Bond Case Briefs

Municipal Finance Law Since 1971

<u>Illinois Comptroller Urges Credit Upgrades in Letter to Rating Firms.</u>

- State's moves 'favor upgrading' bond rating, Mendoza writes
- Touts unpaid bill backlog reduced, emergency loans paid back

Illinois Comptroller Susana Mendoza is urging the top three credit rating firms to again bump up her state because of its mounting fiscal improvements that already led to its first upgrades in two decades last year.

"I believe Illinois is due to be recognized for our current achievements and plans to further strengthen our financial situation, and I believe these are strong indicators that favor upgrading Illinois's credit rating," Mendoza wrote in a letter dated Feb. 4, viewed by Bloomberg News.

Mendoza, a Democrat who took office in late 2016, wrote similar letters advocating for the firms to take the state's progress into account in April and then pushing for higher ratings in July. Illinois received an upgrade from Moody's Investors Service in June to Baa2 from Baa3. S&P Global Ratings lifted its score to BBB from BBB- in July amid rebounding revenue and billions in federal aid. And Fitch Ratings raised its outlook on the debt to positive from negative in June but maintained its BBB-rating.

The gains lifted Illinois from the brink of junk, though it still has the lowest rating of any U.S. state. Moody's and S&P consider Illinois two steps above junk, while Fitch has it one level above junk.

Mendoza's letter last week touts the recent progress. Illinois has reduced its unpaid bill backlog to below \$3 billion; paid back early the full \$3.2 billion in emergency loans taken in 2020 from the Federal Reserve's Municipal Liquidity Facility; and it intends to repay the remaining \$719 million in state interfund borrowing by the end of the fiscal year on June 30, Mendoza wrote.

"If this information is not sufficient to lead to a favorable review, Governor Pritzker's recently announced budget proposal will surely check off any remaining doubts that Illinois is on the right track to fiscal stability," Mendoza said. "I am hopeful this will be welcome news to you and that your ratings agencies will reward Illinois with yet another credit upgrade."

Governor J.B. Pritzker, the first-term Democrat who is up for re-election in November, put forward a \$45.4 billion budget for the year starting in July last week, proposing to cut spending 3.4% from this fiscal year with a projected general-fund surplus of \$458 million.

The budget includes a \$279 million contribution to the Budget Stabilization Fund, also known as the rainy day fund, after a \$600 million contribution in fiscal 2022. The fund currently holds \$22 million, according to the comptroller's website.

Additionally, the governor has proposed extra pension contributions of \$500 million total above the annual payment in fiscal 2022 and 2023 to go toward the unfunded retirement liability standing at about \$130 billion.

Next year's budget won't erase burdens the state has created for itself over decades, but investors and credit rating firms have said measures such as increasing its rainy day fund and pension payments will improve its credit prospects.

Pritzker has also proposed nearly \$1 billion in tax relief with a one-year suspension of the state's grocery tax and freeze of a gasoline tax increase as well as higher property tax rebates.

"The governor's proposals are likely to meet with approval by credit rating agencies, leaving Illinois poised for positive rating news this calendar year as its credit slowly normalizes," CreditSights Inc. wrote in a report on Feb. 2.

The rating firms did not comment specifically on the prospects for upgrades in the days after the governor's budget address but are taking note of the use of rebounding revenue to rebuild its finances.

"Those are positive steps forward," Matthew Butler, vice president-senior credit officer for Moody's, said in an interview last week.

S&P analyst Geoffrey Buswick said a budget proposal by itself wouldn't trigger a credit action and there are still months of budget negotiations ahead of the state. Lawmakers have to approve Pritzker's spending plan.

Meanwhile, Fitch's positive rating outlook means the state could see an upgrade in one to two years if current trends continued.

"Fitch always appreciates opportunities to hear directly from policymakers to help us understand their thought processes and the factors they are considering as they make fiscal choices," Fitch analyst Eric Kim said in an emailed statement Monday.

A budget impasse 2015 through 2017 between former Governor Bruce Rauner, a Republican, and the Democrat-controlled state legislator led to unpaid bills topping \$16 billion in 2017. But Illinois has since benefited from an economic recovery with the budget proposal reflecting revenues above past projections, according to Fitch.

"We are continuously evaluating fiscal and economic developments for the state, including information discussed with the Comptroller's office and with the administration, and our rating perspective remains the same as outlined when we revised the outlook to positive," Kim said.

Bloomberg Markets

By Shruti Singh

February 7, 2022, 11:38 AM PST

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com