# Bond Case Briefs

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## Public Finance Watchdog Gives Illinois an "F"

States are putting taxpayers on the hook for more and more debt, with Illinois among the state's with highest tax burden per taxpayer in the nation, according to the latest report from public finance watchdog Truth In Accounting.

Despite the improving national economy, some states are in worse shape now than they were shortly after the end of the Great Recession. Truth In Accounting's ninth Fiscal State of the States report reviews states' comprehensive annual financial reports (CAFR) for the overall financial condition for all 50 states. From there, TIA offers up a letter grade for each state, from "A" to "F," where Illinois lands.

"Based on our grading methodology, three states received A's, seven received B's, 12 received C's, 18 received D's, and 10 states received failing grades," The report said.

Illinois was the third-worst state in debt per taxpayer at $50,800. That's $400 more than the previous year's report. Only Connecticut, at $53,400 debt per taxpayer, and New Jersey with $61,400 debt per taxpayer, were worse than Illinois.

Truth In Accounting considers Illinois one of five Sinkhole States that don't have enough assets to cover their debt.

"Illinois only has $28.8 billion of assets available to pay bills totaling $244.9 billion," according to the report.

The other four Sinkhole States were Massachusetts, Kentucky, Connecticut and New Jersey.

At the other end of the spectrum were the five Sunshine States, with Alaska leading the country with a per-taxpayer surplus of $56,500. The other were North Dakota ($24,900 surplus per taxpayer), Wyoming ($19,600), Utah ($4,400) and South Dakota ($3,100).

TIA Research Director Bill Bergman said some states – like Illinois – are in worse shape than they were shortly after the Great Recession.

"Given that we've had a recovery since then, and a significant one in the stock market, the fact that Illinois' financial condition has worsened since 2009 is even more of a concern," he said.

Illinois keeps getting worse, Bergman said, with a per taxpayer debt liability of $29,000 in 2009 ballooning to $50,800 in TIA's most recent report.

Bergman said states that are running surpluses have something in common.

"The good states have a record of funding their pensions and funding their [other post-employment benefits] in a timely way that doesn't kick the can down the road," he said.

While credit rating agency reports are for bond holders, TIA's rating is designed to show taxpayers what's going on, Bergman said.

"Our review is something that's guided by the concern for the common citizen and the average taxpayers, whereas credit ratings focus on bond holders," Bergman said.

Moody's has Illinois' general obligation bonds rated at Baa3 with a stable outlook, S&P at BBB- with a stable outlook and Fitch at BBB with a negative outlook, all just above junk status.

Some ratings reports acknowledge Illinois' unfunded liabilities and structural debt, but they change the outlook from negative to stable because of things like tax increases. In the summer of 2017, Illinois' ended a more than two-year budget impasse by increasing income taxes by $5 billion over the governor's veto. Credit ratings agencies hinted at a junk status rating if there wasn't a budget.

"[Governments] have the power to tax and that's definitely something worth respecting, but from the point of view of the average taxpaying Joe or Jane, that's not necessarily the source of financial strength," Bergman said. "In fact, they're relying on the average taxpayer to make the bonds whole with the power of tax and the power of force."

The TIA report also shows that because of new financial reporting rules requiring all unfunded post-employment benefits to be reported, Illinois' hidden debt was among the worst in the country at $36.1 billion, for a total of $52.5 billion in promised benefits.

Another area Illinois failed at were filing comprehensive annual financial reports within 180 days. Illinois was 258 days tardy from the end of its fiscal year, the report said. Illinois was tied for fifth worst in the nation there.

Bergman said he wants to bring awareness to taxpayers about the true cost of their government's structural debt.

"This is hard stuff," Bergman said. "A lot of people, their eyes just fog over. We're trying to help them understand it."

While Illinois is among the worst states, the report notes that the entire country is in financial trouble.

"States in general do not have enough money to pay all of their bills," the report said. "Based on our latest analysis, the total unfunded debt among the 50 states increased by $53.4 billion to more than $1.5 trillion in fiscal 2017. Most of this debt comes from unfunded retiree benefit promises, such as pension and retiree healthcare debt. This year, pension debt accounts for $837.5 billion, and other post-employment benefits – mainly retiree healthcare liabilities – totaled $663.1 billion."

The Fiscal State of the States report can be found at StateDataLab.org.

**WBGZ Radio**

By Greg Bishop – Illinois Radio Network

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