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S&P: Looking Past The Noise To Illinois' Fundamental Creditworthiness.

More than six months into the fiscal year, the inability of lawmakers in Illinois to reach a budget agreement has inflicted considerable damage on the state's finances. The extent of Illinois' weakened fiscal condition will likely weigh on its credit quality for years to come. With no budget controls in place, the state is essentially carrying on spending without regard to its revenue base, driving its balance sheet further into negative territory. Correcting this situation will eventually require even more tax revenue and deeper spending cuts than if lawmakers had acted before the start of the fiscal year. There has also been more immediate fallout from the state leaving its fiscal misalignment unaddressed. In November, there was a cash squeeze that prompted the state comptroller to temporarily defer the state's pension contribution for the month, something the state has done occasionally in the past.

It might seem obvious, therefore, that Illinois' credit rating should be lowered from its current 'A-' level. However, Standard & Poor's Ratings Services has pointed out before that for U.S. states, a budget crisis doesn't necessarily constitute a debt crisis. We balance any concern about the drama unfolding in Springfield—including what it says about the state's actual ability to pay its debt service—against our objective of continuing to work toward a globally comparable portfolio of ratings. (Listen to the related podcast titled, "Beyond The Budget: Standard & Poor's Assesses Illinois' Creditworthiness," dated Jan. 12, 2016.)

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