

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **Illinois Projects Surplus But Gaps Come Back Next Four Years.**

- **Fiscal 2022 surplus at \$418 million: governor's budget office**
- **Holes in next four years to be smaller than previous forecasts**

Illinois, which has seen a vast improvement in its financial outlook over the last year, expects a bigger surplus this fiscal year and smaller gaps in the next four annual budgets thanks to a quicker than expected recovery in revenues and billions in federal aid.

The state's fiscal 2022 budget surplus will be \$418 million, up from an earlier estimate of \$88 million, as revenue from sales and income taxes increased more than previously anticipated and after the state taps about \$2 billion of its more than \$8.3 billion in American Rescue Plan Act funding, according to a report Tuesday from the Governor's Office of Management and Budget. Deficits will return from fiscal 2023 through 2027 but will be smaller than previously expected, according to the report.

"I am committed to building on this significant progress while tackling our remaining fiscal challenges," Governor J.B. Pritzker said in a statement Tuesday. He added that he's focused on working with the Illinois General Assembly to build "long-term fiscal stability for Illinois while ensuring economic opportunity in all of our communities."

Pritzker's budget office is projecting a 2023 shortfall of \$406 million, down from \$2.9 billion estimated in 2019, and the 2024 deficit was cut to \$820 million from \$3.2 billion, according to the statement. The state's unpaid bills will drop below \$2.75 billion by the end of fiscal year 2022 after topping \$16 billion during the state's budget impasse a few years ago.

"It stands on its own how remarkably improved Illinois's budget situation is from all of 12 months ago," Ty Schoback, a senior municipal research analyst for Columbia Threadneedle Investments, which owns Illinois debt as part of \$17 billion in muni assets, said in an interview.

### **Big Turnaround**

In November 2020, Illinois was facing the threat of its debt being downgraded to junk after voters rejected a shift to a graduated income tax from a flat rate. Pritzker had championed the move as a way to increase revenue and address the state's structural deficits. At the time, Illinois was headed toward borrowing from the Federal Reserve's Municipal Liquidity Facility for a second time because its penalty for selling debt in the \$4 trillion muni bond market surged during the pandemic.

Since then, the state's outlook has dramatically improved. In mid 2021, Illinois received upgrades from S&P Global Ratings and Moody's Investors Service, the first in more than 20 years, while Fitch Ratings boosted its outlook to positive from negative. The state has paid off at least \$2.2 billion of the total \$3.2 billion it borrowed from the Fed. The extra yield it pays on its debt compared to 10-year benchmark AAA muni securities has fallen to about 70 basis points from around 300 a year ago.

Schoback gives the state credit for taking prudent steps to improve its credit profile, including reducing its backlog of unpaid bills and interfund borrowing for liquidity. The key for Illinois will be to address longer-term financial pressures, such as its pensions, and building up its rainy day fund in meaningful ways, he said. The state's unfunded pension liability has grown to around \$144 billion.

In the report Tuesday, Illinois officials acknowledge that even with "a major sign of critical progress on state finances, and a significant improvement over previous projections for fiscal year 2022," the state has much work to do.

"They have the ability to continue to improve their credit profile and secure further upgrades, but they can't take their foot off the gas," Schoback said. "The market will be receptive to slow and steady, but that trajectory needs to continue."

Fitch Ratings is monitoring the state's progress to "unwind" steps taken during the pandemic such as the Fed loan and inter-fund borrowing, and "real progress" on such items would support an upgrade, said analyst Eric Kim.

The firm has assigned the state's debt a BBB- rating, one step above junk, but sees a positive trajectory given plans to pay down those liabilities and the continuation of "normal decision-making," he said.

An impasse between then Governor Bruce Rauner and state legislators left Illinois without a full budget for more than two years between 2015 and 2017.

"That tone has shifted and if we continue to see that progress where things work in a more normal way, that's a positive rating factor," Kim said in an interview.

## **Bloomberg Markets**

By Shruti Singh

November 9, 2021, 3:09 PM PST Updated on November 10, 2021, 9:59 AM PST