

Illinois Debt Issues Continue

Money and bond issues continue to surround Illinois following the passage of the state's fiscal 2018 budget. The state legislature overrode the governor's veto several weeks ago to implement the first spending plan in two years, but Illinois is still billions of dollars behind on bills and is facing a negative outlook from Fitch Ratings and Moody's Investors Service.

Fitch is playing the wait-and-see game with Illinois. "The negative outlook reflects the uncertainties related to successful implementation of the budget," said Fitch in a bond ratings report on the state in July. "These risks include reducing the accounts payable backlog in the near term, including by coming to market with bonds that were authorized in the budget; completing the sale of a state building assumed in the budget; meeting revenue targets in a slow growth environment; and achieving near-term pension contribution savings," said the report.

"Illinois' approach to revenue shortfalls has historically been to delay payments," said Fitch. It did so during the Great Recession, when the accounts payable backlog hit 20% of the operating budget. The current backlog is approaching 40% of the operating budget, and Fitch believes the state will look at deferring payments again.

"The state is going to drag its feet in paying the account off. However, I have found that the more persistent on the debt you are, the higher the likelihood that the account gets paid, so the biggest thing you should know is who to talk to. Who is the person that can get you paid?" said Crop Production Services Credit Manager Kevin Stinner, CCE, CCRA.

"I'm not sure a creditor has many options," said Wanda Borges, Esq., of Borges & Associates LLC in New York. "Once the creditors are sorted out, it would seem that Illinois' only real option is to borrow money," she said.

"There is no legislated remedy for a state which is in financial difficulty. There has been some talk about Congress expanding Chapter 9 to enable Illinois to file for bankruptcy protection. Personally, I don't think that will happen," Borges added.

Earlier this month, Illinois had a backlog of bills totaling \$14.14 billion, which is down from \$15.4 billion in June. Late payment penalties are costing residents \$2 million per day in interest, said Illinois Comptroller Susana Mendoza in a press release. She urged the governor to sell up to \$6 billion in bonds as authorized by the new budget. "The bonding will be used to start to tackle the state's bill backlog. ... It will give some relief to providers and businesses awaiting payment from the state. Over the past two years without a budget, they have had to exhaust their lines of credit, lay off employees and, in some cases, turn away Illinois citizens in need of services," said Mendoza's statement.

"In the short term, [issuing bonds] will flush the state with much needed cash to pay down the debt. However, it is more debt without solving the issue that is creating the debt," said Stinner. "In essence, this is just like kicking a snowball, yes it is out of your way for now, but the problem is only getting bigger."

The governor's office shunned Mendoza's plea the same day, saying she should look into other options before the bonds are issued. "The governor's final decision on bonding requires us to first know how

much of the bill backlog can be addressed through means other than bonding,” said spokeswoman Laurel Patrick according to Reuters.

The 2018 budget includes a permanent tax increase to “more closely align revenues with spending and that should significantly reduce the near-term liquidity stress that had threatened the state’s investment-grade rating,” said Fitch. “Despite the significant increase in expected tax revenues, Illinois remains poorly positioned to address a future economic downturn.”

“Dealing with the state of Illinois is very difficult. My expectation on any credit sales is that you will not be paid for 12-18 months, you will not be paid any finance charges, and, if you offered early pay discounts, the state will take them even if they are 18 months past due,” added Stinner.

Illinois has the lowest credit rating in the U.S., and it pays the highest borrowing costs, according to Reuters.

-Michael Miller, editorial associate