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Moody's: Illinois' Inherent Credit Strengths Help Offset Pressures, But Do Not Create 'Rating Floor.'

New York, November 24, 2015 — Following its October downgrade, the State of Illinois (Baa1 negative) is the only state rated below single-A, exemplifying how a combination of pressures can offset typical sources of a state's credit strength, Moody's Investors Service says in a new report.

Illinois benefits from a diverse and wealthy economy as well as strong legal protections for general obligation (GO) bondholders, but these intrinsic strengths do not provide a credit quality "floor" that keeps the state's ratings at investment grade, Moody's says in "FAQ: The Future of Illinois' Credit Position."

"There is no floor for US state ratings, despite states' inherent credit strengths and typically very high ratings," Moody's VP-Senior Credit Officer Ted Hampton says. "The majority of states are rated either Aaa or Aa1, and this concentration at the top of our rating scale reflects states' powers — such as the ability to cut general spending — and positive features that include prudent governance practices, moderate debt burdens, and stable, diverse economies."

The factors that have eroded Illinois' credit standing in recent years could drive the state's credit closer to speculative-grade, Moody's says. These interrelated factors are governance weaknesses, bill payment deferrals, chronic structural budget gaps, and soaring unfunded pension liabilities.

The FAQ also says despite these pressures, Illinois has a significantly higher credit rating than Chicago (Ba1 negative) because the state's pension funding crisis is less immediate, its funding burden is significantly less in relation to its resources, and because of the state's broader fiscal powers including the ability to shift its funding burdens onto lower levels of local government with separate revenue sources.

"Chicago faces a near-term threat of pension plan asset depletion, while the state does not," Hampton says. The report notes that Chicago's pension plans face substantially higher annual outflows to pay benefits in relation to their assets.

The FAQ also discusses whether political division within a government creates credit-negative situations and if a budget compromise in Illinois improve the state's credit standing.

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