Bond Case Briefs

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S&P Medians And Credit Factors: Illinois Municipalities And Counties

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Overview

S&P Global Ratings maintains ratings on 238 municipalities and 21 counties in Illinois. Currently, 58% of Illinois municipalities and counties are highly rated ('AA-' or above), and 8.5% have debt rated in the 'BBB' category or lower. During the period of Jan. 1, 2018 to July 29, 2019, only about 8% experienced changes in their general obligation (GO) rating or issuer credit rating (ICR). More entities' GO ratings/ICRs were downgraded than upgraded during the year.

We expect generally stable conditions in the Illinois municipal portfolio in the coming year, despite significant challenges, particularly with regard to many municipalities continuing to grapple with large unfunded pension liabilities. With regard to its economy, the state has continued to see a large divergence between the generally higher-growth economy in the Chicago metropolitan area and tax bases downstate, which are marked by weaker growth and less economic diversity. Overall, the state's economy, similar to the Great Lakes region as a whole, is expected to see slower economic growth than most other parts of the nation. The state passed its 2019-2020 budget on time, and while it still has a lingering structural imbalance, the budget includes a significant increase in state gas tax, which is expected to be used for capital projects in the coming years and will benefit local communities. The state continues to reduce the local government distributive fund by 5% for municipal governments, which is the same reduction that occurred last year. State legislators also authorized a referendum for a statewide graduated income tax, which will go to voters in November 2020.

Illinois' pension funding challenges remain acute, particularly with regard to single-employer public safety pension plans. Estimates indicate that the over 650 public safety pension plans statewide are 55% funded in aggregate. We anticipate that Illinois municipalities' attempts to remedy these funding deficiencies will absorb a sizeable portion of their budgets next year.

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