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Fitch: Illinois Slowly Inching Towards Pre-Pandemic Strength

Fitch Ratings-New York-16 February 2022: Illinois' recently released executive budget shows a state making more fiscally sound decisions and painstakingly building towards a return to the state's pre-pandemic rating, or as Fitch Ratings states in a new report, possibly even higher.

Continued improvements in Illinois' operating performance highlight the state's recent economic and fiscal progress with legislative deliberations on the budget beginning in earnest soon. "Illinois' once-towering backlog of unpaid bills has been steadily reduced, with more improvements possible if the governor's proposals are implemented," said Eric Kim, Fitch's head of state government ratings and lead analyst for Illinois.

Like many states, Illinois benefited significantly from the broad national economic recovery thanks mainly to the trillions in federal economic stimulus approved by Congress. \$8.3 billion in direct federal aid from the American Rescue Plan Act's (ARPA) Coronavirus State Fiscal Recovery Fund (SFRF, \$8.1 billion) and the Coronavirus Capital Projects Fund (CCPF, \$254 million) provides further boost to the state's fiscal and economic outlook. The governor proposes using approximately \$535 million of remaining ARPA aid in 2023 on one-time uses. According to Kim, this largely non-recurring usage of aid will avoid creation of a fiscal cliff.

Despite its progress, Illinois is not without lingering challenges, in this case pension liabilities. Despite the budget requiring annual pension system contributions to reach 90% funded by 2045, Fitch deems this amount inadequate to fully address the state's sizable pension burden. In fact, "Illinois' pension liabilities and related contribution demands will grow over time if the state continues to underfund the systems," said Kim.

Pension challenges aside, Illinois' fiscal decision-making has improved markedly of late. "Continuing more normal fiscal decision-making process, including on-time budgets that address fiscal challenges primarily with sustainable measures, could support positive rating action," said Kim.

"Illinois' Executive Budget - A Credit View" is available at www.fitchratings.com.

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