anything. It replaces the soft debt with a hard debt, it's a swap. It doesn't reduce unfunded liabilities at all… unless you just ignore the amount of bonds that are out there. In theory, the state could sell an asset related to a non-core function, could sell it and it might turn out to be a good thing. You would have to know a lot of things in order to decide whether selling the lottery is a good idea. How much will the state get for it? How much income does it generate? We think we know the answer to that. What do you do with the proceeds of sale? And do you have alternative sources of revenue for the six hundred and thirty or so million (630,000,000) that would be lost. A private company that was thinking about an asset sale would go through an analysis of these questions. But here's one thing I think you can be sure of, no properly managed company would sell an asset to fill a hole in its current operating budget and then think that it had solved the problem. Selling assets to meet current operating shortfalls is always a bad idea. Now the state is incurring several different categories of pension costs every year, whether it recognizes them, whether it pays for them or not. They're real costs and they ought to be funded each year. Otherwise we're back-end loading the problem. A first cost is the annual increase in our pension obligation which is in the range of 1.3 billion (1,300,000,000) and John Filan acknowledged that in his testimony. The second is the amortization of the remaining unfunded amount, which is huge. And third, you've got to cover interest and principal on the ten billion dollars ($10,000,000,000) of pension bonds that are already out there. The interest costs alone on that's about five hundred million dollars ($500,000,000)). And these payments of interest and principal shouldn't be back-end loaded. If I understood John Filan correctly, I understood him to say that the total amount of all of these pension related costs, annual pension costs, is about 4.9 billion dollars ($4,900,000,000) a year. And if they aren't fully covered then selling assets or issuing more pension bonds is nothing more than putting the problem off to the future, it's bad economics and bad policy. We think that borrowing another sixteen billion (16,000,000,000) in pension bonds would really be a bad idea. The proceeds would likely be used as they were the last time, four (4) years ago, as an excuse not to pay the current pension costs, but rather to shift them to future taxpayers. And the new higher level of debt would hurt the state's credit ratings and increase its debt costs. Think about what's already happened to the level of the state's General Revenue obligations. Back in 1990, it was about four billion dollars ($4,000,000,000). In 2000, it got up to 6.6, ($6,600,000,000) and I remember thinking that was a lot at the time; 2003 we borrowed the ten billion (10,000,000,000), the total debt popped up to eighteen (18,000,000,000). In 2005 it was 20.6 (20,600,000,000), and now if we were to borrow another sixteen billion (16,000,000,000) it would go up, the total, to forty three billion dollars ($43,000,000,000) or about seven (7) times what it was at the beginning of the millennium. As you all know, we have to pay interest on the debt every year, and sometimes we have to… and someday we're going to have to pay down the principal, and these fall on future taxpayers. Apart from the burden of making these payments on the future taxpayers, there's an additional problem. It would essentially turn the state into an arbitraging operation, borrowing at low interest rates and hoping to make higher returns through the pension funds. To describe this as refinancing a house at a lower interest rate is simply not accurate, it is arbitrage. And there’s a reason why the returns on equity are higher, and that is because the investments are riskier. The greater risk tends to get ignored. Do any of you know of any business or any not-for-profit entity that tries to handle its financing in this way by borrowing at low rates and then reinvesting in stocks? If that were such a hot idea, why wouldn’t lots of businesses do it, why wouldn’t lots of governments do it or not-for-profits? Why wouldn’t we do it? Well, the fact is we don’t. And the reason is it's very risky. New Jersey tried it with pension bonds a few years ago and is now learning that the hard way, the very hard way. I want to close by telling you a story, which happens to be true. My father was a lawyer over in Moultrie County, east of here, practiced law about forty (40) years, and most of his clients were farmers. And he had one farmer in particular whom he'd known for a long time. The farmer would come to him every year when he had to do his tax returns and my father would tell him, 'look, you’ve got a basic problem here. Your costs and expenses are greater than your revenues. One of two things is going to have to happen. You’re going to have to get your revenues up or your expenses down. 'Cause if you can't, you’re always going to have a terrible problem and it's just going to get worse.' And it was that way year after year. And the farmer finally came up to my father one day on the street in Sullivan and he said, 'Bob, I solved my problem.' My father said, 'Well that's great. What'd you do?' He said, 'I sold the back forty (40) acres and took out a mortgage on my house.' And it didn’t work for the farmer, and it won’t work for the State of Illinois."

Chairman Franks: "Thank you. Please proceed."

Lawrence Msall: "Thank you. And thank you, Chairman Franks, and Members of Illinois House. My name is Lawrence Msall, I'm the president of the Civic Federation, which is a nonpartisan, independent government research organization supported by the major businesses and service firms in the Chicago area. Many of the same members of… with Eden Martin, and much of what I say will be building on what Eden has said in the fine report that they issued in December. If the State of Illinois is to address the crisis, which presents itself in terms of the condition of our public pensions and the required funding, we will not be able to do that effectively unless the state attacks the liability side of this problem and not just the financing side. Illinois, as you heard earlier, has not met its obligation to fund the promises that it's made to its employees and its retirees in the form of its pensions for over thirty (30) years. Not funding… fully funding our pension obligations has masked. It has taken everyone's eye off the ball of what the actual cost of this pension benefit is. If you agree, as the Civic Federation and many other business groups, that a 1.3 billion dollar ($1,300,000,000) normal cost, that is as you heard from John Filan, 1.3 billion ($1,300,000,000) dollars is what it cost the State of Illinois this year if our pensions were 100 percent funded. That's the cost of that pension benefit. If you think that is too high, or that the 2.6 billion dollars ($2,600,000,000) that the 1995 law established for 2008 is too expensive, then the way to address that is not just to focus on the unfunded liabilities, but to also focus on the cost of that program. The Civic Federation issued our analysis and reaction to the Governor's budget in May, in very early May. We had great deal of concern about the expansion into new areas of state obligation at a time when the state was not meeting its most basic, operational costs. That is, the state pension system. The Civic Federation opposed, and continues to oppose, the long-term lease, I'm sorry, we continue to oppose the pension obligation bond issuance that the Governor has proposed of sixteen billion dollars ($16,000,000,000) because one, it is not tied to the pension reform that you heard Roland Burris, the chairman of the Governor's Blue Ribbon Commission talk about. We do not have those reforms necessary to bring down those costs that the Governor's Commission, and the Governor in some cases, talked about in his budget address to you in 2004. The Civic Federation and the other business groups that had our… that met today strongly support a reduction in the benefits of… that covered under the state pensions. We need to increase both the contribution from employees, and our recommendation as the Governor's Commission had recommended, was a 1 percent increase in employee contributions. We should establish a moratorium on any new pension benefits until the pensions are 90 percent funded. If we continue to add new benefits, accelerated retirement benefits, or anything else at a time when we're not at least 90 percent funded, we're going to continue to dig in that hole. Civic Federation also supports fixing the automatic increase for retirees after they have left state service. We need to move off the automatic 3 percent increase, and we suggest tying the automatic annual increase to 2 percent or the CPI, whichever is less. Finally, in the area of the potential lease of the lottery, the Civic Federation could support the long-term lease of the lottery under the following conditions: One, it was tied to significant pension reform and to the reduction in the liabilities. Two, that all of the proceeds, whether it's ten billion dollars ($10,000,000,000), twelve billion dollars ($12,000,000,000), or whatever the end… income from that lease is goes to bringing down the unfunded liabilities of the pension. That is all the lottery lease needs to fund the pensions. And finally, until the state really gets serious about pension reform on the obligation side, Eden pointed out, others have pointed out, our benefits are far more generous than we see in the private sector, than most of the taxpayers and citizens of Illinois receive. And they are too generous for what this state is able to afford. If we were able to fully fund them, then it would be a different discussion. But it… we have not and… the test of time has shown that there is an inability to fund such a generous pension plan. So, with that, I will close and thank you for this opportunity."

Chairman Franks: "Thank you. Representative Lang, you'll be recognized for two and a half minutes."

Lang: "Thank you, Mr. Chairman. Gentlemen, thank you for being here and I particularly appreciate the fact that you have a well-thought-out idea. Mr. Msall, it's good to hear someone come here with a plan. So, that's great. My first question is for Mr. Msall. Did you take that last part of your statement, your idea, have you brought that to the

Governor? Has he shown any interest in talking to you about that?"

Lawrence Msall: "We've taken… yeah, all of our proposal has been presented to the Governor's Office, his budget office, and it was included… all… all of our recommendations were included in our analysis and recommendations that we released."

Lang: "Have they had any dialogue with you about these recommendations?"

Lawrence Msall: "The… the Governor’s Office has expressed, ya know, an interest in us pushing forward on the reforms. They have… I was… happened to be a part of the Governor’s Blue Ribbon Commission, which recommended many of the similar and parallel reforms that have been talked about, but… so they’re very much aware of them."

Lang: "But they haven’t had any sit-down with you to discuss how this would work or shown any particular interest in the idea?"

Lawrence Msall: "Not in particular… not in terms of the pension reforms, no."

Lang: "And when was the last time you made an effort to talk to them about your idea?"

Lawrence Msall: "I talked with people in the Governor’s Office earlier this week."

Lang: "But they didn’t get back to you with ‘let’s sit down and talk about your idea’?"

Lawrence Msall: "They… they… it was… no. They didn’t ask me… invite me in to sit down and talk about my ideas. They said they received, ya know, the documents and information that we had sent."

Lang: "Thank you. Mr. Martin, have you interfaced with the Governor's Office about the opinions you've expressed today?"

Eden Martin: "Sure. When we issued our report early last December, the first person I called was the Chief of Staff and the second was John Filan. I wanted them to be aware that we had issued the report. I told them in a general way what was in it. We sent copies to the office immediately. Since then I've had a couple of conversations on the phone with John Harris and with John Filan. And in fact, John Filan and I've appeared on some panels and some meetings together. So, they know fully what we have proposed."

Lang: "And what was their response to your ideas, other than to say they're going a different direction?"

Eden Martin: "The Gross Receipts Tax."

Lang: "And as you know that failed 107-0 on the floor of this House."

Eden Martin: "I know."

Lang: "Right. So you're…"

Eden Martin: "I don't mean to be quick about it. I think their solution that they were looking forward to at the time was to raise a lot more money and to put it in other places than meeting the commitments of pension shortfalls and nobody's much talked about yet the retiree health care problem. One thing I was very encouraged about today was I hear from the Governor's Office, Representative, that they are now taking quite seriously the terrible problem that the pension underfunding represents, which I very much welcome."

Lang: "Thank you, gentlemen, appreciate it. Thank you, Mr. Chairman."

Chairman Franks: "Thank you. Representative Howard will be recognized for 2 minutes."

Howard: "Thank you very much, Mr. Chairman. One of the questions that I had was pretty much discussed by Representative Lang because I, too, was concerned as to whether or not there had been any effort or initiation on the part of the Governor’s Office to seek your advice. Obviously, you… both of you gentleman have reputations as knowing something about these issues and so I just wondered about that and it appears that maybe they didn’t seek out and neither did they decide that, perhaps they ought to incorporate your information or the information that you were willing to put forth into what they decided to do. But let me ask you, are there theories or some kind of ways to approach these problems that different people see differently? It seems to me that one plus one is always two and et cetera, you can go on down the line. So, why is it that there appears to be such a different understanding about whether or not we should do these things from the Governor’s Office and from you? I mean is there something that I don’t know. I took no economics and I’m not a financial wizard either, so tell me why it is that there seems to be no understanding on the part of the Governor about what it is that you’re saying, and certainly I’ve heard others who have also disagreed with what the Governor’s Office is putting forth."

Eden Martin: "Let me try it. I heard today a… for the first time, quite a serious recognition of the degree to which that this is a problem. Now if you went back to the immediate aftermath of our report in December, I didn’t detect it. And when you looked at the budget message, it wasn’t the priority, but it has become a priority and I think that’s great. It’s also a priority for the Leadership in this House on both sides of the aisle. I think that the problem is not one of whether you’re a Republican or a Democrat, conservative or liberal, Chicago or suburbs, suburbs or downstate, I really don’t. I think the problem is that there is an inevitable tension in a democracy and in a Body like this about what do you do with a limited amount of resources. And the problem is that it has been very easy across the last half a dozen gubernatorial administrations to put off the funding of the pensions on the hope that it would be somebody else’s problem. After all, the pensions are getting paid so it’s really a problem for the future. It's like Social Security. And if we can underfund it, that’s somebody else’s problem. I don’t think it’s about partisan politics, I think its inherent. I do think that there is… has been a question that is a little tighter about how much these benefits should be. And in the past the benefits that were out there in the private sector were higher. I mean, when I started practicing law they were higher, probably higher than most of yours experienced. But what’s happened over the last twenty (20), thirty (30) years is the competition and the force of the private markets has forced the benefit levels to be constrained by competition. Companies simply can't pay what they used to in terms of pension, they are forced by competition to work into sharing costs of health care because it's efficient for people to think twice about going to the doctor and whether you do this or whether to do that. So, in the private sector now what you have is cost sharing and incentives to do managed care and things of that kind. And the problem is in government we don't have those same kinds of competitive pressures and so what's happened is as the private sector has had to constrain pension benefits, has had to shift to define contribution plans which stopped the bleeding, has had to go to managed care. You haven't had that happen in the gubernatorial… in the government sector as much and in the municipal sectors as much because the competitive pressures haven't existed. But I think what you have to face now is the problem that because the taxpayers don't get these benefits the way they did twenty (20) or thirty (30) years ago, then it really isn't sustainable to expect that in the public sector they can continue to go on indefinitely. I think it has to conform to what exists out there in the private sector for the taxpayers who are paying our bills."

Howard: "I appreciate your response."

Chairman Franks: "Thank you. Representative Hamos, you'll be recognized for 3 minutes."

Hamos: "Thank you. I wonder if either of you gentlemen have had a chance to look at the specifics of the lottery lease that are being proposed? So we're trying to understand from an outside analyst, sort of an honest broker, we've only heard from the advocates, whether this particular deal is a good deal for the state. Have you had a chance to look at that or anybody in your organization?"

Eden Martin: "I haven't seen the terms of it. And I don't want to be misunderstood in testifying today, I'm addressing the question of whether the sale of any asset or the long-term lease with up-front money or borrowing, addresses current budgetary problems. I'm not saying that under certain circumstances, just like Lawrence did, that you might not find it advantageous to sell a noncore asset. But you'd want to be very careful that you were getting a very good deal for the state. You'd want to know what you were going to do with the money. You'd want to expect that you could make more with the new uses of the money than you were getting with the old uses of the money and above all, you'd have to be sure it wasn't used in effect to plug a current operating budget gap, because if you do that then you're just selling an asset to pay off a current operating cost and that's always a mistake."

Hamos: "But Mr. Martin, the current operating asset… the current operating cost is the pension payments, so are you arguing… I mean, it's hard to understand that the possible use of this particular lease if we couldn't apply it to, at least I think with the Civic Federation we heard not with the… Civic Federation we heard that you could under some circumstances see a value to this as long as it was being applied to a… the pension."

Lawrence Msall: "And I think… and I think I can add to that. There are two things that you're… if you are going to pursue the sale or the lease of a noncore government function, operating a lottery in the Civic Federation's position is not core to what the State of Illinois needs to operate. However, it is a valuable asset and it does generate six hundred and thirty million ($630,000,000) or so dollars in revenue. It only makes sense, from our perspective, if you're going to use that to improve the state's financial position. It will not improve the state's financial position if you use the six… what… however many billions of dollars you get for the lease to mask or to not make… to mask the cost or to not make the normal cost contributions to the pension, which are about 1.3 billion ($1,300,000,000) dollars and to draw down the unfunded liability. The… in terms of the specific terms, I don't think anyone has seen the specific terms of what the lottery lease might be because that is, as from what I hear is going to be included in the RFP whenever that is made available."

Eden Martin: "Let me… let me add a footnote to what Lawrence said. In order to make a sale of an asset sensible, you'd have to know that you were getting a good deal on it. If you're going to apply the proceeds to the pensions, you'd have to put the money in the pension fund, which apparently there's no dispute about."

Hamos: "Right."

Eden Martin: "But the most important thing is, you have to keep making the annual payments out of current operating revenues. If you don't, then all you've done is to sell an asset to meet a current operating cost. It's like what we did with the ten billion ($10,000,000,000) dollars of borrowing. It's not enough to put the ten billion dollars ($10,000,000,000) in the fund, you have to go on and make the current payments out of operating revenues and the payments are roughly a billion-three (1,300,000,000) of normal… normal pension funds. The amortization of the unfunded amounts, which today is roughly forty-one billion dollars ($41,000,000,000), it would be less than that if we put ten billion (10,000,000,000) in, but then it would be thirty-one billion (31,000,000,000), and you have to pay interest on the ten billion (10,000,000,000) of debt and you have to pay off the principal. Those are pension costs. If we use the assets from a sale or from borrowing to cover that, then basically what we've done is to take things away from the future in order to pay today's current operating costs and we've shifted the burden onto future taxpayers. That's what we don't think is right."

Eden Martin: "And Lawrence and I agree about it."

Hamos: "Mr. Chairman, can I have one more question? Can I ask? So, I think I… I'd really like the Members to hear this answer and I don't know what the answer's going to be, but I'm willing to take a chance and ask it because as part of the comprehensive transit package that we are putting together it will be proposed that there is a pension obligation bond to help the CTA stabilize its pension system and actually make some very significant changes in retiree health care. Are you distinguishing between that pension obligation bond, which I believe you've had a briefing on, and this pension obligation bond? How do you see the differences and what can you tell us about that?"

Lawrence Msall: "From what I've come to learn about the CTA/RTA reform in their pension reforms, they have an agreement, which basically addresses their pension liability issue as well as the funding side. It is not just a pension obligation bond unto itself, they are going to basically increase the length of time for employees to qualify for the full pension benefit beyond the three (3) years right now, it's going to go to twenty (20) years. They are going to increase the… and set up a mechanism that increases the employee cost… or contribution to the pension and for the CTA it dramatically addresses retiree health care costs because they have a parallel borrowing mechanism in which they establish a retiree health care trust fund that is going to be, my understanding is, half labor half management with the auditor general as the tie breaker, what was the proposal that I saw, but that would get them out of the retiree health care cost business and to establish a separate fund."

Hamos: "So does that qualify under your proposal for reform? What you've seen?"

Lawrence Msall: "That makes very… I think that is a very, not only does it qualify as reform, it makes dramatic enough steps that I would encourage the General Assembly to look at those types of pension reforms and follow that type of reforms, both on the health care costs… retiree health care costs, …pensions and pensions benefits when looking at the state’s problem."

Hamos: "Mr. Martin."

Eden Martin: "I think that you and the leaders of the CTA and the RTA who have worked up this plan and the unions who’ve been very much a part of it are to be congratulated for tackling a very tough, intransigent problem, which includes making reforms of the kinds that we’ve talked about in the pensions and retiree health care, they’re quite significant. They do require revenue increases, as you know in the six-county area and I hope that this Body sees fit to approve those. We discussed the proposed pension bonds as a way of transitioning into defined contribution plans for new employees and in that context as a transitional device it seemed to make sense. It is more problematic given that there’s now not going to be, apparently, a defined contribution element of this. And before you approve it, I think it would be very important to be absolutely sure that the proceeds were not being used to pay current operating costs. In other words, it’s my understanding that the CTA expects that they will be able to pay out of their operating revenues all of their operating costs, all of their pensions, they basically go out of the pension business, retiree health care costs, and pay off the interest and the amortization on the bonds, all covered out of current operating revenues so that you could not say that the proceeds of the bonds were being used to plug a hole in the current operating budget. Under those circumstances, I think that's quite different from what's being proposed here with respect to the sixteen billion dollars ($16,000,000,000) of pension bonds."

Hamos: "Thank you."

Chairman Franks: "Thank you. Representative Krause, you're recognized for 4 minutes."

Krause: "Thank you, Mr. Chairman. Mr. Martin, I had the opportunity to talk to you when you addressed a similar Committee of the Whole when we did the Gross Receipts Tax and I'm pleased that you and the Civic Federation are here because it is important to have independent organizations also testify and give your review of these two issues. My question, Mr. Martin, first, on the issue as it relates to the lease of the lottery. And let me first say that I had a survey that was taken in my House district, which is in Northwest Suburban Cook County, of all of the residents on the issue of the sale of the lottery, if they supported it and 8 percent said 'yes', and 92 percent said 'no'. And I think it's this issue of the state, in effect, giving up a very valuable asset is what came back from all of the residents. As you said, your report says that you oppose one-shot sale of assets and again, though, if you could just briefly go over the consequences to a state when it goes ahead and sells off an asset. As you said, it gets the infusion of cash right away, but then you talk about what are really the downward consequences of that type of action? How would you address that?"

Eden Martin: "I would address it this way and let me generalize because I think the problem is one faced by an individual, a business, a city, or a state. There are certain circumstances in which it may make sense to sell an asset. There are certain circumstances when it may make sense to enter into long-term borrowings. Okay? You can't say it never does, what you can say is that perhaps with rare exceptions it is not a way to plug a short-term annual budget hole, because what that amounts to is solving today's problem to benefit people today and then pushing the burden of the solution off on a future generation.

Krause: "Okay."

Eden Martin: "And that's what… that's what I've addressed. I think in order to look at any particular asset sale you have to do what I said earlier, look at what you get for it, what you do with the assets, how you replace the revenue streams, and whether what you do with the money will be better placed than where it used to be. But you can never use it as a way to solve a short-term budget problem because that amounts to putting it off on the future."

Krause: "Okay. And I think that that has been stressed here today that in effect the lease of the lottery winds up doing just that. And we compound the problem down the road. You called it a soft debt versus a hard debt and that it being a swap and that that really lays it out for the lease of the lottery. Real quick on the pensions, the sixteen billion (16,000,000,000) and as you analyze that, again, where do you come out? Because there's been no proposal of reforms and I think the Civic Federation raised that as an issue but where there are no reforms, no changes, where do we come out on the sixteen billion (16,000,000,000)?"

Eden Martin: "Well, we both agree there needs to be reforms and that's true whether you borrow money or not. What… what… where I am on this, is that the problem with the ten billion dollars ($10,000,000,000) of borrowing last time was that it was a way of having people today enjoy the benefits and having future taxpayers have to pay for them. Because when you borrow money, you have to pay it back in the future and get the cash today, then you use the cash today to relieve a budget shortfall, make it real easy for us and put the burden on a future Legislature and future taxpayers, and that's not a good idea. That was the fundamental point. I think the sixteen billion (16,000,000,000) would probably be used the same way. I think what would happen would be it would plug a short-term hole and we would back end the payment of the principal, back-end the interest and put it off on future generations and that's just not good economics and I don't think it's good public policy."

Krause: "Okay, good enough. Thank you."

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

Mulligan: "Thank you, Mr. Chairman. It seems to me that you are not in favor of selling assets. To me that seems that what you're doing is you're reducing your portfolio and changing your bond rating if you continue to get rid of assets, the state assets. Are you saying that or is that not a good concept?"

Eden Martin: "Let me try it again. There might be circumstances in which it would make sense to sell a state asset if it's a noncore asset. You have to ask the question: what do you get for it, where do you replace the revenue; can you get a better return on the money that you generate than it was getting in the old place? Probably not, but you'd have to go through that question. But the one… and businesses do this all the time. And the City of Chicago sold the toll road. You can't say that always selling assets is a bad idea or that borrowing money is a bad idea. Sometimes we borrow money to build highways or build bridges or build schools where there is a future benefit to go with the fact that there is a future pain. The problem is if you borrow money and spend it today, then what you've done is to enjoy the benefit today and put the pain on the future. That's the one thing that I think we ought to all be able to agree is a bad idea."

Lawrence Msall: "And if I could just add a footnote to Eden's point. In summary, it is never a good idea to borrow money to pay your operating costs and your operating costs include your pension obligations for the State of Illinois. And the State of Illinois's pension obligation… pension costs, normal costs, as I said, if they were a hundred percent funded would be about one point three billion dollars ($1,300,000,000). Under the '95 law, it's considerably more."

Mulligan: "When you met with the Governor or did you meet with the Governor, was it just a courtesy for him to talk to you or were you actually, did you actually have an interaction conversation on the reports that your respective organizations have done and how it would help the state?"

Lawrence Msall: "I have never… I did not meet personally with the Governor on our report. Many members of his staff and I interacted, but not the Governor."

Eden Martin: "I haven't… I haven't met with the Governor on this, although we've talked to his representatives, but I want to come back to your question and Lawrence's answer. This is not a 1.3 billion dollar ($1,300,000,000) a year problem. That's the normal growth in the pension costs even if there were no unfunded liability. When you add the unfunded liability, when you add the five hundred million (500,000,000) of interest on the ten billion (10,000,000,000) of debt, when you add the payment of the principle on the debt, what I heard John Filan say today is it's a 4.9 billion dollar ($4,900,000,000) annual problem. That's the number you need to have in your mind, roughly 4.9 billion dollar ($4,900,000,000) because that's the pension costs that are annual and then you have to start thinking about the additional amount that in '08 you're going to have to start bearing and recognizing for retiree health care and that's another very large number. This is a very big problem…"

Mulligan: "As a Legislator, we're facing, particularly in Medicaid and in new programs, we have new programs that have been expanded and it takes about two (2) years to figure out what they cost, which we haven't done that yet. And not only that, we have our Medicaid waiver and our subsidized guardianship waiver are both up with the Federal

Government. I think it's really difficult to… as this Governor has taken off so many different areas of revenue that we might have an actual discussion with and limited us to only certain areas that he thinks are politically saleable or correct. And the other issue that I find very interesting in the last days, he has portrayed and I'm not here to…"

Chairman Franks: "We need to wrap it up."

Mulligan: "…back up the Speaker, a Republican budget. I don't find in my district as an elected Republican, when I'm the Legislator people respond to me, they're business owners that are Democrats and Republicans, I think they're all for a certain amount of being fiscally conservative of not spending money wastefully. As a Legislator, I don't think there is, you know, there may be some Democrat policies or Republican policies, but I don't think there's a budget that's not a responsible budget and when they're abstracts it's very hard for us to vote for them. So, if they don't listen to you and you're not charging them anything, I don't know why we would think they would listen to us."

Chairman Franks: "Thank you. Representative Stephens, you're recognized for 1 minute."

Stephens: "Thank you, Mr. Chairman. An inquiry of the Chair."

Chairman Franks: "Please proceed."

Stephens: "Mr. Speaker… Mr. Chairman, is the Speaker of the House a Democrat?"

Chairman Franks: "Proudly so."

Stephens: "Proudly so. This Body is run by Democrats. The President of the Senate, the last I heard, Emil Jones, is a

Senator, is the Senate President, is also a Democrat. Do I have my facts straight so far?"

Chairman Franks: "You do."

Stephens: "The Governor of the State of Illinois is a re-elected Democrat Governor. Now, we have government agencies, they're all run by Democrats to my knowledge, might be an exception here or there. We have Democrats from the north and Democrats from the south, east to west, all across State Government, Democrats in charge of the reins of government and here we sit. Here we sit. Why? What in the Lord's name are we doing in the middle of July trying to talk to death a budget and various aspects thereof when we have Democrats in charge who are able, ought to be, should be able to accomplish everything it is that needs to be done to run the wheels of government. Democrats is the problem. I want to tell you… say to the voters in the vast State of Illinois, please, please, unless you want to slow government down make it work even more inefficiently, send no more Democrats."

Chairman Franks: "We will have a response, Mr. Martin."

Eden Martin: "I think a comment like that deserves to be taken seriously just as if it had come from the other side. I represent a group that's got Democrats and Republicans. It's got city and suburbs. It's got conservatives and liberals. I think when it comes to these problems you got two choices: you can be a historian about it and assess blame which is irresistible, or you can try to figure out what to do about it. And there's… in my view there's… and I'm not as close to this as you folks are and you've lived here for a long time, but I've watched it and my feeling is that if you went back twenty (20) or twenty-five (25) years you'd find plenty of blame to go around on all sides. But… but as I say, it's irresistible. I urge you… I urge you as a Democrat and a Republican, okay, to deal with it so that we can fix it going forward and then everybody gets to share the credit."

Chairman Franks: "Thank you very much. We appreciate you gentleman coming. You've acted like real professors and we appreciate the wisdom you've given us. Thank you."

Eden Martin: "Thank you."

Chairman Franks: "We'd like to call now Mr. Ralph Martire; he's the Executive Director of the Center on Tax and Budget Accountability."

Ralph Martire: "Hi, my name is Ralph Martire. I'm Executive Director of the Center for Tax and Budget Accountability. We are a bipartisan 501(c)3 nonprofit that looks at these issues, big economic issues, tax, and budget issues and tries to design win-win solutions that should be able to be supported by either party. When we look at a proposed sale of the lottery, I mean, the first area of concern that we look at is whether or not it is a core function of the state and obviously operating a lottery is not. So, if there's ever an asset that you might consider moving out of your portfolio this would be an appropriate one to look at. That said, it's also a very significant revenue raiser. I mean, to the tune of, as everyone as testified before, well over six hundred fifty million dollars ($650,000,000) a year, and so I think any discussion to sell an asset like this off has to include a couple of things. Number one, from just a pure fiscal policy standpoint, what you do with the proceeds of the sale of this asset has to be limited. It has to be limited to one of two things, you either acquire a new revenue generating asset for the state, like a tollway, et cetera, or you use the full amount of the proceeds to pay off existing debt at a better rate and in this case paying off pension debt would make sense. But to be very clear, you should use none of the proceeds to go into any current operating cost including paying current pension obligations. The whole amount… the whole amount has to either create a new asset or relieve existing debt. Second, as any part of the transaction you cannot independently consider selling the lottery without having the replacement revenue source on the table to fund the six hundred fifty million ($650,000,000) a year, that goes to schools, but it's not just six hundred fifty million ($650,000,000) a year in the last five (5) years that lottery revenue has grown by an average of twenty-seven million ($27,000,000) a year. So, that means you have to find a revenue source that's new and that will grow at a rate of the revenue source you're replacing, because if you don't do those two things I guarantee you what the state fiscal system will end up doing to you. You'll have worse and worse budget failures going forward, you'll have to resort to either cutting education or as the state has historically done, cut health and human services. And we've run the numbers and the data on this are very clear, over the last ten (10) years Illinois has cut an inflation adjusted basis spending on everything except education, Medicaid, and the pensions. Everything else has been cut in real terms. So we have a track record here and it's one that causes great concern. A final concern about the sale of the lottery itself that I don't think has gotten mentioned enough, is it's really a revenue source that's not targeted to affluent people. The vast majority of folks that buy lottery tickets don't have major incomes. They're middle-income and below. And any transfer or disposition of this asset to private hands, a private sector entity is going to want to maximize its profit, you have to be very concerned that there is severe restrictions on their ability to target vulnerable low-income populations as their major source for revenue growth going forward. I think that this proposal sale or lease of the lottery ought to be put in context to the state's bigger fiscal system and there are solutions that you have to address there, because your current state revenue growth does not keep pace with inflation. This year projected growth of just under eight hundred million ($800,000,000) is a hundred and twenty million dollars ($120,000,000) less than the inflation adjusted growth and the cost of the services you provided in '07. You have a deficit of a hundred and twenty million ($120,000,000) without the pension ramp, add that on top. Add any new funding for schools on top; add the 1.8 to two billion dollars ($2,000,000,000) of deferred Medicaid liabilities on top, add the transit needs on top and you get to a sense of how poorly performing the state's revenue system is and how in fact structural revenue reform has to be part of any solution that's thoughtful and long term. One other caution about whether it's pension obligation bonds or the lottery, you can no longer back-load costs, all the money has to go in and you have to amortize on a straight-line basis so that you aren’t deferring costs to future generations while grabbing the full savings in current years. That's irresponsible fiscal policy and it has contributed substantially to the state's structural imbalance that we confront today. I'm going to keep my testimony short because I know you've been here for a long time and you probably had other plans. And… and we agree with many of the things stated by the prior panel but I disagree strongly on a couple of things on pension reform and I want to get these issues out. Number one, switching to a defined contribution system will not save the state money, it will cost the state money. Every state that has done it, has found that it is far more expensive to administer defined contribution plans than defined benefits plans for a simple reason. All plan members get the right to self direct in a defined contribution setting. That means you have two hundred thousand-plus investors that need to be administered. Compare that to today's situation where you have fiduciary boards set up to manage the money professionally. The average additional administrative cost per year of switching to a D.C. system would be two hundred ($200,000,000) to four hundred million dollars ($400,000,000). Number two, in a defined benefits setting when your returns perform well you can reduce taxpayer costs. You don't have to leave the State of Illinois to see such a system. The IRMF, they are reducing the amount of normal costs that has to come out of current taxpayer revenue because their investment returns are good and they're 100 percent funded. A fully funded defined benefits system saves significant taxpayer dollars over time. Number three, we haven't run up this massive unfunded liability because we have the most generous benefits on the face of the planet or high costs or huge head count, none of those are accurate or fly with the data. We have the lowest head count of public employees of any state in the nation and that includes our teachers, when you look at it on a per capita basis, dead last, fiftieth. Our pension benefits are average in line with the other states. Our normal costs, the costs of funding the pension benefits we owe to our current employees is below the national average. Our weighted average normal cost is about 9.6 percent and the national average is over 12. We've got this unfunded liability because for three (3) decades-plus our state revenue system has underperformed. It's underperformed inflation and you will not solve the unfunded liability problem without structural revenue reform, that means tax reform. You have a good outline for how to get there in House Bill… Senate Bill 750. It would change the state's tax system and I'm not going to get into the Bill but not only to work but to keep us low tax we'd rank (42nd) in the nation in tax burden after that Bill becomes law. We have the fifth biggest population, and fifth biggest economy. So, it would keep us low tax, it would reduce business tax, it would eliminate the structural imbalance, it would allow us to throw the pension ramp we currently have that defers obligations to the future out the window and fund it on a flat 3.4 billion dollars ($3,400,000,000) a year, forty (40) years, 100 percent funded, period. It would be a good piece of legislation for this state and I argue that if you're going to pull these revenue proposals on the table you ought to put them all on the table and you ought to fix our real problems. The final thing about the switch to defined contributions in the private sector, they did that because of a law called ERISA, which imposed significant costs on the private sector of keeping their old defined benefits system. But you'll notice the businesses that made the switch weren't big businesses. Seventy-five percent of the Fortune Five still have defined benefit as their primary pension benefit system. It was smaller businesses and mid-sized businesses that could not afford the ERISA costs. ERISA doesn't impose costs on State Government. We are a big employer not a small or mid-sized employer. And the bottom line is if the pension retirement benefit we provide our teachers and other workers is insufficient to support them, unlike the private sector, you still have the responsibility to support their income, their health care, their housing, their access to energy on their retirement. Those are all public costs. Why not… let people be able to pay those costs from the dignity of their own retirement benefit than having to go on the public dole. I'll take questions."

Chairman Franks: "Thank you. Representative Rose, you're recognized for 3 minutes."

Rose: "Thank you, Mr. Speaker. Over here. How are you today? I read your white paper July 5, here. There's a couple assumptions in here and I want to make sure that… I just ran a net present value computation, an Excel spreadsheet here on our… on our floor computers. The… Your first page here, you're talking about the six hundred and fifty million dollars ($650,000,000) in annual revenue and then it generates a six and a half percent return. But it's an… a implicit assumption I want to make clear because I don't know that it is clear from your letter that the ten million dollar ($10,000,000) figure you're using is… is an assumption. We don't have it defined."

Ralph Martire: "Yes. We… we are assuming that the ten billion dollar ($10,000,000,000) number from the Governor's Office is the accurate value of the asset."

Rose: "Because when I ran the net present value computation on my computer using your lottery growth of twenty-seven million ($27,000,000) a year, which you have on page 2 here in subsection(b), which is a CTBA analysis of fiscal year '03 through '07. When I add that in onto 75 years, the lottery net present value ends up being sixteen billion dollars ($16,000,000,000)."

Ralph Martire: "That's correct."

Rose: "So, wouldn't you end up… I mean, I guess my point is that it appears that we're selling something for far less than what it's actually worth."

Ralph Martire: "They… the claim is that this year I think that the revenues are flat, but I would agree that on a present value basis, 'cause we ran that analysis too, Representative Rose, on a present value basis it looks like the lottery is worth more than the ten billion ($10,000,000,000) that we accepting as the assumption it is worth."

Rose: "Okay. Again, I think that that oughta, frankly, further underscore to anyone paying attention to this debate today just how valuable an asset is… the lottery is to the State of Illinois. I mean, you're giving up an incredible amount of future earning potential when you annualize in the growth over the next seventy-five (75) years of what the present value is today. And again, I just ran this if anybody wants to see it. It's here on my laptop; you're welcome to look at it. But that was my only comment. I wanted to just be clear that in here the ten billion dollars ($10,000,000,000) is an assumption."

Ralph Martire: "Correct."

Rose: "An assumption. Thank you."

Chairman Franks: "Thank you. I want the Members to know that the first panel from the Governor's Office are here to answer questions as well after Mr. Martire has given his response. And we're going to bring them up, if they'd like to sit up here and you could ask them questions as well. At this time Representative Froehlich will be recognized for 2 minutes."

Froehlich: "Thank you, Mr. Chairman. Mr. Martire, the previous panel said that the private sector benefits are much less generous than public sector. If you just compared state benefits to say the Fortune 500 benefits, how does that comparison work out as opposed to comparing to all employers including mom and pop small, medium-sized employers?"

Ralph Martire: "Yes. State benefits would be below the Fortune Five level and Illinois state benefits are within the national averages of other states."

Froehlich: "Okay. Can I ask you, your… I read your study about and I heard you again today talk about how changing to a defined contribution system for the state does not save the state money, it'll cost the state more money. Why haven't the editorial boards understood that because I'm reading more and more the editorial boards advocating just that kind of shift?"

Ralph Martire: "Well, because there's a lot of data out there that just looks at the entire private sector and the entire private sector overalls move. They don't get into the analysis for ERISA, the actual cause for the move. They don't… they don't evaluate public systems versus private systems. A lot of these things aren't taken into account. I think if you really want a good math of how this has worked in real expen… experience just look at the State of Nebraska. Thirty (30) years ago they switched over to a defined contribution system for the whole state; they have now switched back to defined benefit. And the head of their pension systems in public testimony said what we found out was these defined contribution systems are far more expensive and they provide a significantly smaller benefit and the benefit differential in Nebraska was under the defined contribution system. Employees had generally about eleven thousand dollars ($11,000) per year to retire on whereas under the defined benefit system they had about sixteen thousand ($16,000). So… at a higher cost, I might add, for the lower benefit."

Froehlich: "And do you know what… about what the average Illinois pensioner gets in this state?"

Ralph Martire: "State and local average retirement benefit is just over seventeen thousand one hundred dollars ($17,100) a year."

Froehlich: "All right. Thank you."

Chairman Franks: "Thank you. Representative Lang, two and a half minutes."

Lang: "Thank you. I'll talk fast, Mr. Chairman. Mr. Martire, welcome, thank you. A couple of areas I want to get into as quickly as I can. First, let's presume that you were sitting down with the administration and they said, well, we're going to go with this plan but we need you to help us fix it. Is this fixable?"

Ralph Martire: "I think any proposal to sell or lease the lottery is something that needs to be put on the table and in the right circumstances if the proceeds are used the right way if you have the renewable revenue source, absolutely, it could be a very good deal for the state."

Lang: "Could you provide to us in writing your opinion as to what those parameters would be what those contingencies would be?"

Ralph Martire: "By Monday you'll have an e-mail."

Lang: "Any chance you can get them to us by tomorrow?"

Ralph Martire: "No. I… I do not have the ability to call in my staff on Special Sessions sadly. So, they are all spread across the state."

Lang: "Perhaps you could sit with Mr. Filan before you leave town. The other area is, in your report you talk about the Connecticut efforts in this area and that they never did sell their lottery; they kept it in-house."

Ralph Martire: "Yes."

Lang: "Could you give us some further analysis on that?"

Ralph Martire: "Yeah. They… they had a couple of concerns: Number one, they felt like they didn't have the ability to replace the revenue source with their current revenue systems and they didn't see a way to raise all the revenues. Number two, they were very concerned about a private sector owner targeting low-income populations to grow the sales of the lottery and make it more profitable over time. And those were the two primary concerns voiced by Legislators and ultimately, the Connecticut Governor's Office in moving away from it."

Lang: "And do you know if the model that they went to has been successful for the State of Connecticut?"

Ralph Martire: "Keeping it…"

Lang: "Keeping it in-house."

Ralph Martire: "Yep. It… it has continued…"

Lang: "Has it improved their…"

Ralph Martire: "…it has continued to generate revenue for the state and I don't… I don't know where Connecticut's performance is compared to other lottery systems. That I can't answer. I'd have to look at the data."

Lang: "And it's fair to say that their numbers are growing despite the fact that they have casinos there now?"

Ralph Martire: "Yeah. They certainly do have casinos. The largest casino in the… in the country, the largest Indian casino is in Connecticut, yeah."

Lang: "So, it'd be your position that the lottery and casino gaming can thrive together at the same time?"

Ralph Martire: "If that's what the data says, Representative Lang, then sure."

Lang: "Thank you very much."

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

Riley: "I'll definitely make this quick. Mr. Martire, earlier one of the panels, I forget exactly who it was, but somebody was relating per capita income of the state versus per capita lottery expenses, and it just seems to me that both of those aren't congruent. One's not a proxy for the other simply because they're two different populations. Wouldn't you agree with me? Who… If you're trying to make some sort of analogy between per capita income of the state and per capita expenditures in the lottery, don't you consider those two different populations?"

Ralph Martire: "Well, yeah, because if you just look at historic U.S. Census data on share and revenue growth, I should say, 'cause we're talking about individuals income growth over time, what you discover is that over the past twenty (20) years fully 60 percent of the population has seen their rep… their annual income either flatten or decline. And really the only families that have seen any… any income growth in the last twenty (20) years have been in the top 40 percent and it's generally not the top 40 percent that buys a lottery ticket."

Riley: "Because I think someone said, on one of the panels, that I guess more divergence between income and lottery expenditures was due to casinos in the state and I just don't think that that's particularly true."

Ralph Martire: "Yeah. I… I don't… I don't know if that is or isn't. I would want to look at the demographic breakdown of the people who actually purchase lottery tickets, and what you will find is they are middle to low income."

Riley: "Exactly. And quickly, a couple other things. A private concern, to maximize lottery revenue wouldn't they have to market to a broader audience because I mean, let's… let's face it, I think that we all know that there are certain groups… certain socioeconomic status individuals who play the lottery. So wouldn't they have to broaden their marketing to increase the field of people who play, number one? And number two, what ideas do you have for replacement revenue streams for the lottery?"

Ralph Martire: "Okay. On number one, that is certainly an expressed concern of the Center for Tax and Budget Accountability. We are focused on ensuring that the state's revenue sources are fair to low and moderate income families using capital as principles of fairness in public finance and a regressive system, a system that relies too much on low and middle-income families to pay taxes or other revenue sources, is anticapitalist and unfair. And so, we would be very concerned that, in fact, to maximized profit… certain populations, low-income populations would be targeted and we would… we would want that protected against in any… specifically in any ultimate legislation on this. As far as going forward, we do believe that House Bill… Senate Bill 750 forms a very sound basis for moving the state forward on creating the kind of renewable revenue sources that'll grow with the economy. And I want to be very clear, keep us a low tax and competitive state and actually reduce direct taxation of business by three to four hundred million dollars ($300,000,000 to $400,000,000) a year. It would enable the state to get rid of its pension liabilities; it would enable the state to fully fund EFAB and fully fund the special ed mandate in education while balancing its books and I think that that will help grow jobs in the long term. So, I think as a model, it's a really good starting point. Certainly, if… if it needed to change as it moved through the legislative process based on the concerns of Legislators or the Governor's Office… I know the Governor's been very clear, his main stance against taxes is he doesn’t want to overtax hardworking, low- and middle-income families and we absolutely agree with the Governor on that. In fact, one of the thought processes that went into 750 was shifting tax burden from low- and middle-income families to the top. So, we are more than happy to work with the Governor's Office, with the Legislature to revise that Bill to make it something that's palatable to everyone and it treats everyone's concerns, but really, unless you look at the main revenue sources of the state, the income and sales taxes, you're ultimately not going to solve these problems."

Riley: "Thank you for testimony."

Chairman Franks: "Thank you. And I inadvertently skipped over Roger Eddy. You have 2 minutes."

Eddy: "Thank you very much, Mr. Chairman. Repre… Actually, my question is for Mr. Filan, again. I… I have a follow-up. I'm really trying to find the legislation… the actual language of legislation that deals with the pension issue. Is it… is it contained in House Bill 3755, Amendment 1? Is that… is that what the plan is? Is that the Governor's proposal?"

John Filan: "We're just checking. I believe so, yes."

Eddy: "Okay. I've been reading through that language contained in the Bill and also the letters that were sent by SRS… SRS, TRS and they contain a couple of specific conditions as to the support of this pension bond sale. And those two conditions are that it was based on the proceeds… all of the proceeds going to reduce the pension debt, number one. And number two, that the continued future contributions are certified in the same way that those contributions are certified at this point. And if I read the language in the Bill correctly, there seems to be a change in the way the contribution is certified. So, does that negate or nullify their support?"

John Filan: "The Bill provides for annual certification so each year the actuaries do what they do currently, which is they look at the investment returns, they look at other experiences of salaries, wages and all the assumptions that are in a actuarial model and they adjust the contribution for that year and future years based on that. So…"

Eddy: "Well, you can get back to me on this, but I'm reading the language from the Bill and in… in… on page 11, unless I'm reading it wrong, on line 21 there seems that we have struck out, there's a strikeout of the existing language that deals with the level and percentage of payroll certification and state contributions. So, it would appear as if there's a different methodology for figuring the contribution and again, I… I just want to have some kind of clarification. You don't have to do it now, but… but if their con… if their support is conditional on those things are… and we're considering this as the legislation, I want to make sure that there's not a… a different type of contribution."

John Filan: "You could… if you look elsewhere in the Bill, since our proposal is because of this infusion we're able to pay the… we're able to pay to 90 percent five (5) years sooner in 2040 which is a big part of the savings. We have to adjust the existing plan that goes to 2045 and instead have it realized 90 percent in 2040, so what you're seeing stricken out there is elsewhere in the Bill, but we do provide for annual certification by the actuaries to adjust the payment based on whatever occurs just as it does now."

Eddy: "In the same exact manner as it does now."

John Filan: "The same adjustment as it is now."

Eddy: "Same exact manner. Okay. Thanks for answering those questions. I have several other questions regarding the actual language in the Bill and I suppose the appropriate time would be when we debate that, but since he is here I appreciate the indulgence. Thank you."

Chairman Franks: "Thank you. We thank you, Mr. Martire, for being with us. If you'd like to stick around in case there's any additional questions from Members, we'd love to have you. At this time, we'd like to call up AFSCME, the Research Director, Hank Scheff, as well as the IFT President, Ed Geppert and the IEA director of governmental relations, Jim Reed. We'll end with those three together, for those of you following along on the yellow score card. And again, the representatives in the Governor's Office will be here to answer questions after this panel gives their piece. So, if you have questions and you'd like it directed toward the Governor's officials as well, you may. Gentlemen, thank you for being here. Please identify yourself and we'll start with Mr. Scheff."

Hank Scheff: "Thank you very much. It's a pleasure to be here. My name is Hank Scheff. I'm director of research and employee benefits for AFSCME Council 31. We’re talking about pension funding today. Just for the record, we have about thirty-eight thousand (38,000) members at the State Employee Retirement System, about fifty-five hundred (5,500) Members in the State Universities Retirement System, and a couple hundred (200) educators in the Teachers' Retirement System. So we have members in the three principle pension funds. It does seem like, you know, I'm hearing a good consensus today that there's a recognition that we have a very huge problem with the underfunding of the pension systems and that it's a very urgent problem, that is that the underfunding grows year by year to the extent that we put off addressing the issue, and… and that's real plus. And I want to just go… we have two separate proposals here. Talk a little bit about the lottery and the pension obligation bonds and then will turn it over to my brothers from the teachers unions. And this won't surprise anybody in the room to know this. As… as a general rule, AFSCME is opposed to the privatization of public services, and that includes state lotteries, toll roads, and… and other assets. Not just the privatization of work but the privatization of assets that are held by… by government. And we are specifically opposed to the proposal to privatize the lottery, to enter into a long term lease for it. And just to echo some of the things that have been said already this afternoon, we believe when the public sector has a valuable asset it should keep it on behalf of the taxpayers. We believe that the lottery continues to have a huge upside and that the advantage of the state keeping it and hiring expertise that they need to help grow it is the state realizes the upside of the lottery growth and no profits are siphoned off in terms of an investment. That is, the state is the beneficiary of the all the profits for the lottery. And it also allows the state to keep control over how lottery tickets and other games are marketed to make sure that we start to target populations that can better afford to pay for lottery tickets. So, we don't see a huge… a huge advantage at all in trying to frontload the revenues for this. We do recognize that the state pension funds would benefit from that. But by the same token, part and parcel of the lottery proposal, as we all recognize today, is that there has to be a revenue source that would make elementary and secondary education whole. And if we need to raise revenues in order to make elementary and secondary education whole, we can also raise those same revenues in order to properly fund the pension funds. As Eden Martin said, really it has the same value whether you keep it or whether you sell it, assuming you're getting a market price. We believe the state is best served to keep it. But it does raise the… the question of revenues and that we're not going to get out of this pension conundrum that we're in without seriously looking at new revenues, as Ralph Martire just said. Now, with respect to the pension obligation bonds, we believe under the right circumstances that there's some merit to that proposal as well. For… you know, that the notion that we can pay a lower interest rate to bondholders is something that should be explored. But again, we have to look at how we're going to pay back this debt in a responsible manner. When we sell pension obligation bonds, as we did four (4) years ago, what we're really doing is substituting bonded debtedness for pension debtedness. We still owe the money. Just because we've changed the label on it, and I would argue that it still really is pension debt even though the pension funds have the ten billion dollars ($10,000,000,000), what we owe the bondholders represents benefits that we didn't pay for for the pensioneers and for the active employees. And the same thing is true if we were going to sell sixteen billion dollars ($16,000,000,000) of additional pension debt. We have to recognize that in order to get rid of the pension ramp, which is what's really causing instability, we have to raise enough revenue to get that done and to fund the pensions, whether it's pension debt or whether it's bonded indebtedness, on a sound basis going forward so we don't have this year-to-year instability in the budget. Now, I do need to make a couple of brief comments on what the Civic Committee and the Civic Federation said in terms of the average benefits of state employees, and I know the Teachers Union representatives will have something to say about that as well. These are not outlandis… outlandish pension benefits. I just looked a couple of days ago at state employee benefits. State Employee Retirement System, this is off their most recent annual report. The average monthly benefit right now for a state annuitant is sixteen hundred and twenty-five dollars ($1,625) a month. And if… and that's everybody who's retired out there right now. And if we look at people that retired last year, the most recent full year, fiscal 2006, the average state retiree who retired that year, at a higher salary obviously than the people that retired before, was nineteen hundred and seventy-four dollars ($1,974) a month. Now, I would submit that that is not an overly generous pension benefit and that the… the seventy-five (75) members of the Civic Committee of the Commercial Club that Mr. Martin was talking about have pension benefits far, far more generous. And I'm a little bit offended that a business organization like that made up of executives who have pensions beyond any of our wildest dreams would begrudge a state employee with a pension of nineteen hundred and seventy-four dollars ($1,974). The logic seems to be because we've driven down pension benefits in the private sector and we've driven down retiree health insurance in the private sector; therefore, we should do it for public employees as well. And I do not understand that logic. And I would submit that the proper comparison is unionized public employees, which we have in Illinois, to unionized private sector employees and private sector retirees of large organizations, large companies, 'cause we're talking about a large employer with the State of Illinois. And if you make that comparison, the benefits that we have right now are reasonable and they're affordable, as it was… as it was pointed out many, many times. The reason we got into this mess that we're in is not the size of the pension benefits. It's our practice of not properly funding what we owe year to year, and the reason for that is we don't have the money to do that. And unless and until we address the revenue problems, as outlined by the previous speaker, Ralph Martire, some form or fashion like that… could be a Gross Receipts Tax, we were in favor of that as well. It has to be something big and something that's sustainable or we're just all spouting hot air and we're not serious about solving the pension crisis. Every penny of the forty-one billion dollars ($41,000,000,000) in pension liability is owed right now. Its benefits accrued. It's not going away. It won't be reduced by one penny if you… if you start a second tier of lesser benefits for new hires. It doesn’t address the unfunded liability at all. The only way to address that is to pay for it. And the sooner we pay for it, the less costly it is for the long run and the less we're shifting the burden to future taxpayers. I do commend many aspects, many elements of the business community who have come out for an income tax increase. Eden Martin didn’t talk about it much today but that is one aspect of the Civic Committee's report that I think is very welcome, that they do recognize that we're never going to get out of this debt situation without a major increase in revenues, and they do come out for both the state income tax increase and broadening the sales tax base to services. Those are both things that we support as well. Let me turn it over to Jim Reed and then we'll all take questions when we're done. Thank you."

Jim Reed: "Thank you, Hank. My name is Jim Reed. I'm the Director of Government Relations for the Illinois Education Association and it's a honor to be here on behalf of the hundred and twenty-five thousand (125,000) teachers in the State of Illinois. I'm here representing Ken Swanson, our president who was unable to attend today. The reality, as many of the previous speakers have indicated, is that decades of failing to make the required employee contributions to the system is the primary cause of the state's current unfunded pension liability. It's not the type of pension in place or the level of benefits offered.

In particularly, Illinois's pensions are close to the national average, and Hank talked about some of those… those costs and those pensions as it relates to retirees. According to the U.S. Census Bureau data, the average monthly pension payment to State Government employees nationally was one thousand three and seventy-four dollars ($1,374) in 2001 and 2002. At the same time, the average Illinois payment was one thousand four hundred and twenty-six dollars ($1,426), a difference of just fifty-two dollars ($52). The employees' normal cost to the TRF specifically is about 8 percent, and over the next few years will drift downward to about 6.62 percent. The national average, however, is 12.5 percent. We will remind you and stress that teachers do not receive Social Security unless they were in another profession for a number of years prior to or after teaching. Furthermore, 78 percent of those that rely on state funded pensions do not receive Social Security. Their state annuity is their only stable source of retirement income. With that being said, the state saves a significant amount of money by not having to contribute 6.2 percent of salary on top of the normal cost to pay Social Security. The current defined benefit plan efficiently and effectively provides a lifetime of consistent income. The current pension system would be affordable if in the past the state had made the fiscal discipline and revenue to have made required yearly payments to benefits earned each year, plus making interest payments on accrued unfunded liability. The employers' normal cost for all of the state pension funds is estimated to be about 1.3 billion dollars ($1,300,000,000). That is the true cost to the state if there was never pension underfunding. As many of you are well aware, the current funding plan requires the state to contribute 2.05 billion dollars ($2,050,000,000) for the fiscal year '08 budget. The sale or the lease of the lottery as a stand-alone proposal, we don't believe, makes sense. It must be thought of in conjunction with the entire budget process. The concept before us exhibits that we need a long-term funding plan that is workable, sustainable, and reliable. If the lottery is leased then we must find a way to fill the estimated six hundred and fifty million dollar ($650,000,000) hole that it will create. This type of cash infusion would do wonders for the pension funds and could very well receive a higher rate of return than it is currently receiving, but there still remains that six hundred and fifty million dollar ($650,000,000) hole. With regard to the proposed pension obligation bonds, we need to continue to look at bonds as part of the overall budget. Our concerns revolve around the structure of the bond payments, where the money comes from to pay the bonds, and that the retirement systems will be put in a position to immediately spend the influx of cash. Once again, these ideas need to be discussed with the numerous other components of the budget and do not make sense on their own. Thank you."

Ed Geppert: "My name is Ed Geppert. I serve as the President of the Illinois Federation of Teachers. I want to thank the House Committee of the Whole for meeting on this critical issue, pension funding, and thank the Speaker for this opportunity to speak on behalf of the ninety thousand (90,000) plus members of the Illinois Federation of Teachers. I also want to thank and applaud the Governor for his leadership in attempting to find a solution to this pension funding crisis. His proposals may not be acceptable to many of you in this chamber. But if they're not acceptable, the challenge for this General Assembly is to either modify the proposals or come up with new solutions. And please, do it soon, before this fiscal crisis gets… pensions gets completely out of control. How do we find the revenue to achieve these goals? This House overwhelmingly rejected the Governor's Gross Receipts Tax. The Governor has stated his opposition to sales and income tax increases. The IFT believes, from our many conversations since last January when most of you here and in the Senate… that there is a clear majority in both chambers willing to support some form of income tax increase. From those conflicting viewpoints, we urge you to find common ground and to come up with a solution. Among the IFT membership, thirty thousand (30,000) of our members in Chicago enjoy local pension systems that are better funded than the state pension systems. Downstate, the IFT has thousands of members working as support staff in local school districts and other local government agencies enjoying a system, the Illinois Municipal Retirement Fund that is better funded than the state fund assistance. The governmental employers in these three systems are statutorily required to levy a tax to make employer contributions. In the state funded pension systems the facts are simple. The Illinois pension systems are deeply underfunded, forty-one billion (41,000,000,000) in debt. This pension debt has… has been caused by chronic underfunding by the state for decades. No teacher, college clerk, professor, or state worker has ever missed their pension contribution. Yet, they are anxious and uncertain about the security for their retirement. Their pensions have been the subject of public debate with discussions about cuts and benefits. These fears are unfortunate. Just because far too many private sector employers have ignored their responsibilities without penalty does not mean it's okay for government to do the same. In fact, the public sector should serve as a model for providing retirement with dignity for those who spent a career in public service. When a pension system fails it is government, often State Government that must pay additional social service costs for those retirees who now cannot meet the financial challenges of post-work life. It is important to remember that Illinois pension benefits are modest compared to other states. Many independent studies prove Illinois pension system benefits rank in the middle of all fifty (50) states, while our contributions are the highest in all these other state systems. At the same time, the Illinois economy is one of the largest in America. Another critical fact is that cutting future benefits cannot be a source of solving this pension problem. The debt is permanent. It is owed to current workers and retirees. It will not go away by offering inferior benefits to the next generation of teachers and public servants. Cutting benefits will put Illinois school districts at a competitive disadvantage for recruiting teachers in the future. Moreover, despite claims by some in business, there is very little to be saved by changing our pension system. Adding up the cost of Social Security and the state's share of a defined contribution system, the state would see little or no savings or a possible higher cost. So, maintaining the state pension systems is a good business decision if we pay the debt. The debt is the key to solving state fiscal problems. It is the responsibility of the Governor and the General Assembly to start us on a road to solve this funding crisis. We must bring new state revenue into the pension systems. Two options are being discussed today: pension obligation bonds and leasing or selling the lottery. The IFT supports a new pension obligation bond of sixteen billion dollars ($16,000,000,000) or greater to pare down the pension debt. It is prudent to exchange debt at eight and a half percent for a lower interest rate. We will carefully scrutinize any POB proposal to make sure normal costs are fully funded. We cannot support any additional shortchanging of the pension systems. Just as important, all of the savings must be applied to the pension debt over the life of the bonds. We cannot afford another shell game that lets the state shirk paying the true costs of its responsibility to these systems. We must go forward properly funding the cost of benefits being earned today by teachers and other public employees. We cannot ignore this key, crucial fact.

We cannot simply replace old debt with new debt while failing to correct the bad habit of chronic underfunding. While we support the idea of a proper POB, the IFT opposes the current plan for lease or sale of the lottery. We do not think lottery plans should be used as a stand-alone policy decision. The lottery provides roughly six hundred and fifty million (650,000,000) a year in elementary and secondary education. The IFT cannot accept a stand-alone plan to cut or shift lottery funds now spent for K-12 education. While the IFT generally opposes privatization, we can also see the lottery is not part of the core mission of the State Government. The IFT could consider support for a lottery lease under very… several strict conditions: Number one, union staff employed at the lottery are protected; Two, lease or sale becomes part of a larger fiscally sound financial package; Three, you must be sure that the package fully replaces the school funding currently derived from the lottery; Four, the larger package must increase overall state funding to our schools and to our other social services; Five, all monies from the lottery lease are to be used to pay down the pension debt. I thank you on behalf of my members. These are our thoughts and proposals today and we'll be glad to answer any of your questions."

Chairman Franks: "Thank you. And I'd like to remind the Members that we do have the Governor's Office here as well if you have any questions directed on what this panel had to say to the Governor's Office. We'd like to start with Representative Boland. You'll have 1 minute."

Boland: "Thank… thank you, Mr. Chairman. Let me just try to get, if I can, the summary of each of your positions. With AFSCME, you are opposed to the privatization of the lottery and… now, how are you on the bond?"

Hank Scheff: "We're… we're favorable to the bonds, as the…"

Boland: "You're fa…"

Hank Scheff: "…IFT is, but we are concerned about how they're structured and that we… you know, we pay the normal cost and really take advantage of having that… that paid down to keep paying it down and not letting it get back up again. But we do think, particularly with the track record of the state, we can see there is an advantage of the discipline of having to pay off the bonds as opposed to how we've been a little loosey-goosey with the pension obligations. So we do see an advantage in it, but we want to scrutinize it, just as Brother Geppert said. We share the same view on that."

Ed Geppert: "Yes."

Boland: "Okay. And Jim, what's the IEA on both of those?"

Jim Reed: "It would be similar on the bond issue and on the sale lease our concern would be the loss of revenue."

Boland: "Okay. So, you're against the lease of the lottery but you're for the bonds?"

Jim Reed: "Right. Now, if you have a sustainable, you know, revenue source to offset that lost revenue then we would be supportive of that."

Boland: "You could support the…"

Jim Reed: "That's correct."

Boland: "…the lottery."

Jim Reed: "Right."

Boland: "And then on the IFT."

Ed Geppert: "On the sale of the bonds we ha… we would favorably toward the sale of the bonds if properly structured and they go toward paying off debt. Second…"

Boland: "Okay. Yeah, go ahead."

Ed Geppert: "Secondly, in terms of the lease or sale, we have the (5) five conditions that are not being currently met in the proposal for the sale or lease of the lottery."

Boland: "Can I ask one… John Filan if… if you can… you probably weren't listening but…"

Chairman Franks: "Representative, we have to… we have to wrap it up. So ask the question."

Boland: "Okay. Let me just finish up then. Mr. Geppert had said there were some conditions that they could go along with if these conditions were met, which they say currently are not in the proposal. Can you comment? Are you willing to go along with their conditions?"

John Filan: "We certainly are… are agreeable on the condition that we have to replace the six hundred million dollars ($600,000,000) or thereabouts of money currently funding Common School Fund. We wouldn't agree and I'm sure most of you wouldn't agree, if not all of you, that we do not want to see… see any reduction in the funding for schools. So that… that's certainly totally agreeable. On… on the other ones, I don't… I don't know…"

Ed Geppert: "Well, first… first of all, in terms of the employees current unionized employees in the system have to be protected in the lottery."

John Filan: "Yeah, we… we have told the bargaining representative that we're requiring the winning bidder to interview all of the employees, and the extent to which they're not offered jobs and accept that we would offer them jobs with the State of Illinois. There's about a hundred and twelve (112) employees involved. And we made that commitment to the bargaining unit of AFSCME, correct?"

Hank Scheff: "Correct. They have made that."

Boland: "Was… was there any others, Mr. Geppert, that you thought they should…"

Ed Geppert: "Yes, the lease or sale becomes a part of a larger, fiscally sound financial package in terms of addressing the structural long-term debt."

John Filan: "Can't argue with that."

Boland: "Okay. All right. Thank you very much."

Chairman Franks: "Thank you. Representative Lang, two and a half minutes."

Lang: "Thank you, Mr. Chairman. Gentlemen, good afternoon. Thank you for being here. Do any of you as you sit there today have a list of things that you would suggest if you… if you were… if you were sitting with John Filan in his office with… in a locked room and you were told we were going to pass these items, would you have some parameters, some contingencies that you would demand in such a Bill?"

Hank Scheff: "I think we've all pretty much said that we have to raise some money to do it. That just swapping, you know, pension debt for bonded debt doesn't pay it off. Right? So that, you know, we're going to need a revenue source. I mean, as I looked at the appropriation book, even with the bonds I think that the amount that they had suggested for '08, which started a few days ago, is the same as the '07 amount. And I don't think that really does it, you know. So, I… our preference would be to raise some money to seriously, you know, pay that back on a more responsible basis. I mean, to me the pension ramp is the big problem. And I think we all recognize how steep that ramp is between now and… and 2011, under the current ramp. But actually, when you get to 2011 the ramp gets a lot thinner. Once you… once you hit that level percentage of payroll, the ramp is not all that steep. It's really the next three (3) years that are the bigger problem. But… and it's unclear to me, in terms of the pension obligation bonds, what that ramp looks like. I know they're planning to shorten the target date from 2045 to 2040, but I'm a little unclear on what the out years look like. And I believe, to some degree, it's still a ramp. And I think to the extent that it's still a ramp, there's a risk of budget instability throughout that whole time frame. And to the extent that you can eliminate the ramp, in either on a level dollar or a level percentage of payroll basis, I think you minimize the risk of pension funding, causing instability in the budget in the future."

Lang: "Thank you. Gentlemen, any comment at all?"

Jim Reed: "I would just add in addition to that, I mean, the conversations that I think was referred to that the discussions that we've had with Members of… of this Body certainly indicate that there's support for increased revenue and income… and an income tax increase. And so, we would like to see that as a… as a part of the discussion in an effort to provide that sustainable revenue source over the years in… in conjunction with this proposal that's been put forth."

Lang: "Well, I…"

Ed Geppert: "In…"

Lang: "Go ahead."

Ed Geppert: "In addition to the ideas that have been put forth here. I mean, the IFT has been meeting with Mr. Filan, meeting with the Governor, several attempts to reach avenues in which we can raise revenue. We… one was proposed here that we support with the Gross Receipts Tax. This was rejected by this Body. We also believed in our conversations with many of the Members here and in the Senate that there is support for a state in… state income tax increase and that we believe that that issue has to go forward now for us to be able to solve the total… address the real financial problems of the State of Illinois."

Lang: "One more quick follow up, Mr. Chairman, if I might. As long as we're going to be… if this were to move forward, as long as we'd be on the discussion of bonds, would you want to put school construction bonds on the table as part of this conversation?"

Ed Geppert: "We… well, it's on… it's part of our discussion constantly in favor of school construction bonds."

Jim Reed: "Yeah. Likewise."

Lang: "Thank you all very much."

Ed Geppert: "Thank you."

Chairman Franks: "If I may before the… we turn this over to the Republicans, ask a couple of questions. I wanted to follow up I think on Representative Boland's line of questioning to Mr. Filan, where you had indicated that if the lottery was sold that you… you'd promise a hundred and twelve (112) jobs to those folks if they were dispossessed."

John Filan: "There's about a hundred and twelve (112) employees. We expect that about twenty (20) of those employees, maybe slightly more, would be retained by the Lottery Control Board for a variety of auditing and investigative functions. So the balance would be interviewed by the winner, the extent to which they offered jobs and accepted, of course, they would do that. The remaining people that otherwise didn't have job offers they have accepted, we… met with AFSCME a couple times and said we would offer those remaining employees state jobs."

Chairman Franks: "And the… it'd be about ninety-two (92), you're thinking, that would be offered those state jobs?"

John Filan: "I'm sorry?"

Chairman Franks: "There'd be about ninety-two (92) that would be left over assuming that twenty (20) were retained by the… by the purchase."

John Filan: "About ninety-two (92), although, I would be surprised if a significant number of them were not offered and accepted jobs with the winning bidder given the operation they have to run in this state. But… but whatever the number is, it is."

Chairman Franks: "Are you able to identify where we have shortages where we need ninety-two (92) employees at this time? 'Cause I know the Governor, one of his benchmarks is that he reduced our employees by thirteen thousand (13,000)…"

John Filan: "Right."

Chairman Franks: "…a number that he's used. And I'm wondering where we can… where we're going to put ninety-two (92) and also with the conjunction of how much we're spending on our contractual services in the state."

John Filan: "Well, I'm sure Hank has some suggestions what that might be. But… but in all seriousness, you know, there's fifty-six thousand (56,000) employees under the Governor. And you're right, there has been substantial reduction. But we think throughout the forty-some departments and boards, you know, there's plenty of opportunities there for what really is a small number of people to assume in that size workforce."

Chairman Franks: "Would there… would there be any consideration for those thirteen thousand (13,000) people that've lost their jobs in the last few years to also be able to apply for those jobs?"

John Filan: "Well, there's certainly consideration. They can always apply. That's, you know, certainly part of the state's civil service system."

Chairman Franks: "No, I'm just wondering would they… would they be getting some type of… like a preference? These ninety-two (92) would obviously be getting preferences. What about the other folks who've… who haven't gotten jobs?"

John Filan: "Yeah, I'm sorry. I didn't quite understand the question, Mr. Chairman."

Chairman Franks: "Well, it seems that you said you'd find places for ninety-two (92) and I'm wondering do they have some type of preference over anyone else who would be applying for those jobs?"

John Filan: "Well, in some… in many positions we're allowed to have that kind of flexibility and some we're not. You know, once again, we'd be working with members of lar… I think it's almost exclusively AFSCME, so we have an impact bargaining process we go through. And working with them, we… maybe Hank can answer it better than I can on how we would resolve that."

Hank Scheff: "Well, again, we're opposed to the lottery lease. But in the event it happens, you know, we represent those workers. And under the union contract in a layoff situation, they have certain rights within the contract. I think what the discussions have been so far with the administration is to try and enhance those rights to be 100 percent certain that we can take care of all those people in terms of finding them a job. So, I think that's the nature of it and… and… Lord knows if you've read our reports on the state-of-state services, their… we need many, many times more than ninety-two (92) state employees in the other operating agencies in order for this state to start operating on a… on an effective manner in terms of the services that it delivers. So, we're… we can help identify where those jobs should be filled."

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

Poe: “Yeah, Mr. Chairman, thank you. And I want to follow lines also. Being the State Representative from Springfield, I'm concerned, especially since the headquarters is here in Springfield. Can you give me how those employees are broke out around the state? Are most of them in the Springfield location or are they scattered all over the state, the employees?"

Hank Scheff: "There… there's, obviously, a bunch in Springfield, but the agents are all over the state. Now, there's the people that service the retail outlets are really spread… pretty much distributed by where the population of Illinois is. So there's a bunch in the Chicago Metropolitan area, but they're all over."

Poe: “So… so the people that go out and service the machines and do those kind of things, are those all state employees too?"

Hank Scheff: "Yes."

Poe: “Okay. And then, I'm also concerned how we… if someone lives in northern Illinois and there's a job in southern Illinois, if those… how we're going to make sure those people get their jobs in the future. That's just a real big concern that I have of displacing people. And another thing I'd like to follow on with that is if we come in and some private company buys this and they can run a lot of this administrative work out of the State of Illinois, correct? Do we know of… are they all in State of Illinois companies bidding on this?"

John Filan: "It's… each of the bidding groups are a consortium of firms, both financial firms and operational firms, such as a scientific gains kind of company. And some of the members are Illinois firms, some are not, of… of those big groups. But I think the… the nature of the lottery is, you know, very much Illinois present, at least it's as currently…"

Poe: "Yeah, I can see those service places that you could see if you represented in Springfield. The concern I'd have when you have the headquarters here in Springfield and if an out-of-state firm bought that and they're runnin' their operations out of another state, the concern I would have is of course we're going to shut down a whole facility here plus those employees. And as they… you know, that money turns over several times in a community. So the concerns that I would have represent in this area. And another thing is that just the difference between the six hundred and thirty million (630,000,000), too, is we would grow the lottery, and hope, over the next few years, a certain percentage each year. When we sit here and talk about how we're going to replace those funds for education, you know, the six hundred and thirty million dollars ($630,000,000), that's not going to quite cut it 'cause ten (10) years from now that might be eight hundred million dollars ($800,000,000). So whatever source of revenue that you're looking at, it has to be a source that revenue growth in it each year or we're going to lose money actually. 'Cause this… we're not talkin' about six hundred and thirty million (630,000,000) over a period of time. And so, we're going to continually get in the hole. So my question is where… where are you going to come up with this revenue?

And it has to be revenue growth because you won't maintain the same levels we got now that that money's going to education."

John Filan: "I think that's a good question. I think in part, in the proposal is the state would share in the growth of revenue as to the extent it occurs with the winning bidder and they would share in those proceeds going forward. But we should also… we should also keep in mind, this is a retail business and an entertainment business that much more so than twenty (20) years ago competes with the whole gaming industry. And like most businesses, revenues can go up but they can also go down, as you've experienced this year. And much of the lottery industry is experiencing that very phenomenon that revenues are flattening out and some years they'll grow and some they won't."

Poe: "Okay. I just… I just want to… again, you know, thank the representatives coming to us today and thank the Chairman for doing this. But we just got to remember, revenue growth, as it grows we got to make sure we figure out a way to replace that and I'm really concerned of representing Springfield and those employees and the home base coming of Illinois. Because if you're a company that's in any state around us, you can have that headquarters in one of those other states and administer all that and all the high paying jobs that are going to stay out of state. And then we're going to have technicians, which if you change companies those might not even be the same kind of technicians, they're all new ones. So I… I really have a real concern about state employees."

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

Pritchard: "Yes, to the panel of our labor friends. You have mentioned some response to what the civic committee and other business organizations have lifted up on ways to reform our current system. You've commented about the pension benefits. What about the health care side of their recommendation as well? As we see employees living longer, as we see medical costs going up, do you offer any suggestions for how we can control the ever rising health care costs that are a part of the state benefits?"

Hank Scheff: "We… we bargain, you know, with the state a collective bargaining agreement and health benefits are always part of those negotiations. And almost invariably, changes that we make get passed on to the retiree. So last time there were higher prescription co-payments, for example. Those were passed on to retirees as well. About nine (9) years ago we changed the accrual for retiree benefits with Governor Edgar in one of those negotiating sessions. There was a time when it only took eight (8) years to accrue a full retiree health insurance benefit. As a result of bargaining we had with the state, people that retired on or after January 1 of 1998 did not get a full subsidy until 20 years of service. So, you know, it's… these benefits aren't guaranteed like pension benefits, they're not guaranteed by the Constitution. Health care, as you know, Representative, is a problem for every employer in the United States. It's a huge problem. It's a huge national problem. Yes, I think there are things that can be done in the short run, particularly around things like disease management and really working with our employees and retirees to help manage the risk and to encourage people to be healthier and to take better care of themselves and to manage their chronic illnesses better. Just shifting costs really doesn't do that much and it doesn't address the fundamental issues that we have with the health care system. And hopefully, you know, as a nation we're going to get our arms around that and solve it. But I think that to just think that we can shift cost to state retirees or retired teachers or something, it's really not going to solve the problem in the long run. It may give us a little short term relief. We're going to harm a lot of people who don't have a lot of retirement income. And, again, I don't see why we should be following the private sector who… who definitely are peeling back retiree health insurance. I don't… I don't quite get the logic of doing that. I think, you know, the public sector… we're different. We know that people that don't have health care are going to come back to the public sector anyway. We're not going to be denying people health care. People are going to get their health care one way or the other. And it seems to me just shifting cost kind of ducks the issue. The real issue is managing the risk and figuring out as a nation how we're going to pay for health care."

Pritchard: "But… but that's exactly the type of response I was looking for. I think we need to work together, in terms of state as employment… as employer as well as employees, on trying to solve the problem, and best management practice, wellness, I think responsible health care are all part of that. And I would certainly, for one, welcome all three of your organizations helping us work towards a solution in that area. You also mention that revenue seems to be the…"

Chairman Franks: "Representative, we need… we need to wrap it up."

Pritchard: "…the source of… of financing many of these areas. I assume you're talking about income tax and… and broadening of the sales tax. Is that true in all three of your organizations?"

Jim Reed: "In particular, the income tax we've spoken of. And that's we believe is a good and reliable source. So that would probably be first and foremost. But certainly, as I mentioned, welcome the debate around a larger discussion around sustainable revenue sources."

Ed Geppert: "On behalf of the IFT, we're willing to engage in discussions about various options. But in the discussions we've had in this chamber… with Members of this chamber and the other chamber, the state income tax increase seems to be the most viable alternative."

Hank Scheff: "And I was here a couple of months ago where we talked about the Gross Receipts Tax, which we did endorse. We're very flexible on the approach to take. But again, what I said earlier and I think there's a broad recognition, we need a major new source of revenue. And the conventional places to go, if you look at the other forty-nine (49) states and you rack up our tax system to theirs, our… the state income tax, where we have the lowest flat rate of any state in the nation. And the… the issue of sales taxes with respect to consumer services where we tax fewer, than I think forty-seven (47) other states. And you just have to go across the river to Iowa where they tax virtually every service to know that some of the hysterical comments about broadening the sales tax based to services just don't wash. We can do this and we should do this because that's where economic growth is right now in the 21st century. And we'll never have the optimal tax system unless we cover all the bases in terms of the economy, and services is one of them. Now, the Gross Receipts Tax did have a virtue in that it would start to get at some of that service tax, but that's been rejected in this Body. The other conventional way to do that is to simply upfront levy the sales tax on consumer services."

Chairman Franks: "Representative Mulligan, 1 minute."

Mulligan: “Thank you. Thank you, gentlemen, for coming today. Unfortunately, I think you're being asked to lobby us for several things that are at odds with each other. Originally, the lottery was put out there as way to fund education and probably politically to keep a gubernatorial candidate out of the race. Now we've got the lottery to fund your pensions and you're asking us for that. And I know this year, which I find really difficult, is advocates, lobbyists, union members are being asked to take Legislators and write us letters. Now, if you have a Governor who says he won't fund an income tax increase but then your members write us one week for GRT, the next week for an income tax increase, it makes it pretty difficult for us to respond in any reasonable fashion because there's no cohesive way of negotiating when you have everything all over so that you can't really sit down with everything at the table. So how do your members then respond when the Governor's people say write the Legislators and tell 'em X, Y, and Z when he says some of the proposals aren't on the table and you have a variety of things that you're lobbying us for?"

Ed Geppert: "I can say I don't believe that after your Resolution voting down the Gross Receipts Tax was passed in this House unanimously that we've asked any of our members to write you concerning that. The agenda…"

Mulligan: "Well, I've had a whole new spate of letters recently."

Ed Geppert: "Well, they may be a little delayed in their email collection. But that is not… we're not trying to swim upstream. We are trying… and I think you're asking us to do here is to work with you to find a solution, and we would like to… we would like that opportunity. And that's why, at this time, we believe the income tax increase would be the most viable. We're certainly willing to talk about other forms that are out there, but we need a substantial increase in taxes that enable to meet the need… state to meet its obligations and provide quality education and social services."

Mulligan: "I guess, Mr. Filan, the question for you is if you represent a Governor, you work for a Governor who takes 90 percent of the ability to negotiate for all off the table and only makes it a narrow scope, how do you expect us to ever leave Springfield this year? If you eliminate a good number of issues in order for us to negotiate a reasonable solution, address problems that aren't… don't seem to be going away, but yet you narrow the scope down to such a little window of what we will actually be able to negotiate on. How do you think we'll ever be out of here?"

John Filan: "I think there are a lot of revenues that have been put on the table, you know, gaming among them, loopholes among them. So I don't… I wouldn't necessarily agree that the opportunities are that narrow. There are a lot of revenues and a lot of taxes that aren't being paid today that should be paid today. So I think, yes, some have been taken off the table by different parties in the negotiation, but I think there's a lot that remain there, and they're substantial and several billion dollars. The Senate President has suggested a combination that is almost five billion dollars ($5,000,000,000) of revenues in a different way than the Governor had proposed originally."

Chairman Franks: "Thank… thank…"

Mulligan: "Basically… just a closing."

Chairman Franks: "We have to wrap it now."

Mulligan: "Just to close, just basically, you have such a narrow scope. You do not spread out all the issues on the table and address everything in an encompassing way so that we solve the problems that we need to do with reasonable funding. We've made it so narrow that there's no way of actually doing this because we have egos and other things involved here. So we're not really addressing the problems of the state, we're addressing political egos."

Chairman Franks: "I want to thank the panel for their service. We appreciate you being here. At this time, I'd like to call up the laborer organizations: Director of Government Affairs, Sean Stott for the laborers Midwest region and SEIU Local 73 President, Christine Boardman. Well, thank you for being here and we'll start with Sean Stott."

Sean Stott: "Honorable Speaker Madigan, Leader Cross, Chairman Franks and Members of the House of Representatives. My name is Sean Stott, Director of Governmental Affairs for the fifty thousand (50,000) member Midwest region of the Laborers' International Union. I'm here on behalf of Edward M. Smith our vice president and regional manager and assistant to the general president who regrettably could not appear before you today. Given the many needs of this state, it is the laborers belief that too many revenue generating proposals have been dismissed by both the General Assembly and the Governor. The laborers assert that the General Assembly and the Governor alike should reassess and remain open to revenue options including an increase in the income tax, additional business taxes and leasing the lottery system as a means of bringing our budget stalemate to a close. In order for a lottery lease to be acceptable to our union, the terms of the deal must protect both the state and its workers in the following ways. Regarding the state's interests, we believe that any agreement must be fiscally prudent, that is, any agreement must be… secure significant long-term financial benefits. Regarding current lottery workers, a lease arrangement must provide an ironclad guarantee that they either remain employed in a similar capacity overseeing the lottery or will be reemployed without disruption at another state agency. Lastly, regarding the employees of a potentially privately operated lottery system, the contract between the state and the management entity must provide at the very least that the company will remain neutral toward union representation of it workforce. On the other end of the spectrum, we believe establishing standards regulating the employment relationship would be most desirable. The laborers strongly oppose the idea of replacing good paying jobs with low wage, no benefit employment. One of those benefits that must be protected is the reason why we are here today. The financial condition of the state's pension systems is improving but still in critical condition. The Governor's proposal to lease the lottery is geared toward helping shore up those pensions. We are supportive of those efforts. The pension obligation bonds issued several years ago was very successful in infusing our pension systems with much needed cash. It reduced their unin… reduced their unfunded liability by 25 percent and relieved some of the pressure that the pension ramp-up created by the 1990… '95 law places on the state budget today. Conditions similar to those seen in 2004 still exist. According to administration estimates another pension bond could save the state billions of dollars annually. This would make more money available for other needs. It is our hope that the additional liquidity provided by a second pension bond could stop the siphoning of Road Fund moneys to other purposes and increase funding for the Department of Labor and the public and educational labor relations board. The Midwest Region of Laborers does not take the transfer of government assets lightly. Our union was the last, in fact, to support the State of Indiana's lease of its tollway, notwithstanding the fact that the transaction promised to create hundreds of thousands of highway construction jobs. And it is those types of jobs… jobs, good paying jobs, jobs upon which a family can be raised, jobs that provide quality health care and a pension that our members here in Illinois most want to see this General Assembly and Governor create through passage of a capital Bill. Everyone in this chamber knows that it's been eight (8) years since a capital Bill was last passed, but it has become clear that another will not be enacted until a final budget agreement is reached. Meanwhile we wait. The construction season is in full swing and yet we have many members who are without work. By most accounts, in order for a capital plan to create jobs this year, we must pass a Bill soon. We urge members of this chamber, the Senate, and the Governor to reassess all available revenue options, finalize a budget and put more people to work by passing a capital Bill as quickly as possible. Thank you for the opportunity to address the Body."

Christine Boardman: "Good afternoon. Speaker Madigan, Leader Cross and all the Members of the Committee as a whole, it is truly an honor for me to be here. My name is Christine Boardman and I'm the President of SEIU Local 73. We represent twenty-five thousand (25,000) public employees throughout the State of Illinois primarily in areas such as the tollway, universities and State Government facilities along with municipalities and school districts. I speak to you today not just on my own behalf but on behalf of the state… the SEIU Illinois State Council, which is the representative body for all of our SEIU locals as a whole in the State of Illinois. I know that you have been here for hours upon hours hearing quite a bit of testimony on many… on some very important issues and I'm not going to repeat all of the same issues or some of the same points that I know have been made periodically by people before me. Pretty clearly everyone has emphasized that the current unfunded liability that we have with the Illinois pension systems…"

Chairman Franks: "Can we keep it down, please."

Christine Boardman: "…is something that must be addressed."

Chairman Franks: "I'm sorry to interrupt. Can we please keep it down. Thank you."

Christine Boardman: "As I was just mentioning, the unfunded liability question is something that everyone has mentioned pri… ya know, prior to me as well as the issue that the type of pension that people receive, which is a defined benefit pension, is not what the problem is. Ya know, and that has also been spoken to. Moving to a defined contribution system, as has been mentioned before, would actually cost the state more; it would not cost the state less. And Jim Reed, just before me, had also spoken to the question as to what the average pensioner or State Government employee would receive across the United States and that the difference is minimal at best. So, we're not talking about a very rich pension system in which people receive superb benefits. At best, you would have to just say that they're just at average or slightly above average. And everyone has spoken to the fact that we have to address the problem of revenue in Illinois. I'm certainly not going to solve that problem, ya know, speaking up here, but it is clear that everyone is calling on the Members of the Committee of the Whole as well as, ya know, the State Senate and the Governor to come up with a common solution that will be able to allow the State of Illinois to provide all of the services that the public so drastically needs and is counting on you to provide for them. On specifically the issue of the pension obligation bonds, as Sean Stott had mentioned directly before me, SEIU also supports the idea of pension obligation bonds, ya know, on the premise that… that those pension obligation bonds, it's understood that that actually is going to still generate debt, but it could actually save the state money. The last pension obligation bonds there had been quite a bit of concern that had been raised about them before and in fact, it had been a boon to the pension systems to actually receive that. On the issue of the sale of the lottery system, the lottery is another one of the public sets of infrastructure that is currently being looked at as possibly being sold/leased as part of a public private partnership. And with certain cautions and guarantees in place, we would support such a lease of the lottery system and that's on the premise that the employees that are currently working for the state lottery system would all have sufficient guarantees for their jobs as well as we would like to suggest the possibility of the state retaining some type of proprietary interest. Even a minimal proprietary interest, where the state retains a part of the ownership of the… in the lease of the lottery system on an… even during the period of the lottery, would allow those employees to remain public employees and would allow them to continue to remain as participants in the current state retirement system. We believe that taking these two measures is necessary, ya know, to be able to reduce the existing pension debt, which we believe would be reduced by more than 60 percent, that it would allow the pension system to re… to reach a much better funding benefit level current… ya know, we estimate that that would be somewhere between 80 and 90 percent and that it would at least… the current funding ramp that has been in place is not something that particularly in the next three (3) years, given the difficulty that we're having in even being able to currently come up with a balanced budget, it would be almost insurmountable under the old funding ramp and we believe that the… the lease of the lottery system as well as the pension obligation bonds would go far to address those issues. In conclusion, let me say that SEIU is open to looking at all means to achieve pension solvency for current and future state employees and we look forward to working with all Members of the General Assembly in finding a common solution to achieving a fully funded pension system. Thank you."

Chairman Franks: "Thank you. We'll start with Representative Reis, 2 minutes."

Reis: "Thank you, Mr. Chairman. Sean, did your organization sign off on Senate Bill 27 a couple years ago that supposedly restructured or reformed the pension payment obligations?"

Sean Stott: "I don't recall being an active participant in that… in that debate."

Reis: "Well, I think most of the labor organizations, ya know, were in favor of that when, in fact, they've shortened the pensions three and a half billion dollars ($3,500,000,000) over the last two (2) years and in the future three (3) years. So, ya know, we're… you're concerned about the pension indebtedness but yet that's part of what caused it and we know that other things in the past contributed to that as well, but we were on a schedule and that was the first time, two (2) years ago, that on the… on the forty-five-year plan to refor… ya know, bring it up to 90 percent. Two (2) years ago was the first time they skipped that payment. So, I brought that to your attention and then you talked about you think that the new pension obligations is a good deal, the sixteen billion dollars ($16,000,000,000), but yet you want a capital Bill, too. We have twenty-two billion dollars ($22,000,000,000) in debt now. The sixteen billion dollar ($16,000,000,000) new bonds would make that thirty-eight billion ($38,000,000,000) and if we do a five billion dollar ($5,000,000,000) capital Bill, you're looking at forty-two billion dollars ($42,000,000,000). I mean, does the state's debt bother you more or less with regards to bringing up the pension or lowering the pension liabilities?"

Sean Stott: "Well, I think to answer your question. The… **ya** know, the date… the debt already exists and as far as a capital Bill goes, we're obviously going to require a funding mechanism to… to pay the debt service on that. The… Leader Cross and Speaker Madigan have proposed a gaming expansion to… to fund that; we would support that. We've spoken to many Members of this chamber about it. But in the past there've been other means of financing capital programs and we would be supportive of a… a rational and fair… a rational and sensible way of funding that capital program."

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

Reis: "You made a… you made a good point, debt is still debt. Even though, you take out the sixteen billion dollars ($16,000,000,000) that's still a pension obligation. The ten billion dollars ($10,000,000,000) two (2) years ago was still pension obligations, but what you did say was that to make more money available for other needs and that's what gets in our craw. Ya know, we're going to borrow money, we're going to make this pension obligation and then we're going to take a pension holiday to spend it on more programs and that's what got us in trouble the last five (5) years. The reason we're not making our pension payments is 'cause we keep creating more and more and more programs. So, if we're going to use the pension money, we're going to lease the lottery, don't create more programs in its place is what we're trying to say. Thank you."

Chairman Franks: "Representative Rebolet… Reboletti, 1 minute."

Reboletti: "Thank you, Mr. Chairman. Ms. Boardman, I represent a lot of the tollway workers that are a part of your local and I know that you're advocating right now for the lease of the… of the lottery. Would you also advocate for the lease of the tollway next year, another fiscal year based on the same set of circumstances because this is not going to totally solve the problem and I would ask both of you if you believe it's good public policy to lease public assets for short-term gains and then down the road we have to figure out how to replace those revenue streams."

Christine Boardman: "On the issue of the sale of the tollway, we took a two-tier position and we took that in all settings because I was the person who testified at that and I… it was something that we took very much to heart. Our principal position was that the tollway is an extremely efficient… efficiently run toll system and is actually one of the most profitable toll systems within the United States of America. In 2005 alone, it generated more than three hundred eleven million dollars ($311,000,000) in profit and that's after the bond holders were already taken care of and ya know, money set aside for capital needs as well as the human resource. So… but we also said that on the secondary level in the event that because when we look at what's going on across the country and throughout the entire world, the issue of public private partnerships is something that's becoming more and more common. It's all a matter of how it's structured and whether or not that piece of infrastructure would benefit most by being privately run because that private corporation or entity could actually fund… fund it to a level that possibly the public entity could not. And as said, of the tollway we felt that the tollway had those means, but secondarily if they did decide to go ahead and lease the tollway, we said that it would be foolish, absolutely foolish, for the state not to retain some type of proprietary interest in that because we know that a private entity would make huge amounts of money off of the Illinois Tollway and the question is, is that by retaining the proprietary interest we could also guarantee the jobs of all of the members of our local that would happen to work on… on the Illinois Tollway as well as probably ensure additional jobs as well."

Chairman Franks: "Representative Dugan, 2 minutes."

Dugan: "Thank you, Chairman. I just have a couple of questions. Because… and I think it's been brought up, I mean, we're looking at bond obligations, ya know, bond being in this particular proposal and of course certainly for a capital Bill that… which many of us want would be additional bonding, which as we all understand is more and more debt. I guess, my one question is, is because we know as far as from labor and the need for a capital Bill and certainly we've been lobbied quite a bit by the… our own members back in our district. I guess, was there something or is there anything that possibly if… were you asked if labor supports this then there's a better possibility of a capital Bill? Was there any indication… because, I guess, I'm a little confused as to why we would support this knowing it would put us even more in debt if we also want to do a capital Bill that, of course, has been proposed and being worked on as far as in the House."

Sean Stott: "I wouldn't say… we were not asked or told anything like you… you stated. It's just our observation that given the fact that it's… we're now in July and we have not seen a capital Bill advance that is going to be a part of the larger budget negotiations. And so, as a result of that, we feel that we must bring this process to a close to… to accomplish what our number one goal is and that's a capital Bill."

Dugan: "Okay. And I guess, when we talk about a revenue stream which, of course, we all know we've **got to** come up with a revenue stream and I know you said about keeping our options open, but I… I'm sure you're aware as we are that the Governor has made it very clear there will be no sales tax or income tax hike increase that he will ever agree to. I think that's been made pretty clear by the Governor. So, to say that we're going to, ya know, continue with bond obligations for this and also think we're going to have a capital Bill when we have to come up with the revenue for it. I guess I just wanted to make sure that support of, not that I would believe labor would do that, but because we're looking at two separate things. And I think the capital Bill is something most of us want to see and it kind of is in conflicting with what this would do as far as putting us sixteen billion dollars ($16,000,000,000) more in debt in bonding obligations that I would rather see it go towards a capital Bill. So, I just wanted to make sure there wasn't any kind of agreements or thinking if we do this whether it be from SEIU or, ya know, the laborers that there was something that might be there for you if we get something like this passed. Thank you very much."

Chairman Franks: "Representative Lang for 2 minutes."

Lang: "Thank you, Mr. Chairman. Good afternoon. Thank you for putting up with all of this. Let me ask if either or your organizations has done an independent analysis of the value of these proposals to the state? I understand that you, as we, have an abiding interest in making sure our pension plans work better, but I'm wondering if aside from just that and aside from, well, here's the plan that deals with these pension issues, if you've done your own analysis of these plans."

Christine Boardman: "SEIU has not done an independent analysis of what the value of the lease of the… of the lottery would be worth, but we… I do know that when that was being examined for the Illinois Tollway for a period of time Credit Suisse and I think that going to be expert, financial experts on something like this would be the best way to go. They did an admirable job in terms of analyzing what the value of the tollway was. And I would imagine that something like that has been done for the lottery."

Lang: "So, other than… other than that comment, you have done… not that you should have, I'm just curious. You've done no independent analysis of any of this plan? So, your position then, Ms. Boardman…"

Christine Boardman: "On the pension obligation bonds as well or just on the…"

Lang: "The whole program."

Christine Boardman: "The whole program. On the pension obligation bonds, we absolutely… we have done some independent analysis on that. I don't have it with me today, but I could provide that to you. We do believe that… that that would not be as profitable as it had been in the last… during the last sales of pension obligation bonds, but it would still do well and that it would be superior to the… to trying to deal with the funding ramp as it had been previously addressed and what was it…"

Lang: "If you could make that report available to our staff, we'd appreciate it."

Christine Boardman: "Yes."

Lang: "And Mr. Stott, do you have an answer to this question."

Sean Stott: "Well, we… we, too, have not done an independent analysis. I've not been privy to the… the proposals that the Members of this Body and your staff may have had, but what our… our opinion is that based on past experience with the last pension bond obligation and the state of the current market and interest rates that it could be, once again, a fruitful endeavor. But we feel that it's something that should be, as I said in our testimony, something that should be, ya know, considered in the grand scheme of the budget process in its totality and not dismissed summarily."

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

Lang: "Thank you."

Chairman Franks: "I appreciate it. We appreciate Sean and Christine coming; we very much appreciate you being here. Now, at this time, we're going to bring up a business organizations panel. We have the Illinois Manufacturers' Association President and CEO Greg Baise; the Coalition for Jobs, Growth and Prosperity Chairman Ron Gidwitz, and the Illinois Business Roundtable President Jeff Mays. Gentlemen, we're honored to have you. We appreciate you being here; I know it's a long day. Okay. We'll start with Chairman Gidwitz."

Ron Gidwitz: "Thank you, Chairman Franks and Members of the Committee of the Whole. I'm here today on behalf of the membership of the Illinois Coalition for Jobs, Growth and Prosperity. Our membership consists of the largest employer organizations in the state including the Illinois Manufacturers' Association, the Illinois Retail Merchants Association, the Illinois state Chamber of Commerce, the Chicagoland Chamber of Commerce and the Illinois Business Roundtable. In all, the businesses that belong to these groups employ more than one million (1,000,000) Illinois workers. As the former CEO of a Fortune 500 company, I fully realize that there are subtle but important differences between public and private finance realities, but there's nothing subtle about the outcome this state would experience if the Governor's plan to lease the lottery were approved by the General Assembly. Nearly, two (2) years ago, every candidate for Governor on both sides of the aisle including me recognized the serious threat that Illinois faced because of the il… the looming pension debt. Since then nearly four billion dollars ($4,000,000,000) in payments to the pension systems were diverted to satisfy short-term spending habits of this administration and recommendations from a bipartisan pension commission were all but ignored. Today, our pension debt has grown while the Governor continues to spend money on massive new programs and once again, the Governor is organizing his annual yard sale to try and sell state assets to fund his spending habits. First, it was the Thompson Center, then the state tollway and now, the state lottery is to be listed in the classified section of the newspaper. Some have likened the leasing of such a valuable asset to a farmer selling his seed corn. I don't necessarily agree with that because there are certain circumstances where leveraging such an asset makes sense but to do so takes accurate, long range planning, the rank… the right financial environment and most of all, steadfast fiscal discipline. I think very few in this room have suggested this administration has had the ability to successfully pull off a financial program that requires the state to live within its means nor has there been any shred of evidence that any semblance of discipline when it comes to taxpayers' money. The business communities disapprove the approval of the Governor's plan to lease the lottery's proceeds… to lease the lottery's proceeds is not rooted in principles of finance but rather in the plans for the proceeds. The Governor's annual budgets over the past few years are a hodgepodge of gimmicks, financial tricks and program ideas that sound good but fail to meet the test of time. Selling the state lottery is more… is more a set of smoke and mirrors. While we'll get to the short-term revenue, we will have a gaping six hundred and fifteen million dollar ($615,000,000) plus the effect of inflation annual hold down the road. It's instant gratification, much like scratching off the lottery ticket in the jackpot for billions. Illinois needs to address the root cause of the pension funding problem before dealing with its finances. Simply throwing more money at the pension systems without fixing the core structure is not a recipe for success and certainly selling off a state asset like the lottery for short-term spending is at best irresponsible. As husbands and wives, mothers and fathers, you would not pawn the family heirlooms to live an extravagant lifestyle only to risk your finan… your family's financial livelihood and you shouldn't take the same risk with the taxpayers' money. Speaker Madigan and Members of the House, the people of Illinois certainly have needs that our government must meet. Right now, the most pressing need for the House is to stay the course and continue to lead in the area of fiscal discipline. The House passed a budget that, with some adjustments, would increase funding for education, meet the basic needs of those that can't fend for themselves and close the door on some tax breaks that you felt were no longer viable. You displayed leadership by standing tall against those forces that would lead this state to financial ruin. It's imperative that you remain true to those principles. Thank you very much."

Jeff Mays: "My name is Jeff Mays. I'm president of the Illinois Business Roundtable and very, very pleased to once again join you in a discussion of very serious import. My thanks to the Speaker, the… Leader Cross and all the folks, you especially for sitting through the entire day. I had a policy statement that I was going to read, but I'm not going to do that to honor your time. You heard many of the same themes repeated time and time again this morning and then this afternoon where if you're going to sell the asset, you want to retire a liability, you want to… you don't want to use… sell an asset to take care of operating costs and blah, blah, blah. Those are very fundamental, important things the business community, 100 percent united behind those items. The other item I wanted to suggest, though, is that this morning before your committee session convened, we did have a con… a press conference. All the business leaders, all the business groups throughout the state saying that, ya know, now's the time to talk about reforms. Ya know, it's been kind of absent the discussion for too long and you don't want to just look at the funding side as Eden Martin and Laurence Msall suggested, but you also want to look at some of those cost drivers that have been putting us in difficulty each of the last few years in pension, health care, Medicaid and so on. So, we… I am here to simply say the Roundtable totally supports what you heard from the other business community… representatives as you address this budget to underscore the importance of looking at the substantive reforms as you also look at a overall solution. Thank you."

Greg Baise: "Mr. Chairman, thank you. My name is Greg Baise. I'm president of the Illinois Manufacturers' Association. On behalf of the four thousand (4,000) manufacturers that we represent, we'd like to thank the Speaker, thank Leader Cross and others for allowing us this moment of testimony today. Like my colleague Mr. Mays, I'll be very brief. You've heard most of the arguments that we agree with today of why we should be very leery of leasing the Illinois State Lottery at this time and proceeding forward with any additional sale of bonds. Our organization supported the Governor in his first months of his administration where that ten billion dollar ($10,000,000,000) obliga… or pension bond obligation that was sold at that time. But as it has been stated several times thus far today that that became an excuse to avoid payments, and we, as the one sector of the business community, thought it was wrong when it occurred and we believe it was wrong and still wrong today. We urge you to… and the message that I have from our members is very simple. We think that you should live within the means and that's been talked about today. We think that the bills should be paid and that's been talked about today. And we also fully support upholding the promise that Illinois has made to its workers to pay pensions and to make sure that that obligation does not become an overwhelming obligation that cannot be paid. The responsibility that this House and the Senate and the Governor, all of you have, is to get this problem under control and under control as soon as possible. Thank you."

Chairman Franks: "Thank you, gentlemen. Representative Lang, 2 minutes."

Lang: "Thank you, Mr. Chairman. To Mr. Mays, you indicated, I think, that the business community had some ideas about how to accomplish some of these goals. Have you provided those ideas to the Governor? Have you provided those ideas to Members of the General Assembly?"

Jeff Mays: "That's a very good question and most of the ideas that were encompassed in the proposal that we announced today were ideas that Eden Martin and Laurence Msall enunciated a couple hours earlier and as they represented, they had… had discussions with the Governor's Office on this."

Lang: "Did you make these proposals by way of press release?"

Jeff Mays: "Did we this morning… today, yes."

Greg Baise: "We did unveil those this morning along with talking about many of the reforms that the Governor's own blue ribbon panel on the pension reforms had. And we encompassed many of those and we urged those to be looked at very seriously."

Lang: "Might we ask that you provide copy…"

Jeff Mays: "Yes, Sir."

Lang: "…of that press release…"

Jeff Mays: "Yes."

Lang: "…with the detail to Members of the House…"

Jeff Mays: "Sure."

Lang: "…so we can review the same."

Jeff Mays: "Absolutely."

Lang: "Maybe the Senators might even be interested…"

Jeff Mays: "They might."

Lang: "…but who can say."

Jeff Mays: "I'm sure they are."

Lang: "And we can presume that you've sent a copy of this to the Governor's Office. Have they indicated any interest in meeting with the business groups about your ideas? Anybody?"

Jeff Mays: "I haven't had any indication."

Greg Baise: "I had a nice chat with John over here earlier."

Lang: "He's a wonderful man, really, but… but…"

Greg Baise: "I like John and I…"

Lang: "…didn't invite you to his office for a…"

Jeff Mays: "No, but he did…"

Lang: "…closed door meeting, right?"

Greg Baise: "…and I understand that."

Lang: "All right. And do you have any major overall idea about how to reform the pension system so we can fix this problem? Is there one magic bullet?"

Jeff Mays: "I think, as Eden enunciated, the… your guiding principle is, let's bring into alignment the benefits and the structures for contributions with that of main street taxpayers in Illinois. That's the overall theme, but then there are a number of things that cascaded off of that directly from the Governor's Blue Ribbon Commission two (2) years ago."

Lang: "But if we… even if we re… changed any of the benefits, it wouldn't deal with the current pension liability. Is that correct?"

Jeff Mays: "No. We're still liable for that and we cannot change contractually things that have been in place. This would be prospective."

Lang: "So, does your… the plan that you all enunciated this morning include not only how to deal with future problems but today's problem as well?"

Jeff Mays: "In the future problem… the biggest future problem is not to expand the benefits until we get to the 90 percent funding range."

Lang: "Right. Then… but what about… so… but what about the pension problem we face today?"

Jeff Mays: "Right."

Greg Baise: "One of the growing obligations is the retiree health plan that is a growing liability and that that is something that can be worked on in the future and we recommend… there are recommendations, I believe, from the Governor's plan of how to do that."

Lang: "I anxiously await your document, gentlemen. Thank you."

Jeff Mays: "Thank you, Representative."

Chairman Franks: "Thank you. Majority Leader Currie, you're recognized for a Motion."

Currie: "Thank you, Speaker. I move that the Committee of the Whole rise."

Chairman Franks: "You heard the Lady's Motion. All those in favor… We'll recognize Representative Currie for another Motion."

Currie: "Thank you. I'll try again. I move that the Committee of the Whole stand in recess until some unspecified hour tomorrow morning."

Chairman Franks: "Mr. Black."

Black: "Thank you very much, Mr. Chairman. Before you take that Motion, could I ask a question of the gentleman at the table?"

Chairman Franks: "Yes, you may."

Black: "Thank you. Mr. Mays, earlier today it was said that the Governor will take off the table any tax that affects working men and women. I didn't know whether to chuckle or fall out of my chair. But let me… let me… is the lottery a tax?"

Jeff Mays: "Some view it as such."

Black: "Is…"

Jeff Mays: "Voluntary…"

Black: "It's a voluntary tax."

Jeff Mays: "Right."

Black: "If you play, you pay a tax."

Jeff Mays: "Right."

Black: "We get the money."

Jeff Mays: "That's right."

Black: "I think last year we grossed about one and a half billion ($1,500,000,000) on a voluntary tax. I served with you in the General Assembly; I respect your abilities. Who does the mark… who does the lottery market to? Would it be the Bill Gateses, the Ron Gidwitzes, the Patrick Ryan? Who does the lottery market their games to?"

Jeff Mays: "Ron Gidwitz."

Black: "I'll bet. Wouldn't you say it's aimed at the working men and women of the State of Illinois?"

Jeff Mays: "Yes."

Black: "And if it is privately operated, would we expect greater marketing to the working men and women segment of Illinois or would they change and market to the upper 10 percent of the income level of Illinois' residents?"

Jeff Mays: "Ron, you want to take this?"

Ron Gidwitz: "No, I don't want to touch it."

Jeff Mays: "They're going to do better."

Black: "I don't want to put any… I don't want to put any of you on the spot, but I think anybody in this chamber knows where the marketing is to sell lottery tickets. I… I could prob… well, I know I can say honestly, in my lifetime… well, the lottery's been around thirty-plus years… I haven't spent a hundred dollars ($100) in thirty-one (31) years on lottery tickets. But I go to a favorite restaurant of mine, a working cla… a blue collar restaurant and I see people come in who live paycheck to paycheck and plunk down twenty or thirty or forty dollars ($20, $30, $40) a night on the lottery on the premise that they're going to get some easy money. They don't, but that's where the marketing is. And there are colleagues of mine who have over the years on both sides of the aisle raised heck that billboards were put up in their neighborhoods that too many lottery terminals were in their neighborhoods or their ward. All I would say to the Members of this Body is that if we privatize this, then we lose all control on how it's marketed, to whom it's marketed, where billboards go up and what segment of our society will be targeted to play the lottery. My comment and I should have said it… made it earlier and I don't want to put any of you on the spot, the lottery is a voluntary tax and it is marketed primarily towards working men and women. And I don't think privatization is going to change that one bit. We could talk about other revenue sources but that's been taken off the table by the Governor and by the way, I appreciate the Governor being here today."

Chairman Franks: "Thank you, Mr. Black. Thank you for being here. I appreciate it. You heard the Lady's Motion. All those in favor signify by saying 'aye'; and all those opposed 'no'. The 'ayes' have it. And the Motion's adopted. The Committee of the Whole is now recessed. Speaker Madigan's in the Chair."

Speaker Madigan: "Mr. Clerk, Committee Reports."

Clerk Mahoney: "Committee Report. Representative Barbara Flynn Currie, Chairperson from the Committee on Rules, to which the following legislative measures and/or Joint Action Motions were referred, action taken on July 05, 2007, reported the same back with the following recommendation/s: 'approved for floor consideration' is Amendment #1 to House Bill 2055 and Amendment #1 to House Bill 3755."

Speaker Madigan: "Mr. Clerk, on House Calendar… Supplemental Calendar #1, on the Order of House Bills-Second Reading, there appears House Bill 2055. What is the status of that Bill?"

Clerk Mahoney: "House Bill 2055 is on the Order of House Bills-Second Reading."

Speaker Madigan: "Mr. Clerk, read that Bill for a second time."

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

Bill. No Committee Amendments. Floor Amendment #1 has been approved for consideration."

Speaker Madigan: "Mr. Clerk, on the same order there's House Bill 3755. What is the status of that Bill? 3755."

Clerk Mahoney: "House Bill 3755, a Bill for an Act concerning finance. Second Reading of this House Bill. No Committee Amendments. Floor Amendment #1 has been approved for consideration."

Speaker Madigan: "Read the Bill for a second time."

Clerk Mahoney: "House Bill 3755, a Bill for an Act concerning finance. Second Reading of this House Bill."

Speaker Madigan: "The Chair would like to acknowledge the presence of our esteemed Lieutenant Governor Pat Quinn. The Chair is prepared to adjourn until 10 a.m. tomorrow morning at which time we will reconvene the Committee of the Whole and take additional testimony. Mr. Black."

Black: "Mr. Speaker, I haven't been back to my office in a little bit. Are… have we been called into Special Session tomorrow?"

Speaker Madigan: "The plan is to adjourn this Special Session until tomorrow."

Black: "Oh, and then we'll be in Special Session again tomorrow?"

Speaker Madigan: "Yes."

Black: "I didn't get that message from the Governor. I haven't seen the Proclamation. I… can I expect that Proclamation? Ya know, just to keep everything official."

Speaker Madigan: "Well, it's the same Special Session."

Black: "Oh, it just kinda goes on forever?"

Speaker Madigan: "Right. Right. But it's special."

Black: "Well, that is special. Thank you very much."

Speaker Madigan: "Representative Mulligan."

Mulligan: "Thank you, Mr. Speaker. I handed you the article from NBC 5 that the Governor calls a Special Session a waste of time. Now, if you are the one that calls the Special Session and you don't want to come down and talk to us and he hasn't really met significantly with the Conference of Women Legislators the whole Session… and he never picks up the phone and calls me and says, 'Representative Mulligan, come over and tell me what you think,' because God knows I'd tell him. And I honestly do think that when you call our staff back… it's bad enough to call us but on our staff we have a lot of staff Members that have young children who are anticipating doing things this week, they have babies, they have babysitters. These things go on. This was a tough week to begin with and we've had quite a bit of time. I thought your letter was excellent pointing out how long we've been in Session and that we gave them extra time to present their budget and there's certainly been any number of days when we could've talked about this. I find it an insult to the public and to the people that I represent that he calls this Session and then he calls it a waste of time. That's really poor."

Speaker Madigan: "Again, the Chair is prepared to adjourn 'til 10 a.m. tomorrow morning. Representative Currie moves that the House stand adjourned until 10 a.m. tomorrow morning, providing perfunctory time for the Clerk. Those in favor say 'yes'; those opposed say 'no'. The 'ayes' have it.

The House does stand adjourned until 10 a.m. tomorrow morning, providing perfunctory time for Clerk."