



# OFFICE OF ILLINOIS STATE TREASURER

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## Treasurer Frerichs: Rauner Must Initiate Meaningful Budget Negotiations or Risk Junk Bond Status

### *Six Credit Downgrades Since Rauner Took Office*

**SPRINGFIELD** – State Treasurer Michael Frerichs today urged Gov. Rauner to suspend his campaign and initiate meaningful budget negotiations or risk plunging the state into junk bond status.

Illinois has incurred six credit downgrades since Rauner became governor because Illinois has gone two years without a spending plan and has a \$12 billion bill backlog. Moody's Investment Services warns of another credit downgrade if the Governor and General Assembly do not strike an agreement by May 31.

"If we do not have a budget at the end of this month, I fear that we will not have a budget until after the next election," Frerichs said. "There is no way to predict how badly four years without a budget will harm our state and no clear path back from that untenable brink."

Frerichs spoke today in his role as the state's chief financial officer. While credit downgrades previously had been possible, a credit agency setting a deadline for the state is unusual. As the deadline approaches, Frerichs determined a specific public warning about junk bond status was necessary. Previously, Frerichs issued Rauner private, written warnings that borrowing money without a budget in place is unnecessarily costly and imperils the state.

Another credit downgrade will make it more expensive for the state to borrow money. While entities that purchase Illinois debt have iron-clad constitutional guarantees that they will be paid, the additional interest payments represent money that could have been spent elsewhere, especially in the hard-hit areas of education and elder care.

**The credit downgrades are the direct result of the budget impasse, which contributes to the bill backlog.** The impasse continues because most Illinois residents do not feel squeezed by the lack of a spending agreement. This is because court orders mandate about 92 percent of the state's spending to continue even without approval of the Governor and General Assembly. As a result, groups representing the remaining 8 percent of expenditures, especially students, higher education workers, and the elderly, shoulder an out-sized burden of this stalemate.

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Although the state budget year ends June 30, lawmakers years ago imposed an end-of-May deadline. The imposition means legislation considered in June requires a 3/5ths vote total for passage, rather than a simple majority. The higher threshold makes passing a budget more daunting. Moody's warned: "By not fully paying its bills, Illinois is facing a growing risk of long-term damage to the state's public higher education system and its network of human service providers."

Higher education faces a double whammy. Public colleges and universities in Illinois have not received a full appropriation in two years, and in recent weeks absorbed credit downgrades which will make it more difficult for them to borrow money. Some institutional investors will be barred from purchasing the debt because, unlike the state of Illinois, repayment of the loans is not constitutionally guaranteed.

In April, S&P Global Ratings downgraded the credit worthiness of six state universities. The University of Illinois in Champaign-Urbana fell to A from A-plus. Southern Illinois University's credit fell to junk level, to BB from BBB. Northeastern Illinois and Eastern Illinois University, each already in junk-status, fell deeper, to B from BB. Western Illinois University fell to BB-minus from BBB-minus. Governor's State University fell to BB from BB-plus.

Today, Illinois has the worst credit rating of any state in the country. The backlog of bills has tripled since 2015, when this standoff began, and each Illinois resident would have to pay nearly \$1,000 to off the backlog. At this pace, the bill backlog could reach \$28 million by 2021, or potentially 80 percent of a state budget. A lack of political will caused this budget crisis, Moody's declared, not economic factors tied to the recession.

### **About Credit Rating Agencies**

There are three primary credit rating agencies: Fitch Ratings Inc., Moody's Investors Service, and S&P Global Ratings. Each agency assigns government bonds, sometimes called a tax-backed loan, a credit rating. The credit rating, like a credit score, indicates how risky it is to purchase government bonds. The higher the risk, the lower the credit rating; the lower the credit rating, the more expensive it is for Illinois to borrow money. Each agency's ratings system is similar, although each uses different letter and number combinations to reflect the credit rating. Nevertheless, each rates Illinois' debt to have speculative elements and a credit risk.

Fitch's Rating is BBB.

Moody's Rating is Baa2.

S&P's rating is BBB

### **About the Illinois Treasurer**

The Illinois Treasurer is the state's chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. The treasurer oversees a portfolio worth more than \$25 billion. It includes approximately \$13 billion in state funds, \$7 billion in college savings plans and \$5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns \$28 to the state for every \$1 spent in operations. The Treasurer's Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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