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Fresh From Budget Deal, Illinois Awaits Fate of Credit Ratings.

CHICAGO — A decision on whether Illinois becomes the first U.S. state whose bond ratings tip into junk was not imminent on Monday as credit rating agencies said they were still reviewing the state's newly enacted budget and tax package.

Analysts at the three major rating agencies, which rate Illinois one or two notches above junk, declined to comment on the timing of their decisions.

With the help of some Republican votes, the Democratic-controlled Illinois Legislature last Thursday overrode Republican Governor Bruce Rauner's vetoes and enacted a \$36 billion fiscal 2018 budget and a \$5 billion income tax increase.

The action ended an unprecedented two-year budget impasse that ballooned the state's unpaid bill backlog to about \$15 billion.

Illinois State Treasurer Michael Frerichs, a Democrat, on Monday unveiled a five-step plan to avoid a junk rating that included Rauner taking steps to issue up to \$6 billion of bonds the legislature authorized to begin paying off bills. He also recommended the governor visit credit rating agencies to assure them he intends to implement the budget package.

A junk rating would make future bond sales more difficult and expensive.

Eleni Demertzis, Rauner's spokeswoman, did not answer questions about the borrowing but underscored the governor's dissatisfaction with the budget.

"Even with the tax increase, this budget remains \$2 billion out of balance for fiscal year 2018," she said. "The best thing we can do is to work collaboratively to pass truly balanced budgets that pay down our debt, reform our pension system, and make the changes necessary to drive economic growth in our state."

Moody's cited the budget's "substantial implementation risk" when the state's Baa3 rating was placed on review last week for a possible downgrade to junk. Analyst Ted Hampton said risks include revenue and cost-saving assumptions built in to the budget for the fiscal year that began July 1.

Hampton and S&P analyst Gabriel Petek said they expected Rauner to implement the budget as required by law.

John Humphrey, co-head of credit research at Gurtin Municipal Bond Management, said optimism that Illinois finally has a budget should be tempered against the state's strained finances and how much execution risk remains.

"I think Moody's has been pretty clear that they view the state's political dysfunction combined with continued unaddressed long-term liabilities, and unfavorable baseline revenue performance as

casting some degree of skepticism on the state's ability to manage out of the very fragile financial situation they are in," he said.

By REUTERS

JULY 10, 2017, 5:30 P.M. E.D.T.

(Reporting by Karen Pierog and Dave McKinney; Editing by Matthew Lewis)

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