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[Illinois Eyes Second Fed Loan If Aid, Income-Tax Vote Fail.](https://bondcasebriefs.com)

- **Governor needs to fill $4.1 billion deficit this year**
- **State's voters will cast ballot on graduated income tax Nov. 3**

Illinois, the only U.S. state to borrow from the Federal Reserve, will likely have to tap the central bank again to help close its $4.1 billion deficit if federal aid doesn't come through and voters reject a ballot measure to raise taxes on the rich, according to Governor J.B. Pritzker.

The cash-strapped state sold $1.2 billion in short-term debt in June to the Fed to help close its fiscal 2020 budget gap. While Pritzker is optimistic that stimulus will arrive at some point and voters next month will approve his signature agenda item to end Illinois's flat income tax, he's prepared to use the Fed's Municipal Liquidity Facility, a lifeline for state and local governments, for a second time.

"If there is no support from the federal government or there's no fair tax, and so given that situation, we would certainly, for some of that, we would need to go to the MLF borrowing facility, but we would also implement cuts," Pritzker, a billionaire Democrat, said in an interview. He's asked state agencies to submit proposals for 5% spending cuts this year and another 10% for fiscal 2022.

Illinois isn't alone in its woes. States are facing about a $200 billion revenue shortfall from fiscal 2020 through 2022, according to Moody's Analytics, but Illinois has little cushion. The state has more than $8 billion of unpaid bills, about $137 billion of unfunded pension liabilities, and its rainy day fund has $858,873. Its borrowing penalty is the highest among states tracked by Bloomberg, with its credit rating only one step above junk.

Higher Levies

If approved in November, the graduated income tax would bring in about $1.2 billion for fiscal 2021, which began July 1. For a full year, it would bring in $3.1 billion, according to state estimates. Illinois's flat tax of 4.95% would move to a progressive rate in January 2021 and boost levies on those earning more than $250,000. Rates would range between 4.75% and 7.99% for individuals.

According to a poll released in March by the Paul Simon Public Policy Institute at Southern Illinois University Carbondale, about 65% of voters supported the amendment, and 32% were against it. The survey of 1,000 registered voters, conducted between Feb. 10 to 17, has a margin of error of plus or minus 3.1 percentage points.

Still, opponents of the graduated tax have grown more vocal as Election Day approaches. The Coalition to Stop the Proposed Tax Hike Amendment calls the measure "bad for Illinois," arguing it would give politicians more power to raise taxes, hurt small businesses and not provide "material" relief to middle- and lower-income taxpayers, according to its website.

"The bottom line is we can't trust the politicians in Springfield with a blank check," Lissa Druss, spokesperson for the coalition, said in an email.

Ken Griffin, founder of hedge fund Citadel LLC, has donated $46.75 million to that group to help fight the measure, while Pritzker has given $56.5 million to the “Vote Yes for Fairness” committee, which supports the change.

The passage of the measure, “at this point, it seems more uncertain,” said John Shaw, director of the Paul Simon Public Policy Institute. The pandemic, racial tensions and other political debates in the state and around the U.S. have taken up a lot of the attention and “deepened Illinoisan’s cynicism” of government, he said.

‘Draconian Cuts’

In Washington, U.S, Senate Majority Leader Mitch McConnell said the differences are likely too big for an agreement on a new comprehensive stimulus package before the election, despite President Donald Trump’s renewed interest in striking a deal.

Without additional revenue from the higher levies or federal aid, Illinois Comptroller Susana Mendoza is warning that the state could see unpaid bills balloon and will have to look at “draconian cuts.”

The graduated income tax “won’t get us all the way there but a combination of cuts, plus new revenues coming in and ideally we get federal funding,” Mendoza said. “But I think we have to plan on worst case scenario.”

A defeat of the income-tax measure doesn’t mean a downgrade will be automatically triggered, said Eric Kim, an analyst for Fitch Ratings. Fitch lowered the state’s rating in April to just one notch above junk, the same level as S&P and Moody’s Investors Service. All three cut their outlook on the state’s debt to negative in April amid the pandemic.

This week, S&P and Fitch Ratings affirmed their BBB- rating on Illinois and Moody’s affirmed its equivalent Baa3 rating. All three have a negative outlook. Those ratings apply to $850 million in general obligation bonds the state plans to issue Oct. 20 to pay for capital projects and its early retirement program.

Economic Outlook

The passage of the graduated income tax may help the market’s perception of Illinois but doesn’t completely change the fundamentals, said John Miller, head of municipals for Nuveen, which holds Illinois among its $188 billion in muni assets under management as of June 30.

“You still need growth in the economy to improve their budgetary situation,” Miller said.

Through September, general fund state sales tax receipts were $1 billion ahead of forecasts, according to S&P. Sales taxes through the first quarter were 9.9% above forecasts and roughly flat compared to the previous year, the ratings company said in an Oct. 7 report.

“Our revenues have outperformed our projections,” Pritzker said. “That’s a very good thing. It means our economy is recovering at a faster rate than our experts, economists had predicted.”

Still, Pritzker cautioned that he’s concerned about the level of unemployment and the ongoing spread of the pandemic. Illinois’s unemployment rate is still about 11% and its rolling 7-day virus positivity rate is about 3.7%, with the daily case count reaching the highest since May on Thursday, excluding a day in September when the state released backlogged data.

“This pandemic is not over,” he said. “This is going to be a difficult period for the country.”

Bloomberg Economics

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October 9, 2020, 5:00 AM PDT Updated on October 9, 2020, 9:01 AM PDT