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New Illinois Governor Orders Spending Freeze.

CHICAGO — Illinois' new governor, Bruce Rauner, took his first shot Monday at addressing the state's crippling financial crisis, ordering all state agencies to freeze non-essential spending.

State workers were also instructed to turn down office thermostats and turn off lights to save money when their offices are not in use, according to a wide-ranging executive order from the Republican first-time officeholder and former private equity investor.

In his inaugural address, Rauner said Illinois' history of bad fiscal management was hurting the state's ability to compete.

"Our government has spent more than we could afford; borrowed money and called it revenue," he said. "Rather than responsibly budgeting the money we had, we implemented programs we couldn't afford."

The Land of Lincoln is buckling under a chronic structural budget deficit and the lowest credit ratings and worst-funded pension system among the 50 states. The fiscal crisis is the worst the state has seen for decades and could be the nation's biggest. The crisis is also weighing on its largest city Chicago, which is struggling with a big pension funding burden of its own.

Rauner ordered agencies to produce lists of contracts that could be terminated and to put a hold on new state contracts and grants until July 1 with certain exceptions. He also ordered a halt on planning for highway projects pending reviews, put limits on state worker travel and said the state should sell equipment it does not need.

On Friday, his transition team said an effective plan would include spending cuts and tax reform.

Rauner also said the fifth-largest state is facing moral and ethical crises and that he will sign an order on Tuesday to improve ethics and accountability in the executive branch of state government.

To make progress, Rauner will need to find a way to work with a legislature dominated by longtime Democrat power broker Mike Madigan, speaker of the Illinois House. "You have a Democratic legislature and a Republican governor, so they're going to have to figure out some way to work together," said David Merriman, an Illinois budget expert at the University of Illinois.

Rauner pledged "to work on a bipartisan basis to drive results and get things done." A Madigan spokesman said the speaker will "work with the governor in a professional and cooperative manner."

Pension payments are projected to jump to nearly \$7.6 billion in fiscal 2016 from \$6.8 billion this fiscal year as the state defends cost-saving reforms in court. Outgoing Democratic Governor Pat Quinn's budget office recently estimated Illinois' unpaid bills will climb to \$9.8 billion at the end of fiscal 2016, from \$4 billion this year. The state's projected general fund deficit is expected to balloon to nearly \$5.8 billion, from \$180 million this fiscal year.

"In the modern era... the state has never been in this poor of a financial condition," said Laurence

Msall, president of Chicago-based government finance watchdog group Civic Federation.

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In a pre-inaugural tour on Saturday, Rauner told local media outlets that his team discovered unpaid bills stashed in drawers. Rauner's spokespeople did not respond to requests to confirm the reports.

Robert Amodeo, a portfolio manager at asset manager Western Asset, put Illinois in the same class with the most troubled municipal bond issuers in the nation. "We will continue to monitor developments in Puerto Rico, New Jersey and especially Illinois, all of which face challenging fiscal conditions," Amodeo said.

To sell its debt, Illinois has had to offer hefty yields. Illinois bonds due in 10 years yield about 140 basis points more than stellar AAA-rated debt, according to Municipal Market Data. California, which is bouncing back from its fiscal morass, has a so-called credit spread of only 24 basis points.

Illinois' credit ratings, at A-minus and A3, are the lowest among the states, and rating agencies have warned of further downgrades. An immediate concern is the Jan. 1 partial expiration of 2011 temporary tax hikes that dropped the personal income tax rate to 3.75 percent from 5 percent, and the corporate rate to 5.25 percent from 7 percent.

Rauner said the tax hike hurt Illinois' economy and put more stress on the state's social safety net. "As a result, today Illinois is not as competitive as we need to be and cannot be as compassionate as we want to be," he said.

By REUTERS

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