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## **Fitch Ratings: 2019 Fiscal Decisions Key for Illinois**

Fitch Ratings-New York-03 December 2018: Illinois faces important fiscal policy choices in its upcoming legislative session that will go a long way toward determining the direction of its credit rating and Outlook, according to Fitch Ratings in a new report.

Illinois' governor-elect has some rather daunting tasks ahead, among them filling sizable mid-year gaps in the 2019 budget, addressing a significant structural gap in the fiscal 2020 budget and taking steps to set the state's pensions on a more sustainable path. "A proposal to use pension obligation bond proceeds to finance near-term contribution increases as part of a re-amortization of the state's pension liability, even as the state lowers its already inadequate statutory funding target, would be a credit negative," said Director Eric Kim.

Illinois will return to single-party control in January when the Democratic governor-elect takes office. However, this is not a panacea for Illinois nor does it mean the end of the state's credit challenges. "Decisions may be made more quickly but not necessarily more prudently," said Kim. Proof of this took place between 2003 and 2014 when the state's credit quality deteriorated considerably even with two different Democratic governors and sizable Democratic majorities in the General Assembly.

In fact, Illinois is still trying to rectify some of those poor fiscal decisions made particularly over the past decade, many of which revolved around liabilities including an unusually large accounts payable balance and severely underfunded state pensions. Deferring bill payments has been a common budgetary-balancing tactic for the state, resulting in unpaid bills that peaked at nearly \$17 billion, or almost half of general funds revenues, by last November. After a debt-supported pay-down last year, the bills backlog is at risk of climbing once again.

Retiree benefit demands loom large with Illinois' combined debt and net pension liabilities (\$200 billion) representing nearly 30% of the state's personal income. The state's challenging pension burden is the legacy of a decades-long practice of making inadequate pension contributions, a situation which has yet to be rectified. Illinois is one of the few states where courts have imposed legal constraints around the state's ability to modify OPEB benefits for current employees and retirees.

Illinois' 'BBB' Issuer Default Rating reflects ongoing weak operating performance and irresolute fiscal decision-making while the state's Negative Rating Outlook reflects the likelihood of fiscal pressures accelerating in the near term. Countering those credit pressures are Illinois' revenue framework, expenditure framework and long-term liability burden, all of which are strong enough for a state with an 'A' rating. Illinois also retains wide revenue-raising ability over a deep economic base that includes Chicago, the economic epicenter of the Midwest.

'Illinois: What Happens Next' is available at '[www.fitchratings.com](http://www.fitchratings.com)'

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