

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Illinois Outlook Cut to Negative by S&P on Deficit Concerns: Bloomberg.**

Illinois, the lowest-rated U.S. state, had its outlook dropped to negative by Standard & Poor's, which cited the prospect of budget deficits and questions over whether pension overhaul measures will survive legal challenges.

S&P changed its outlook on the fifth-most-populous state to developing from negative in December after lawmakers broke through decades of political gridlock to pass a measure aimed at fixing the worst-funded U.S. state pensions. Illinois's A-rating is four steps above junk.

The Illinois Supreme Court ruled this month that the state can't cut contributions to government retirees' health-insurance premiums, potentially jeopardizing the pension legislation. Lawmakers on May 31 approved a spending plan for this fiscal year that will require further action to keep the government operating. In the meantime, the state will forgo paying vendors, borrow and delay payments.

The fiscal 2015 budget "in our view is not structurally balanced and will contribute to growing deficits and payables that will likely pressure the state's liquidity," wrote Robin Prunty, S&P analyst.

"The outlook also reflects the implementation risk associated with recent reforms related to post-retirement benefits," she wrote.

### **Market Penalty**

Illinois bonds have been penalized by investors in the \$3.7 trillion municipal market. The extra yield investors demand to own 10-year Illinois bonds rather than benchmark munis surged to 1.46 percentage points yesterday, the highest since January, data compiled by Bloomberg show.

Moody's Investors Service and Fitch Ratings also have Illinois four levels above speculative grade, the worst among states, with negative outlooks.

Democratic Governor Pat Quinn "was clear with legislators this year that bond rating agencies would look with disfavor on a budget that did not contain enough revenue to cover a full year of the state's needs," Abdon Pallasch, the state's assistant budget director, said in a statement.

"The legislature passed an incomplete budget and this is the predictable result," he said.

By Brian Chappatta  
Jul 23, 2014 12:51 PM PT

To contact the reporter on this story: Brian Chappatta in New York at [bchappatta1@bloomberg.net](mailto:bchappatta1@bloomberg.net)

To contact the editors responsible for this story: Stephen Merelman at [smerelman@bloomberg.net](mailto:smerelman@bloomberg.net)  
Mark Tannenbaum

