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S&P Cuts Illinois' Credit Rating on State's 'Weak' Management.

CHICAGO — S&P Global Ratings dropped Illinois' credit rating one notch to BBB on Friday and warned it could fall further absent a long-term solution that deals with the state's chronic structural budget deficit and pension woes.

"The downgrade reflects our view of continued weak financial management and increased long-term and short-term pressures tied to declining pension funded levels," said S&P analyst John Sugden in a statement.

Illinois, the lowest-rated U.S. state, is in its second straight fiscal year without a complete budget due to an impasse between its Republican governor and Democrats who control the legislature.

The impasse, along with a \$111 billion unfunded pension liability and a growing pile of unpaid bills have pounded Illinois' credit ratings into the low-investment grade triple-B level.

S&P said another downgrade could follow "should the state continue to demonstrate a lack of ability or willingness to adopt a long-term structural budget solution that also incorporates a credible approach to its long-term liabilities."

The credit rating agency added that continued political gridlock could affect Illinois' ability to pay off its debt.

"Although we don't foresee this in the immediate

future, challenges to the state's debt payment priority could emerge should liquidity dwindle to the point where it affects the state's ability to provide essential services," S&P said.

The downgrade to just two notches above the junk level came as the nation's fifth-largest state prepares to sell as much as \$1.7 billion of new and refunding general obligation (GO) bonds in October despite having to pay a hefty penalty in the U.S. municipal market.

Governor Bruce Rauner's office said S&P's report underscores the need for "tangible" pension reform.

"It's time for the super majority in the legislature to recognize the current pension system is fatally flawed and requires immediate action," his office said in a statement. "Governor Rauner continues to fight for pension reform and other fundamental, structural reforms that will free up resources to help balance the budget."

The Illinois Supreme Court in 2015 voided on state constitutional grounds a 2013 law aimed at curbing pension costs.

Earlier this week, Illinois' GO ratings were affirmed at Baa2 by Moody's Investors Service and BBB-

plus by Fitch Ratings, which warned of a downgrade should the state fail to take comprehensive action in January towards solving its fiscal problems.

By REUTERS

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