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Illinois Dodges Rating Downgrades Ahead of January Bond Sale.

Dec 23 Illinois on Wednesday avoided a downgrade of its relatively low credit ratings ahead of the state's planned sale of \$480 million of bonds next month.

Fitch Ratings affirmed a BBB-plus general obligation rating with a stable outlook. Standard & Poor's removed the immediate threat of a downgrade of Illinois' A-minus rating, but placed a negative outlook on it.

An impasse between Illinois' Republican governor and Democrats who control the legislature has left the state without a budget for the fiscal year that began on July 1. The stalemate contributed to October downgrades by Fitch and Moody's Investors Services of Illinois' ratings, which were already the lowest among the 50 states, to just three steps above "junk."

Both S&P and Fitch warned on Wednesday that Illinois' rating could be downgraded if the state fails to enact measures to address its fiscal problems.

"The negative outlook reflects our view that we could lower our rating to the 'BBB' category should Illinois reach a budgetary agreement that does not make significant improvements to its budgetary alignment," S&P analyst John Sugden said in a statement.

S&P, which said a downgrade was a possibility over the next six months, projected Illinois will end fiscal 2016 with a \$4 billion to \$5 billion operating deficit and that its unpaid bill pile, a barometer of a structural budget imbalance, would hit \$10 billion.

Fitch said the state has set a Jan. 14 competitive sale of \$480 million of GO bonds. Illinois, once a top issuer of municipal bonds, has been absent from the public debt market since May 2014.

The new deal will mark the first bond sale under Governor Bruce Rauner, who took office last January. His office did not immediately respond to a request for comment.

Even before its ratings fell into the low-investment grade triple-B level, Illinois was paying a hefty penalty to sell debt given its huge unfunded pension liability and chronic and large structural budget deficit.

Illinois' so-called credit spread over Municipal Market Data's benchmark triple-A yield scale stood at 170 basis points for bonds due in 10 and 30 years.

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CHICAGO | BY KAREN PIEROG

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