
Illinois Bond Rating Cut Again Over Budget Impasse.

CHICAGO — Illinois' ongoing failure to enact a fiscal 2016 budget due to political wrangling led to a second major credit rating agency downgrading the state's debt to the low investment grade triple-B level this week.

Moody's Investors Service cut the state's general obligation bond rating one notch to Baa1 with a negative outlook on Thursday. The move occurred three days after Fitch Ratings dropped Illinois to BBB-plus.

Both ratings are now just three steps above the "junk" level.

Moody's cited the potential that Illinois' financial position could weaken further due to an impasse between the state's Republican governor and Democrats who control the legislature that has left Illinois without a budget for the fiscal year that began on July 1.

"What we are seeing is the very real possibility of deterioration as the finances weaken with no plan in place," said Moody's analyst Ted Hampton.

The downgrade by Moody's, which affects $26.8 billion of GO bonds, also pointed to Illinois' inaction on its huge $105 billion unfunded pension liability. An Illinois Supreme Court ruling in May voided a law aimed at reducing that liability by cutting benefits, leaving the state limited options for dealing with the problem.

Worsening pension problems and a growing pile of unpaid bills could result in a further downgrade, Moody's cautioned. Illinois' bill backlog stood at $7 billion on Thursday, according to the state comptroller.

The downgrade by Moody's marked the 17th by major credit rating agencies for Illinois since 2003 and the second under Governor Bruce Rauner, a political newcomer who took office in January with an agenda to turn around the state's sagging finances.

A spokeswoman for Rauner said the latest downgrade confirms his contention the state needs pro-business and structural reforms that Democratic lawmakers have rejected.

Democrats, in turn, pointed the finger of blame at Rauner.

"Since Governor Rauner has taken office, revenue is down, the bill backlog is up, services are cut, jobs growth has slowed and now our credit rankings are lower," said Rikeesha Phelon, a spokeswoman for Senate President John Cullerton.

Even before this week's downgrades, Illinois had the lowest credit ratings among the 50 U.S. states. Ratings histories from the three major credit rating agencies indicate few states have ever had their GO ratings fall below the A level.

Robert Amodeo, a portfolio manager at Western Asset in New York, said bond investors are frustrated by the lack of progress in the fifth-largest U.S. state. Still, Illinois is contemplating a return to the municipal bond market this fiscal year after an absence of nearly 1-1/2 years.

"They will find a clearing level even at triple-B, but they will be penalized for it," Amodeo said.

Illinois has been paying a hefty market penalty for a while. Its so-called credit spread over Municipal Market Data's benchmark yield scale for triple-A-rated bonds is 190 basis points for 10- and 30-year debt.

Moody's also downgraded Illinois' sales tax revenue bonds to Baa1 from A3 and cut the rating on state appropriation dependent Metropolitan Pier and Exposition Authority bonds to Baa2 from Baa1.

By REUTERS

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