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'Plenty of Ways for Illinois to Hit Junk Pretty Quickly,' Analyst Says.

(The Center Square) - A public finance watchdog said the latest report on Illinois' finances from Fitch Ratings is evidence the state is on the verge of having a junk credit rating.

Fitch gave \$850 million of borrowing the state issued a BBB- rating. Some of that borrowing is for the state's pension buyout program, the rest is for capital projects.

Wirepoints President Ted Dabrowski said the pension buyout program is a distraction and not providing real savings. He said the Fitch report shows state's politicians are running out of options and are costing taxpayers more by borrowing more money.

"They're even warning 'yes, the tax hikes might help the bondholders,' the bondholders would be happy with tax hikes because that'd be more money for them, but that doesn't help the average Illinoisans," Dabrowski said.

Dabrowski said while neighboring Indiana may be borrowing at 1.5 percent with a good credit rating, Illinois' near junk status has the state paying 5.5 percent for borrowing.

"And the worse it gets the more of that the budget gets eaten up by the costs and the worse the public services go," Dabrowski said. "This is a state in decline in that sense because all of the money is being eaten up by financial costs."

Including pensions and debt service, Dabrowski said as much as 30 percent of the state budget is set aside to cover financial services like paying on growing debt obligations.

Last fiscal year, on \$2.8 billion of borrowing, taxpayers incurred interest costs of \$1.6 billion. The state also spends around a quarter of every tax dollar it takes in on pension debt.

Without real reforms to pensions to lower the obligation, and without real reforms to how much the state spends, Dabrowski expects the state to hit junk status.

"Clearly if the [progressive income] tax hike doesn't pass, that'll happen, and some people will view that as bad," Dabrowski said. "But it's actually, what the government doesn't need is more money. What the government needs is reform."

There's also the \$5 billion of federal funds Illinois Democrats put in the budget that's nowhere in sight.

"If that doesn't happen, Gov. [J.B.] Pritzker has made no plans to figure out how to reduce expenses to do that so I think that could easily trigger a junk bond rating," Dabrowski said. "There's plenty of ways for Illinois to hit junk pretty quickly. It's all a question about how fast that happens and what triggers, but I think there's plenty of triggers there waiting."

Without specifics, Pritzker said earlier this week that agencies under his control are looking at cuts.

“What our agencies are looking at is grant programs, they’re looking at their own personnel, and the hiring that they’ve needed to do,” he said.

By Greg Bishop | The Center Square Oct 8, 2020

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