

Treasurer Dan Rutherford's position

NO
MORE
DEBT.



Dan Rutherford
ILLINOIS STATE TREASURER

STATEMENT OF POSITION



Illinois is in the midst of a budgetary crisis. Some policy makers want to continue to spend more dollars than the state brings in. Some are advocating long-term, significant borrowing which will spread the state's challenges into the future.

I respectfully disagree.

In 2002, Illinois' bond indebtedness was \$12 billion; it has soared in recent years and today it stands over \$44 billion including \$25 billion to fund public pensions. Illinois' poor financial position and habitual borrowing have lowered the state's bond ratings to a level where borrowing additional funds has become dramatically more expensive. This unsustainable reliance on debt must be broken.

Troubling numbers:

- Illinois taxpayers' debt from borrowing = **\$44.3 billion** (see Appendix A)
- Illinois taxpayers' unpaid bills = **\$8.5 billion**¹
- Illinois' unfunded pension and retiree health care liabilities = **\$140 billion** (see Appendix B)

Each Illinois family shoulders this debt = over \$40,000 per household²

¹ <http://www.ioc.state.il.us/index.cfm/linkservid/73082249-1CC1-DE6E-2F48AD91458171C3/showMeta/0/>

² <http://quickfacts.census.gov/qfd/states/17000.html>

NARRATIVE

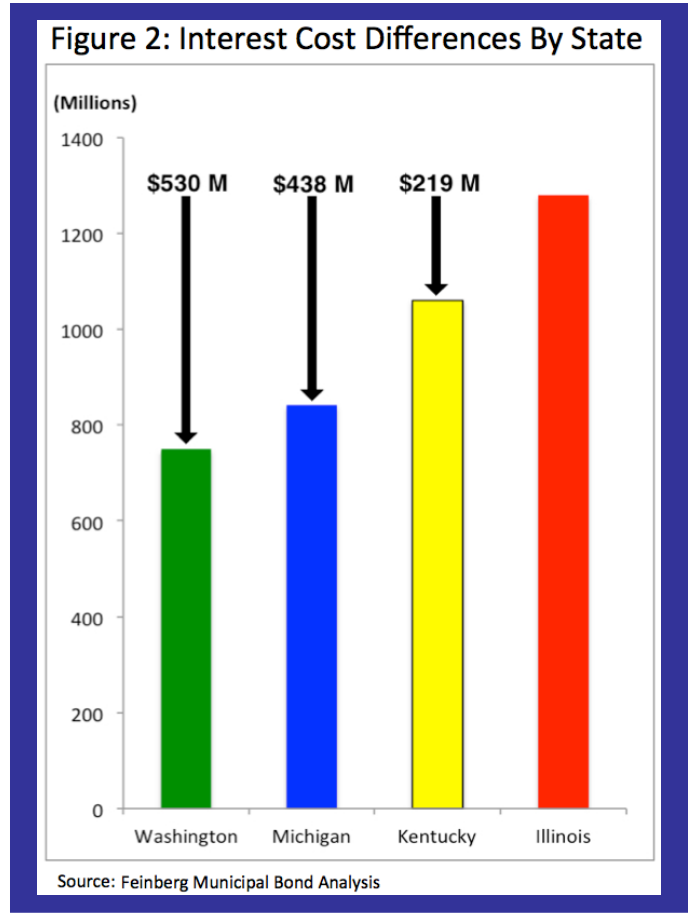
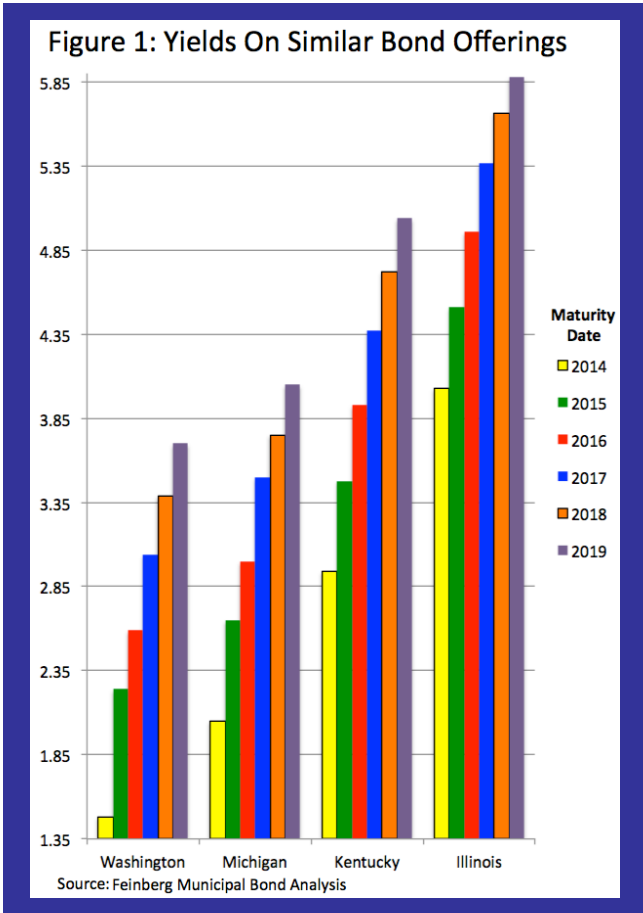
Illinois is a state where industry, innovation and progress come together to help drive the Midwest economy. Whether it is the \$9 billion a year agricultural industry, the international companies that call Illinois home, the highly skilled workforce or the unmatched transportation infrastructure, Illinois has the essential elements for a dynamic economy and a healthy state budget. **So what's the problem?**

The truth is Illinois faces an unprecedented financial crisis that is negatively impacting every resident and business. The financial instability is a drag on the economy and a disincentive for job creators to invest here. As the state treasurer, I feel an even greater obligation to sound the alarm about this important issue. **Illinois is on the verge of a financial disaster.**

The Illinois state budget has been woefully out of balance. Despite the passage of the largest tax increase in state history, state government still spent about \$5 billion more in fiscal year 2011 than it received in revenue. Most alarming is when the true costs of the state's unfunded retirement obligations are included in the calculations, the state had an actual structural annual budget deficit of \$12 billion (see Appendix C). To put those figures in perspective, in 2011 Illinois spent almost \$3 for every \$2 it took in. This cannot continue.

At the heart of this budget instability are the bond issuances that are scheduled to be repaid through 2036. Illinois taxpayers owe an oppressive \$44 billion over the next 25 years on these bonds (see Appendix A). \$25 billion of this debt is to repay money borrowed to fund the public pension system. **Every household in the state is obligated to repay \$10,000 for just this borrowing.**

As the state treasurer, I am here to sound the alarm – Illinois taxpayers cannot afford more debt!



The sale of additional bonds (borrowing) has become far too expensive. The three largest bond rating houses – Standard & Poor’s, Moody’s, and Fitch – estimate that Illinois and California carry the worst credit risks of all the states in the nation; Moody’s actually rates Illinois alone at the bottom. According to Henry Feinberg’s analysis of municipal bonds (see Appendix D), if Illinois was to go into the market with another bond issuance, taxpayers would pay a significant amount more than 48 other states with healthier financial positions. Illinois borrowed another \$3.7 billion in April 2011 to partially fund a pension payment; because of the state’s low credit rating, taxpayers will have to repay \$1.279 billion of interest; that dollar amount is 17 percent more than Kentucky, 34 percent more than Michigan, and 41 percent more than Washington which all issued similar bonds this year (see Figure 1). In actual dollars, the incremental cost to Illinois versus Kentucky will be \$219 million, versus Michigan will be \$438 million, and versus Washington \$530 million (see Figure 2).

These numbers show the stark reality of Illinois’ debt addiction. Massive, multi-billion dollar borrowing literally costs Illinois taxpayers hundreds of millions of extra dollars in repayment than if the state’s credit rating was as healthy as any of our neighboring states.

To heal Illinois’ financial woes, it’s mandatory that borrowing stops.

The state’s poor bond rating has another negative impact: the “halo” effect cast on the municipalities and counties in Illinois makes borrowing even more expensive for them when they issue bonds to fund major

infrastructure projects. In March 2011, Sangamon County, Illinois, issued a \$10 million bond. Similar bonds were issued the same month in Muhlenberg County, Kentucky, at a rate 14 percent lower and in Clear Lake City, Texas, at a rate 17 percent lower. When multiplying this halo effect over hundreds of Illinois communities one realizes that scores of Illinois taxpayers will be taking a substantial financial hit twice.

This bond conversation does not even take into account the unfunded obligations associated with Illinois' five pension funds and the retiree health care benefits that have been promised to government workers. The liability associated with the state's pension plans and retiree health care programs dwarf all other state debts. They are now more than \$140 billion (see Appendix B), and that number grows every day that the status quo continues. The overall pension and retiree health care liabilities are equivalent to an additional \$30,000 per Illinois household. If the state is ever to get its finances in order, it must address these issues. And we must act now.

To comprehend the magnitude of the challenge to protect pensions, consider the findings of Illinois' bipartisan Commission on Government Forecasting and Accountability. In a report released in November of 2011³, COGFA noted that Illinois' pension funds had just 43 percent of the assets necessary to cover obligations. Illinois statute calls for pension assets to eventually equal 90 percent of obligations. Illinois has the worst-funded pension system in the country – worse than California and worse than New Jersey. If this alarming figure trends downward each year and reforms are not made, the state's pension funds will run out of money – and that would be a disaster for everyone in Illinois. Hard working government employees like teachers, nurses and prison guards *deserve to have their retirement benefits protected*. We cannot ignore this problem any longer.

The governor at one time submitted a budget to the General Assembly for FY12 which contained an even larger deficit than previously calculated according to the Institute for Illinois' Fiscal Sustainability at the Civic Federation on May 8, 2011⁴. According to the Civic Federation's analysis, the governor's proposed spending was \$2.4 billion greater than revenues even when factoring in the personal and corporate income tax increase. For the Illinois debt to be repaid and the bond ratings to improve, the state can never budget to spend more money than what is brought in. Reform of public pensions will be a critical piece of the overall budget solution.

It is time Illinois honestly confronts its financial problems head on. It will not be easy. No more debt and beginning to live within the means of taxpayers is essential for the fiscal stability of Illinois' future.

³ <http://www.ilga.gov/commission/cgfa2006/Upload/1111revenue.pdf>

⁴ <http://www.civicfed.org/press-room/governor%E2%80%99s-budget-proposes-increased-spending-artificially-inflated-revenues-expensive-bo>

CONCLUSION

- Bond repayment debt currently stands above **\$44 billion**. Illinois must stop borrowing; in 2002 bond debt totaled only \$12 billion. Illinois' financial position leaves the state's credit rating worst in the country according to Moody's.
- Unfunded pension and retiree health care liabilities add up to **\$140 billion**.
- Total debt liability for Illinois families currently stands above **\$40,000 per household**.
- Responsible budgeting: **spending only as much money as the state brings in**. This will help set Illinois on a course of financial recovery.
- Freezing state spending will begin to **shrink the debt and help repair Illinois' miserable credit rating**. Taxpayers, pension recipients, and future generations of Illinois citizens can afford nothing less.

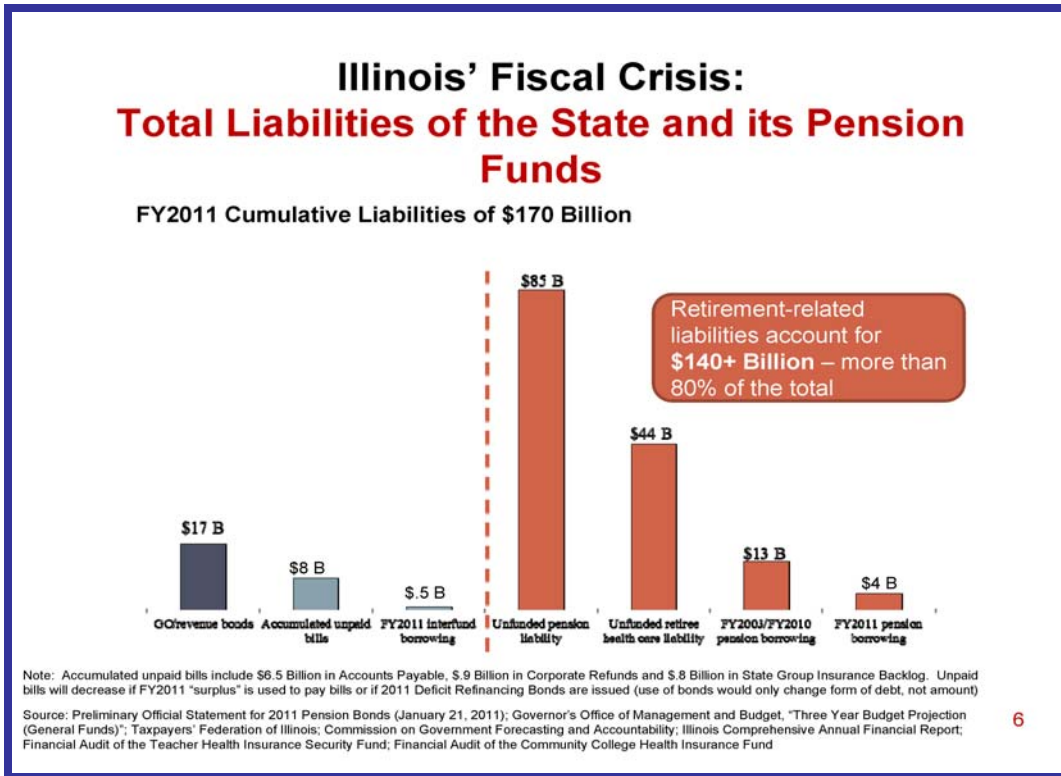
APPENDIX

Appendix A – State of Illinois Bond Repayment Schedule

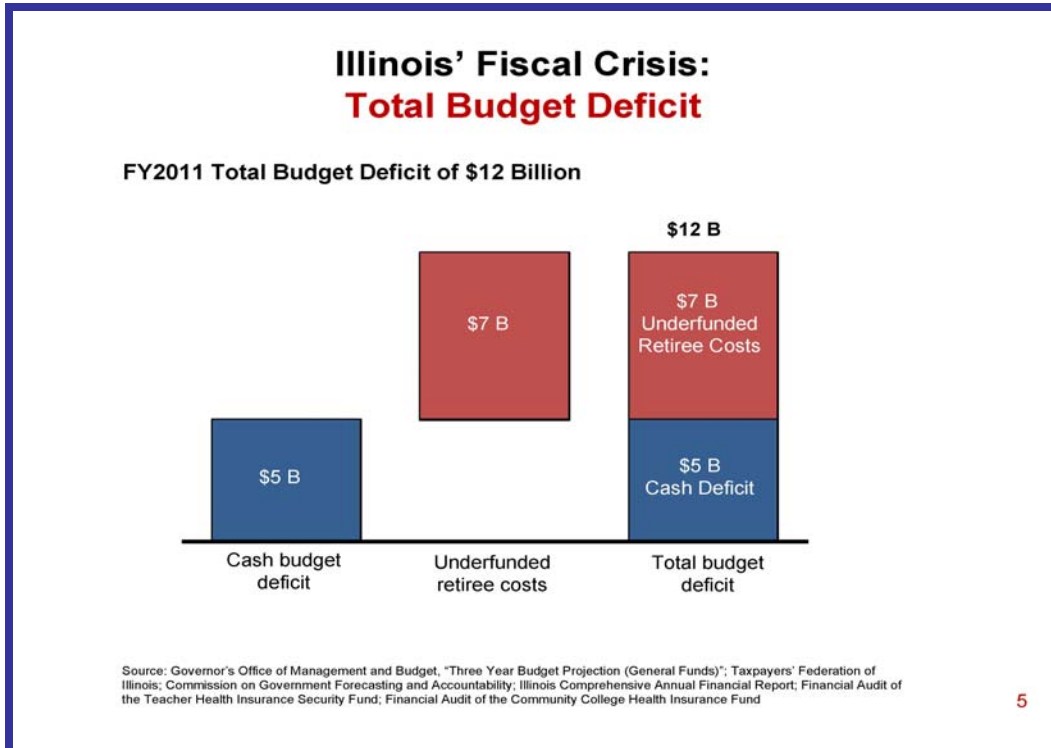
FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL BY YEAR
FY12	\$1,561,880,000.00	\$1,338,163,056.75	\$2,900,043,056.75
FY13	\$1,549,360,000.00	\$1,293,254,407.25	\$2,842,614,407.25
FY14	\$1,628,035,000.00	\$1,237,982,554.63	\$2,866,017,554.63
FY15	\$1,825,610,000.00	\$1,170,322,522.63	\$2,995,932,522.63
FY16	\$1,421,735,000.00	\$1,089,416,998.75	\$2,511,151,998.75
FY17	\$1,713,340,000.00	\$1,022,641,688.75	\$2,735,981,688.75
FY18	\$1,667,820,000.00	\$937,250,788.75	\$2,605,070,788.75
FY19	\$1,652,485,000.00	\$850,227,711.25	\$2,502,712,711.25
FY20	\$779,620,000.00	\$760,942,808.75	\$1,540,562,808.75
FY21	\$762,775,000.00	\$723,702,263.75	\$1,486,477,263.75
FY22	\$949,770,000.00	\$679,686,947.50	\$1,629,456,947.50
FY23	\$716,210,000.00	\$635,692,260.00	\$1,351,902,260.00
FY24	\$705,630,000.00	\$1,320,453,430.00	\$2,026,083,430.00
FY25	\$761,860,000.00	\$566,283,310.00	\$1,328,143,310.00
FY26	\$818,750,000.00	\$527,914,925.00	\$1,346,664,925.00
FY27	\$993,235,000.00	\$482,473,850.00	\$1,475,708,850.00
FY28	\$1,063,815,000.00	\$431,764,150.00	\$1,495,579,150.00
FY29	\$887,640,000.00	\$381,359,200.00	\$1,268,999,200.00
FY30	\$976,640,000.00	\$353,723,000.00	\$1,330,363,000.00
FY31	\$1,027,400,000.00	\$304,291,800.00	\$1,331,691,800.00
FY32	\$1,090,000,000.00	\$252,211,800.00	\$1,342,211,800.00
FY33	\$1,136,000,000.00	\$178,871,800.00	\$1,314,871,800.00
FY34	\$221,300,000.00	\$120,971,800.00	\$342,271,800.00
FY35	\$971,200,000.00	\$109,831,800.00	\$1,081,031,800.00
FY36	\$624,000,000.00	\$22,782,000.00	\$646,782,000.00
GRAND TOTAL	\$27,506,110,000.00	\$16,792,216,873.75	\$44,298,326,873.75

Source: Internal analysis by the Illinois State Treasurer's Office

Appendix B – Unfunded Pension and Retiree Health Care Liabilities



Appendix C – FY11 Structural Budget Deficit



Appendix D – State of Illinois Bond Issuance Compared to Other States

1. \$3,700,000,000
 State of Illinois
 TAXABLE UT GO's
 A1/A+ Rated
 Negotiated sale - week of 2/21/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	4.026	4.026
2015	4.511	4.511
2016	4.961	4.961
2017	5.365	5.365
2018	5.665	5.665
2019	5.877	5.877

Total interest cost: \$1,279,801,800

5 year Treasury = 2.27%
 10 year Treasury = 3.59%

2. \$269,815,000
 Kentucky Asset/Liability Comm
 TAXABLE General Fund Revs
 Aa2/A+ Rated
 Negotiated sale - week of 2/21/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	2.939	2.939
2015	3.478	3.478
2016	3.928	3.928
2017	4.372	4.372
2018	4.722	4.722
2019	5.039	5.039

Total interest cost: \$1,060,671,550
 Assuming State of Illinois identical
 debt service structure (see # 1)

5 year Treasury = 2.27%
 10 year Treasury = 3.59%

3. \$90,375,000
 State of Washington
 TAXABLE UT GO's
 Aa1/AA+ Rated
 Competitive sale - 1/19/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	1.48	1.48
2015	2.24	2.24
2016	2.59	2.59
2017	3.04	3.04
2018	3.39	3.39
2019	3.70	3.70

Total interest cost: \$750,277,250
 Assuming State of Illinois identical
 debt service structure (see # 1)

5 year Treasury = 1.93%
 10 year Treasury = 3.34%

4. \$150,000,000
 State of Michigan
 TAXABLE UT GO's
 Aa2/AA- Rated
 Competitive sale - 4/14/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2014	2.05	2.05
2015	2.65	2.65
2016	3.00	3.00
2017	3.50	3.50
2018	3.75	3.75
2019	4.05	4.05

Total interest cost: \$841,557,500
 Assuming State of Illinois identical
 debt service structure (see # 1)

5 year Treasury = 2.23%
 10 year Treasury = 3.50%

Appendix D (continued) – Illinois Municipal Bond Issuance Compared to Other Municipalities

1. \$10,295,000
 Sangamon County SD #3, IL
 Federal Tax-Exempt UT GO's
 Aa3 / A1 (Assured Gty Insd)
 Competitive sale - 3/1/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	3.00	2.06
2014	4.00	2.41
2015	4.00	2.86
2016	4.00	3.11
2017	4.00	3.37
2023	5.00	4.50
2025	5.00	4.75
2027	5.00	5.00
2029	5.00	5.00

Total interest cost: \$4,708,361

2. \$11,765,000
 Muhlenberg County, KY
 Federal Tax-Exempt UT GO's
 A1 Rated
 Competitive sale - 3/3/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	2.25	1.1
2014	2.25	1.5
2015	2.50	1.95
2016	2.625	2.2
2017	2.75	2.45
2023	4.00	3.9
2025	4.125	4.25
2027	4.40	4.5
2029	4.625	4.7

Total interest cost: \$4,020,599
 Assuming Sangamon County SD #3
 identical debt service structure (see #5)

3. \$7,620,000
 Clear Lake City, TX
 Federal Tax-Exempt UT GO's
 AA- rated
 Competitive sale - 3/10/11

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>
2013	2.50	1.05
2014	2.50	1.41
2015	2.50	1.81
2016	2.50	2.06
2017	3.00	2.33
2023	4.00	3.75
2025	4.00	4.14
2027	4.25	4.35
2029	4.40	4.53

Total interest cost: \$3,893,905
 Assuming Sangamon County SD #3
 identical debt service structure (see #5)