Bond Case Briefs

Municipal Finance Law Since 1971

Illinois Governor Makes Case to Rating Agencies on Fiscal Fix.

CHICAGO — Governor Bruce Rauner is seeking to persuade credit rating agencies from further downgrading Illinois' weak ratings, shortly after presenting his turnaround budget to the state General Assembly.

The Republican governor spoke with the three major credit rating agencies about his spending plan and agenda, his office said late on Thursday. Further downgrades would potentially boost the state's already-high borrowing costs.

"He stressed he is intent on solving the years of financial recklessness that put us in this fiscal crisis," the governor's office said.

Rauner, who took office in January, delivered his first Illinois budget address on Wednesday.

Illinois' credit ratings at A3 and A-minus are the lowest among the 50 states and due to negative outlooks are tipping toward triple-B, a low investment-grade rating level rarely assigned to states.

A chronic structural budget deficit, huge unfunded pension liability and big revenue loss from the recent partial rollback of temporary higher income tax rates are major credit factors for the fifth-biggest U.S. state.

Rauner's $32 billion general funds budget for the fiscal year that begins July 1 aims to chop $6.6 billion from healthcare, local government revenue sharing, mass transit and other areas. Controversial pension changes account for a third of the savings.

"Obviously, Illinois is in a difficult position and these proposals are just proposals," said Ted Hampton, an analyst at Moody's Investors Service, noting the rating agency would be guided by the enacted budget and would weigh the risk that included reforms may not be implemented.

"The governor is certainly aware of the magnitude of the budget challenges Illinois faces and that's important," Hampton added.

Standard & Poor's analyst John Sugden said the major focus is how Illinois will achieve structural balance in its budget regardless of whether that is accomplished with spending cuts or revenue. He added however that the state has had some challenges in the past in terms of delivering on expenditure reduction initiatives.

Illinois is paying a higher price to pay off its debt in the U.S. municipal bond market than many other governments. The state's bonds are yielding 140 basis points over the market's benchmark yield scale for AAA-rated bonds, according to Municipal Market Data. By contrast California, which has addressed many of its fiscal woes, has a so-called credit spread that tops out at only 30 basis points.

The governor's budget was met with howls of protest from Democratic state lawmakers, labor unions, hospitals, and the city of Chicago, which estimates it would lose about $210 million of revenue sharing through the end of 2016.

By REUTERS

FEB. 20, 2015, 11:42 A.M. E.S.T.