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## Illinois Dodges Downgrade to Junk.

- **A rating cut is still possible as state has negative outlook**
- **Price of Illinois bonds rallied to highest since September**

The Illinois State Capitol Building, in Springfield. Photographer: Raymond Boyd/Getty Images  
Illinois avoided becoming the first junk-rated U.S. state after Moody's Investors Service opted to leave its grade unchanged, pushing the price of the state's bonds to the highest since September.

Moody's on Thursday confirmed the state's Baa3 rating, the lowest investment grade, after lawmakers overrode Governor Bruce Rauner's veto this month to enact the first budget in two years. While that eased the immediate threat of a downgrade, the outlook is still negative, signaling that another cut is possible to its \$32 billion of debt.

The enacted spending plan "alleviates immediate liquidity pressures, moves the state closer to fiscal balance and should keep pension and other fixed costs at manageable levels at least in the near term," Moody's said in a statement on Thursday. "While budget passage alleviates immediate threats to the state's credit, long-term challenges remain."

Illinois's bonds have rallied since the legislature acted to raise taxes and end a long-running standoff that left the state with a record backlog of unpaid bills as it kept spending more than it brought in. The lawmakers were prodded in part by the threat of further downgrades if they failed to act, a step that would have rattled investors and left some mutual funds unable to buy its bonds.

On Thursday, Illinois's taxable pension bonds due in June 2033 rose to an average of 97.3 cents on the dollar, the highest since September 2016 and up from 96.5 cents Wednesday, according to data compiled by Bloomberg. That pushed down the yield on the securities, the state's most-actively traded, to 5.35 percent from 5.43 percent.

"The Moody's affirmation should help the spread on the bonds tighten a little bit," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds Illinois bonds among its \$40 billion of municipal debt. "It shows that the revenue increases have had a positive effect on investor sentiment as well as the rating agencies."

Moody's is the last of the major credit rating companies to wrap up its review of Illinois since the budget was enacted. S&P Global Ratings affirmed Illinois's BBB- rating on July 12 and Fitch kept the state at BBB on July 17.

Illinois is still the worst-rated state and is struggling with more than \$129 billion of unfunded pension liabilities. The \$36 billion spending plan approved by the Democrat-led legislature with the help of some Republicans includes income-tax increases to ease chronic budget deficits.

Under the new budget, the state is authorized to sell as much as \$6 billion of long-term bonds to help pay down the bill backlog. If the state comes to market and the backlog keeps growing, that would be "problematic," Wells Fargo's Derby said. Moody's noted that could lead to a downgrade.

“It does give investors a little bit of breathing room,” Derby said. “And then they’ll have to wait to see what the state does with the new debt issue and how they manage.”

## **Bloomberg**

By Elizabeth Campbell

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