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Illinois Could Soon Start Looking Like a Junk-Rated Borrower, S&P Says.

Strategists who follow the municipal bond market are starting to warn that federal aid may not arrive soon. That would mean even more trouble for Illinois.

The state has a growing bill backlog, as S&P Ratings highlighted in a bulletin on Monday. Illinois' general funds payable backlog was nearly \$7.7 billion as of Monday, up from \$5.4 billion at the end of its fiscal year on June 30. That is the highest the backlog has been since fiscal 2018, when its deficit was shrinking from record levels reached during a fiscal crisis.

It is looking less likely that federal aid to state and local governments will arrive by the end of September. And S&P says that even if federal funding eventually reaches Illinois, it is unlikely that it will cover the full budget shortfall. Thanks to these pressures, the state "could exhibit further characteristics of a non-investment-grade [or junk-rated] issuer," the ratings firm said in its bulletin.

Illinois is the lowest-rated state in the U.S., with S&P grading it one tier above junk at BBB-. S&P's bulletin isn't an official warning about a downgrade (known as a watch), but the analysts do have a negative outlook assigned to the state's credit rating, indicating they think a downgrade is more likely than an upgrade over the next year or two.

While Illinois has taken some steps to shore up its finances—a graduated income tax will be on the ballot this November—they may not cover the gap of income lost to the coronavirus pandemic. State officials have repeatedly warned about potential cuts to state services and funding, including educational funding.

"Illinois will likely cut spending if there is no further federal assistance by the end of September," S&P analysts wrote in their bulletin. "We expect that [the state] will enact some budget cuts in fiscal 2021, but these will not likely be timely enough or sufficient to address the entire budget gap."

Barron's

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