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Illinois' $6 Billion GO Bonds Assigned 'BBB-' Rating

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SAN FRANCISCO (S&P Global Ratings) Oct. 9, 2017--S&P Global Ratings assigned its 'BBB-' rating to Illinois' $1.5 billion in general obligation (GO) bonds, series of November 2017A, 2017B, and 2017C, and $4.5 billion in GO bonds, issued to refinance a portion of the state's unpaid bill backlog. We also affirmed our 'BB+' ratings on the state's appropriation-backed debt, which includes Chicago's outstanding motor fuel tax revenue bonds. Finally, we affirmed our 'BB-' ratings on the state's moral obligation-backed debt. The outlook on all the debt ratings is stable.

Bond proceeds from the issuances will be used to pay down a portion of the state's approximately $15 billion backlog of unpaid bills.

"The 'BBB-' GO rating reflects our view of the state's nearly depleted budget reserves and generally weakened financial condition that intensified into liquidity stress during the state's two-year budget impasse, lingering structural budget imbalance even after a permanent increase to the state's individual and corporate income tax rates, backlog of unpaid bills that will remain elevated even following the current bonding plan to refinance the bills, and distressed pension funding levels that will require substantial contribution increases in the coming years," said S&P Global Ratings credit analyst Gabriel Petek.

The stable outlook reflects that, with passage of its fiscal 2018 budget, the likelihood that Illinois will experience a liquidity crisis in the coming months has fallen markedly and therefore so have the odds of its rating falling to below investment grade. Enactment of the budget is favorable in that key fiscal adjustments are permanent and thus shrink significantly the state's structural deficit. However, some of the savings associated with certain budget provisions are doubtful, in our view, while some of the revenue-side provisions are nonrecurring, suggesting that deficit operations will persist. Furthermore, refinancing the state's bill backlog with long-term bonds entails some risk, in our view. If the bonding plan is not paired with additional fiscal adjustments, the state could be left with a higher tax-supported debt burden and--once again--an escalating backlog of unpaid bills. This could undermine the state's prospective capacity to reliably fund its retiree benefits liabilities. As it is, the state's pension systems are at distressed funding levels, in our view. Consequently, through our outlook horizon of one to two years, we believe the state's lingering structural deficit is the most identifiable risk to its credit quality. Additional fiscal deterioration--be it the result of an incomplete fiscal correction or exogenous factors, including economic weakening or curtailed federal aid--would put more immediate downward pressure on the rating.

Implementation of the bill payment strategy alongside fiscal adjustments that bring about structural budget alignment is the most likely pathway to a higher rating, in our view.

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