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Illinois Governor Eyes Bond Sale, Tax Hike to Save Pensions.

Illinois Governor J.B. Pritzker is considering a broad plan to inject cash into the state's struggling pensions by selling \$2 billion of bonds, implementing a progressive income tax and using billions of dollars of government assets to reduce the massive debt owed to the retirement system.

At the same time, the Democrat, who took office last month, wants to extend the state's timetable for paying down the debt by seven years to prevent swelling pension payments from crowding out spending on other priorities, Deputy Governor Dan Hynes said in a statement. His administration also wants to encourage workers to accept early retirement buyouts.

The plan provides the greatest detail yet for how Pritzker will contend with the financial challenge posed by Illinois's \$134 billion unfunded liability to its workers retirement plans. The shortfall built up from years of failing to set aside enough money to cover all the promised benefits, leaving the government facing escalating annual contribution payments. That has left Illinois's credit rating dangling just one step above junk, lower than any other state, and caused investors to demand large penalties on its bonds.

Hynes said that the administration would use the proceeds of any bond sale to increase its payments to the retirement system, not as a means of covering its annual contribution. That would prevent Illinois from repeating the mistake it made more than a decade ago, when it issued \$10 billion of such debt only to see the shortfall reemerge.

'We can lower the cost of our pension debt and inject cash immediately into the system by issuing a small-scale pension bond of about \$2 billion,' Hynes said in a statement. 'The bond proceeds would be used for no purpose other than to be deposited directly into the funds — and would be used only for paying down our more expensive pension liabilities. No skimming off the top to pay this year's pension payment.'

The pension shortfall is the biggest financial problem facing Illinois. With the state mired in partisan gridlock for much of the past four years under Republican Governor Bruce Rauner, Wall Street analysts have seen the return to a unified Democratic government as providing Pritzker with an opportunity to contend with issues that eluded his predecessor.

Pritzker has formed a panel of business experts to look into ways to use the state's assets — like buildings and roads — to raise cash for the pension system, and Hynes said some revenue generated by scrapping the flat income tax in favor of a progressive one would also be directed there.

While a graduated income tax is the norm in most states, Illinois has a constitutionally-protected flat tax, which would require a voter-approved amendment to implement. If the change is successfully enacted, Hynes said Illinois would increase its contributions to the retirement system by \$200 million a year over what it's legally obligated to pay.

'The state government needs to show the people they are behaving responsibly, because if they don't, any proposal that requires a statewide vote will go down because they don't trust them,' said

Howard Cure, head of municipal bond research at Evercore Wealth Management. 'Pritzker doesn't have a lot of time to prove his worth.'

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