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## Illinois Plans to Borrow Another \$2 Billion From Federal Reserve.

- **It comes after state already borrowed \$1.2 billion from Fed**
- **Fed's municipal lending program is set to end Dec. 31**

Illinois plans to borrow an additional \$2 billion from the Federal Reserve in an effort to prop up its already-struggling finances as the state's bills rise amid the pandemic

It would be the second time the worst-rated state has borrowed through the central bank's Municipal Liquidity Facility, an emergency lending program for state and local government issuers. Illinois already borrowed \$1.2 billion from the Fed during fiscal year 2020 to cover pandemic-induced losses, and has since repaid \$200 million of that loan, according to the governor's office.

"Short-term borrowing is a short term band-aid to address the urgency of a short-term problem like one caused by a pandemic," Governor J.B. Pritzker said during a virtual press conference on Wednesday.

Illinois is the only state to tap the Fed's borrowing program so far and is at risk of seeing its debt cut to junk. The pandemic worsened Illinois's already strained finances: the state is struggling with \$137 billion of pension debt and \$7 billion of unpaid bills. Illinois is projecting a fiscal 2021 budget gap of about \$3.9 billion and deficits are expected to continue through 2026, according to a Nov. 13 forecast from the Governor's Office of Management and Budget.

### **Yield Penalty**

Investors have long punished Illinois for its fiscal woes, boosting the penalty the state pays to borrow from the bond market. Illinois 10-year general obligation bonds yield about 2.77 percentage points more than benchmark debt, the highest of the 20 states tracked by Bloomberg.

The state still has market access, but it's not a surprise that officials are turning to the Fed, said Daniel Solender, head of municipal securities at Lord Abbett & Co., which manages \$30 billion of state and local debt, including Illinois bonds.

"It makes sense to use it while they can," said Solender. "The reason they're using the facility is because the cost for them in the market, it's higher for them than other states."

### **Spending Cuts**

The decision comes after Illinois voters rejected a ballot measure that would have let the state raise taxes on its wealthiest residents, a key component of Pritzker's plan to balance the budget. Since the failure of the graduated income tax proposal, Pritzker, a billionaire Democrat, has warned of potential spending cuts for public safety, education and health services.

Pritzker said the new borrowing is less than half of the \$5 billion authorized, and that it would be

“irresponsible” to saddle the state with the full amount. He said the state plans to repay the debt “as early as possible.”

“The \$2 billion is necessary given that this targeted borrowing will allow us to stabilize Illinois’ health care system in the middle of a global pandemic and a COVID-19 spike here in Illinois,” Illinois Comptroller Susana Mendoza said in an emailed statement.

Mendoza plans to use the loan to pay medical bills for which the state receives federal matching dollars and also to avoid late-payment interest penalties, she said. The borrowing will be repaid over a three-year period and any new federal stimulus will be earmarked to repay the loan, according to Mendoza.

Dec. 1 is the last day for state and local governments to notify the Fed of their intent to tap the program before it expires on Dec. 31.

## **Bloomberg Markets**

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