



NEWS FROM THE FRONT- 10/31/2019

Veto Session

The Illinois General Assembly returned to Springfield, Monday through Wednesday, for the first week of the fall veto session. It was a fairly subdued week with the pall of recent indictments, arrests and federal investigations hanging over the heads of lawmakers. Late last week, State Rep. Louis Arroyo (D, Chicago) was arrested on federal bribery charges after he was reportedly caught on tape attempting to bribe a State Senator who was wearing a wire as a cooperating witness for the FBI after being allegedly snagged for tax evasion. Another State Senator has been indicted for 41 counts of embezzlement for allegedly taking a ghost payroll job with a union as he served as chair the Senate Labor Committee. He has been stripped of that position but given the chairmanship of another committee. A third State Senator has been the target of FBI raids over the past several months that include many known associates including figures in local governments. This is on top of FBI raids earlier this year on the homes and offices of associates close to Speaker Mike Madigan (D, Chicago) and utility company ComEd.

As you can imagine, it is a difficult atmosphere to conduct legislative business when everyone is waiting to see when the next shoe will drop and who at the table may be the subject of a current FBI investigation. Still our work continues. The General Assembly is scheduled to return November 12-14 to conclude the 2019 veto session.

Secretary of State Reverses Course on Franchise Tax (See 11/05/19 Update Below)

The Illinois Secretary of State's Office (SoS) called CBAI on Wednesday to inform community bankers that they have decided to change course on their recent interpretation of franchise tax apportionment for bank holding companies. This comes after a month of CBAI and other stakeholders putting pressure on the SoS to justify the arbitrary change in policy and explain why they seemed to be singling out one specific industry when interpreting tax policy. The SoS indicated that they will be issuing a bulletin in coming days outlining the reversal of the policy. When asked about reimbursements for bank holding companies who were unfairly compelled to pay increased taxes the SoS attorney said they would be working on making reimbursements.

Over a month ago, CBAI started getting reports from members that the SoS was changing the way they calculated the apportionment for paid in capitol when formulating the franchise tax. The Franchise Tax is administered by the Secretary of State Department of Business Services and they were clearly driving this issue. Historically, the tax was only based on assets held in state. If physical stock certificates were held out of state then they were not considered an in state asset and not factored into the franchise tax. The additional burden was being calculated back as far as the formation of the bank holding company. The Department was going as far as threatening legal action and withholding certificates of good standing to block business activities. The Department attempted similar re-interpretations in 2009 and 2011 and in both cases were rebuffed. Compounding confusion for community bankers is news that the franchise tax is set to be phased out over the next four years and the fact that there is currently a tax amnesty program

open at the state running through November 15.

CBAI appreciates this change in course by Illinois Secretary of State Jessie White, and we hope that this issue will be settled once and for all. We appreciate the help of many partners for putting, and keeping, a spotlight on this issue and pressuring the SoS to make the change. This was a group effort including CBAI, IBA, Taxpayers Federation of Illinois, and many law and accounting firms across the state.

11/5/19 UPDATE: We asked the SoS for any written guidance they have issued for holding companies who were unfairly treated by the tax interpretation. This is what they have provided to date. We will share any additional guidance when it becomes available. From the SoS Office;

If a business entity believes its franchise tax obligation was improperly calculated due to out-of-state stock certificates being factored in their franchise tax calculation, that entity should file a Statement of Correction with the SOS Business Services Department. The entity will be required to provide evidence of the existence of out-of-state stock certificate holdings to amend the entity's annual report. Because each entity's annual report is unique, and because we receive in excess of 300,000 annual reports each year, it is not possible for this office to identify the annual reports impacted by this issue. Any questions regarding filing a Statement of Corrections may be directed to Corporations Administrator Robert Durchholz, who can be contacted by email at rdurchholz@ilsos.gov, or by phone at (217)782-4909.

Municipal Pension Consolidation Legislation Filed

Governor Pritzker has been pushing a proposal backed by the Illinois Municipal League to address the underfunding of downstate municipal pension funds. This week, legislation (SB 616, amendment #1) was filed to consolidate roughly 649 downstate and suburban police and fire pension funds and would create two new funds, one for municipal police beneficiaries and one for municipal fire beneficiaries. The proponents say that consolidation will give the funds the ability to access investment opportunities with greater returns while lowering costs. CBAI is not fundamentally opposed to efforts that will address the state's pension problems; however, this consolidation would potentially mean community bankers could be shut out of opportunities to service their local first responders pension funds. When municipal pension funds are invested locally, they have the dual benefit of helping grow the local economy. Moving investments to large out of state brokerages will deprive Illinois communities of vital economic resources. It is unclear at this time, if this legislation will be taken up during the second week of veto session, or will be on hold until next spring.

CBAI Testifies at Agriculture and International Trade Hearing

CBAI was invited to offer insights during a joint hearing of the House Agriculture and International Trade Committees. The subject matter hearing brought together experts from agricultural groups to discuss barriers to international trade for Illinois products. CBAI mentioned the effects of tariffs on market prices for corn, beans, livestock and other products and highlighted regulatory barriers like quotas, residue limits and GMO restrictions. We also discussed the need for improved infrastructure to ease the friction of moving agriculture to foreign markets.

A highlight of the hearing came from Rep. Charlie Meier who runs a family farm in Okawville, IL speaking about the importance of community banks: "Having lived through the 80's, the draught of 80, draught of 83, draught of 84, draught of 88 we had in Southern Il, If I would have been dealing with a major bank I would have been bankrupt. These banks pull together and work it out. The small town banker is the first on the wedding invitation list because they are part of the family. The relationship built with small town bankers and farmers is an amazing relationship."



Community bankers Pete Brummel of Grundy Bank and Don Krager of Bank and Trust Company offered expert testimony during the joint hearing.

State Agency Asks CBAI for Advice on Cannabis Banking

The Cannabis Regulation and Tax Act that legalizes adult recreational use of cannabis on Jan. 1, 2020 also contains social justice provisions including a program for Social Equity Cannabis Loans. Under the program the Illinois Department of Commerce and Economic Opportunity (DCEO) will provide low interest loans to social equity applicants to assist with the expenses of starting and operating a cannabis business. Social equity applicants under the program are from communities historically impacted by arrests and imprisonment for cannabis offenses. [Click here](#) for more on this program.

DCEO requested a meeting with CBAI to discuss challenges in providing financial services to the cannabis industry. We have been having similar conversations with IDFPR and the State Treasurer's Office for the past few years. We discussed the difference between state and federal laws, the overlapping labyrinth of regulators and the inherent risks of servicing the industry. DCEO anticipates providing between 50-75 direct loans and lines of credit. They say they anticipate securing the loans through a mix of guarantees and collateral but seemed unclear on how exactly the program would work. When asked what might entice community bankers to participate in a loan program with DCEO we suggested loan guarantees. Discussions will continue.

Video Panels of Cannabis Banking and Faster Payments Discussion Available Free to CBAI Members

This year's CBAI convention featured panel discussions on cannabis/industrial hemp banking issues and a discussion of the implementation of FedNow and the new faster payments system. Video of both presentations is available to CBAI members free of charge at these links. [Click here](#) to view the Cannabis Banking panel. [Click here](#) to view the Faster Payments panel.

Notes From Springfield

Rep. Luis Arroyo (D-Chicago), the former Illinois House of Representatives' assistant majority leader, was recently indicted on a federal bribery charge. Legislative leaders on both sides of the aisle have called for his resignation and a special committee will meet Friday to investigate his charges and the possibility of removing him from office.

Representative Mike Unes (R- Pekin) announced that while he will fill out the remainder of this term, he is not seeking reelection. Unes has served in the House since 2011.

The Illinois Department of Employment Security shows payrolls in Illinois rose over 4,800 jobs compared to last month with an unemployment rate of 3.9 percent in September, a new record low for the state. The US September unemployment rate also fell to 3.5 percent, down from 3.7 percent in August.

ON THE FEDERAL SIDE

U.S. HOUSE PASSES CBAI SUPPORTED LEGISLATION TO PROVIDE BENEFICIAL OWNERSHIP REPORTING RELIEF

The Community Bankers Association of Illinois (CBAI) and Illinois community bankers support the House passage of H.R. 2513 (Corporate Transparency Act of 2019) which amends the Bank Secrecy Act to provide relief to community banks from Financial Crimes Enforcement Network's (FinCEN) beneficial ownership disclosure mandates. This information is being collected to assist law enforcement in preventing, detecting and punishing terrorism, money laundering, tax evasion and other crimes. [Click here](#) for the full article.

CBAI Seeks Proposals for 2020 Legislative Agenda

CBAI Governmental Relations is seeking your input for ideas and proposals to be included in our 2020 legislative agenda. All ideas are welcomed, as we will consider proposals to change laws, rules and regulations on either the state or federal level. If you or anyone from your bank has come across an issue or two that you think we can address legislatively or otherwise, please let us know. The Legislation and Regulation Committee plan to meet in December to discuss these and other proposals.

You're Invited to a CBAI Legislative Roundtable North-Central Illinois

The CBAI governmental relations team will be hosting legislators and community bankers at a roundtable and reception on Thursday, November 21 from 5-7 p.m. at *One Eleven Coffee* in Wyoming, IL. This casual event is an opportunity for community bankers to interact directly with lawmakers and discuss the concerns of our industry. Anyone from the bank, from directors to tellers are welcome and encouraged to attend. Drinks and appetizers will be provided. There is no cost for CBAI members to attend. These events are made possible by your generous donations to Community BancPac. Please contact Jessie Schmidt at jessicas@cbaicom or 217/529-2265 for more information or to register.

We would like to thank Doug Parrott with State Bank of Toulon who is helping to coordinate the event. As always, we welcome anyone who would like to assist CBAI in connecting with local legislators from their area. If you have an interest, please contact us.

Federal Home Loan Bank of Chicago 2019 Member Director Election- ONLY A FEW DAYS AWAY!

Have you voted for [David Loundy](#) yet? ONLY A FEW DAYS remain to get your votes in for this very important election! It's imperative that we keep community banker representation on the Federal Home Loan Bank of Chicago! Ballots must be received at the FHLB of Chicago by Tuesday, November 5.

This year, the FHLB Chicago is conducting the 2019 Director Election electronically. They have partnered with Survey & Ballot Systems (SBS) to administer the process. You should have received an email from SBS with your unique credentials and a link to your online ballot. If you have not received it, it may have gone to your spam folder. If you have any questions about your ballot, please contact Dana Gibbs from the FHLB Chicago at 312-565-5317.



CBAI's Governmental Relations Team

For more information, or if you have any questions or comments, please contact [Jerry Peck](#) or [Megan Peck](#) at 800/736-2224.

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