



# OFFICE OF ILLINOIS STATE TREASURER

MICHAEL W. FRERICHS

FOR IMMEDIATE RELEASE

July 14, 2017

CONTACT:

Paris Ervin 217.524.5749

Greg Rivara 312.814.1901

## Treasurer Michael Frerichs' Statement on Potential Junk Bond Status by Moody's

**CHICAGO** – As expected, Moody's Investors Service today kept Illinois under review for a downgrade to potential junk bond status.

"Moody's decision is not surprising. Republicans and Democrats coming together to pass a budget after nearly three years without a spending plan is the first in a long-line of difficult steps to return Illinois to prosperity," Illinois State Treasurer Michael Frerichs said. "These steps include the five tasks I previously outlined to reassure Moody's and other credit-rating agencies."

To avoid becoming the first state in history to be assigned junk bond status and cost taxpayers tens of millions of more dollars, the Governor must:

- Travel to New York, speak directly with the three ratings agencies, and convince them that he embraces the decision of the Legislature and will implement the budget package.
- Immediately take visible, responsible steps to refinance at a lower interest rate \$6 billion via bonding authority, which will yield \$3 billion in additional federal dollars to pay down the \$15 billion bill backlog.
- Make sure that local schools open on-time. K-12 education funding in the budget package is predicated upon a separate agreement that state dollars will be distributed on an evidence-based model. Lawmakers passed legislation that does so. However, the Governor has promised a veto. Vetoing this agreement, or in the alternative, not striking a different deal, will create more instability, which the rating agencies are expecting Illinois to avoid. It also will threaten local schools from Cairo to Chicago and be a complete disaster for parents.
- Clearly and proactively communicate the new tax rates with Illinois employers to eliminate any confusion. Doing so will ensure that revenue estimates and cash-flow expectations are met.
- Eliminate the divisive rhetoric that is impairing our state from moving forward. This divisiveness counters the civility and bi-partisanship the rating agencies wish to see.

-MORE-

“Today, by not paying our bills and running up a \$15 billion backlog, we are borrowing from unwilling lenders and paying 12 percent interest.” Frerichs said. “There is not a family in this state that would choose to pay such an exorbitant interest rate when refinancing is available.”

### **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. Each also has assigned a negative outlook.

Fitch’s Rating is BBB.

Moody’s Rating is Baa3.

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. As the state’s Chief Investment Officer, he actively manages approximately \$25 billion. The portfolio includes \$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.

-END-