Bond Case Briefs

Municipal Finance Law Since 1971

Bill Would Let Illinois Treasurer Purchase Overdue Bills and Additional Muni Debt.

CHICAGO – With little reported headway being made toward a fiscal 2019 budget as the General Assembly's spring session heads into its final month, Illinois lawmakers are pressing forward on a measure that would empower the state treasurer to purchase overdue state vendor bills and pitching efforts to cap spending.

Senate Bill 2858, sponsored by Sen. Heather Steans, D-Chicago, seeks to help whittle down the state's $8 billion backlog and curtail the state's interest tab for its overdue bills.

"This is a winning strategy to make more headway on the bill backlog," Steans said.

The legislation recently cleared the Senate and is expected to be heard by a House committee after the chamber returns next week.

The current backlog stands at $6.8 billion after Illinois issued bonds to whittle down what was a record $16.7 billion backlog in the fall. The bills piled up during the state's two years without a budget. Gov. Bruce Rauner's administration estimates the fiscal year will end June 30 with a $7.7 billion backlog.

The legislation would give State Treasurer Michael Frerichs status as a qualified purchaser under the state's vendor payment program and allow the office to purchase qualified account receivables from state vendors awaiting payment for 90 days or longer. Currently, account receivables are not a permitted investment.

The state's overdue bills accrue interest at up to 1% monthly with more than $1 billion in interest paid over the last several years. The treasurer's purchases would pay a monthly .3% rate.

"This legislation would reduce the interest rate on those bills when bought by the treasurer's office to 3.6%," Frerichs said. "This isn't borrowing any additional money…it is refinancing that debt to a lower interest rate which will free up more money to pay down the bill backlog."

Under the existing vendor purchase programs, four financing firms are permitted to purchase overdue bills and collect the 9% to 12% interest. The firms recently warned that the state is far in arrears on interest payments, which threatens their future ability to participate in the program.

In addition to trimming state general fund interest costs, the change would earn a higher rate than many other of the state's permissible investment vehicles. The treasurer manages a $12 billion to $15 billion state investment pool and has said he could devote between $500 million and $1 billion to the vendor program.

The 3.6% of interest would go into the road fund or whatever fund is used to refinance the debt, Frerichs added.

Senate Bill 2661, sponsored by Jacqueline Collins, D-Chicago, would expand the treasurer's ability to purchase county and municipal bonds by allowing the office to buy at or above par to take advantage of a rising interest rate environment. Currently, the law limits bond purchases not to exceed par value. It, too, has cleared the Senate and is awaiting a House committee hearing.

The current requirement "prevents the state treasurer from purchasing qualified, highly rated municipal bonds offered at market rates, which may exceed par at the time of purchase, but will pay a higher coupon payment than current market conditions," a bill summary says, adding that the "ability to purchase municipal bonds above par provides for upside benefits and downside protection in a changing interest rate environment."

Other fiscal matters are high on legislative minds. Republican legislative leaders have filed resolutions calling for the adoption of a formal, certified revenue estimate for fiscal 2019.

"We owe it to Illinois taxpayers to take this first step in finally balancing the state's checkbook and putting Illinois on the right track towards fiscal stability," House Minority Leader Jim Durkin, R-Western Springs, said in a statement.

Rauner is pushing for a certified estimate also, but his Office of Management and Budget and the Commission on Government Forecasting and Accountability are only $99 million, or .3% apart on projections. GOMB projects $37.96 billion while COGFA projects $37.87 billion.

COGFA and governor's office estimates have tracked closely for years while being overly optimistic or pessimistic on actual revenue collections.

The Chicago Civic Federation said in a recent report it has "long supported the development of a consensus revenue forecast" because public finance experts recommend that the branches of government reach agreement prior to publication of the governor's budget to help ensure the review of critical assumptions, remove the forecast from ongoing dispute, and keep the budget process on track.

Rauner has already proposed his fiscal 2019 budget.

A bipartisan group of lawmakers are also backing a measure to amend the state constitution to limit the growth of general revenue fund appropriations to the rate of the state's recent economic growth. The legislature would require lawmakers need to adopt a resolution saying that an emergency exists to exceed the amount.

The General Assembly formally adjourns at the end of May and passage of measures after that require a higher vote threshold to take effect immediately.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 04/30/18 07:11 PM EDT

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com