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Moody's: Illinois' Budget Impasse Secondary to Intensifying Pension and Revenue Problems.

New York, August 31, 2015 — The State of Illinois' (A3 negative) current budget stalemate underscores the weak governance already incorporated into its rating, and is symptomatic of the state's severe fiscal challenges, Moody's Investors Service says in "State of Illinois: Late Budget Matters Less than Solving Pension and Revenue Problems."

"Illinois projects its income and other taxes to generate \$32 billion this fiscal year, or \$5.4 billion less than expenditures without cuts," author of the report and Moody's Vice President — Sr Credit Officer Ted Hampton says. "While the state still has options to address its current-year deficit, continued political gridlock and the inability to reach an agreement by late September will greatly increase the likelihood of the deficit moving from projected to actual."

The state also faces intensifying pressure to fund retiree benefits, which account for roughly 24% of its current general fund expenditures. The pension funding situation is compounded by retiree healthcare benefits costs, which are growing at about 6.5% a year.

"The state's ability to manage these pressures will be a primary determinant of future rating actions. Given the state's ironclad protection of benefits for current workers and retirees, Illinois requires a long-term plan to ensure it can at least comply with statutory funding requirements," Hampton says.

Moody's says the state has been deficient for many years in meeting the standardized annual required contribution (ARC) requirements to its pensions, and has been legally blocked from reducing its accrued liabilities via pension benefit cuts.

In the absence of a budget, Illinois will eventually have insufficient revenues to fund likely expenses, even as the pace of spending has slowed from last year. Some expenses have been paid because they do not require appropriation, have been mandated by court orders, or are allowed under limited appropriation measures.

Like other states, Illinois has had budget delays before, most recently in FY 2010. Moody's believes it is unlikely Illinois can significantly reduce expenses without having a full budget in place, especially with services like healthcare that continue to be provided.

The report is available to Moody's subscribers [here](#).