

How Illinois became America's most messed-up state

by Matt Egan @MattEganCNN

July 1, 2017: 8:51 AM ET

Facebook Email Twitter LinkedIn More



Social Surge - What's Trending



Read Samantha Bee's on-air apology



Facebook says it gave Huawei and other Chinese firms access to user data



We took an exclusive ride in a flying car

Illinois could become America's first 'junk' state

Politicians are notorious for making promises they can't keep. But they really outdid themselves in Illinois -- and now the state is paying for it.

Illinois is on the verge of becoming America's [first state with a junk credit rating](#). The financial mess is the inevitable result of spending more on pensions and services than the state could afford -- then covering it up with reckless budget tricks.

After decades of historic mismanagement, Illinois is now grappling with \$15 billion of unpaid bills and an unthinkable quarter-trillion dollars owed to public employees when they retire.

The budget crisis has forced Illinois to jack up property taxes so high that people are leaving in droves. Illinois may soon have to take the unprecedented step of cutting off sales of lottery tickets because the [state won't be able to pay winners](#).

It will get worse if lawmakers can't reach a budget compromise. The new fiscal year began Saturday without a spending deal, the third year in a row that America's fifth-largest state has failed to pass a constitutionally required budget.

Related: [Illinois races the clock to avoid a 'junk' rating](#)

"Illinois got to this financially treacherous place by ignoring the long-term consequences of short-term decision-making," said Laurence Msall, the president of Civic Federation, a budget watchdog organization.

The budget crisis has crippled social services that survive on state money, hurting everything from mental health services and Meals on Wheels for homebound seniors to domestic violence support centers.

Advertisement

Investing

"The most vulnerable citizens in Illinois are being hurt the most severely," Msall said.

[Related: Illinois could soon become America's first 'junk' state](#)

\$251 billion pension time bomb

While the budget impasse is throwing a spotlight on Illinois's dire financial situation today, the fiscal problems go back at least to the 1980s and involve politicians from both parties.

The most glaring evidence is the enormous pension crisis. Rather than dealing with the problem, Illinois continued to reward the state's powerful unions with more generous benefits.

The problem festered for so long that Moody's estimates Illinois has unfunded pension liabilities totaling \$251 billion. To put that into context, that's more than the combined market value of four major Illinois companies: Boeing (BA), Caterpillar (CAT), United Continental (UAL) and Allstate (ALL).

"The massive pension liability results from a chronic tendency to defer difficult decisions," said Ted Hampton, who as a senior credit officer at Moody's will help decide whether to downgrade Illinois into junk.

Hampton said Illinois treated the pension fund as a "financial cushion" that could be relied on to provide fiscal relief. He also pointed to a tendency to delay paying bills and chronically underestimate spending needs.

"All of these problems are governance and management weaknesses," Hampton said.

That's a polite way of saying the political leaders broke the system.

[Related: Illinois is starving state colleges and universities](#)

Missed opportunity in 1995

Experts said the turning point may have been 1995. At that point, Illinois already had one of the worst-funded pension systems in the United States. State leaders took action by adopting a 50-year plan to get the pension plans 90% funded.

But that plan turned out to be badly flawed. The initial contributions were too modest, and Illinois didn't make the politically difficult choices of tax hikes or spending cuts to get the budget on a sustainable path.

"It was one of the greatest pieces of chicanery ever pulled by a political system," said Ralph Martire, executive director at the Center for Tax and Budget Accountability, a think tank that promotes social and economic justice.

Instead of reform, the compromise "codified the practice of underfunding the pension" and "intentionally" grew the shortfall by \$45 billion, Martire said.

[Related: Illinois lottery winners may have to wait to collect their spoils](#)

Illinois is also notorious for using one-time financial tricks that masked the scale of its growing fiscal problems.

"Republicans and Democrats would stand up and say they passed a balanced budget, but it wasn't -- and they knew it," said Diana Rickert, vice president of communications at the Illinois

Start Investing Today

ally INVEST. **Brokerage Account**

Up to \$3,500 cash bonus + commission free trades for new accounts

[Open Account](#)

TD Ameritrade **IRA**

Get up to \$2,500 when you roll over your old 401k into a TD Ameritrade IRA.

[Open Account](#)

bloom **bloom 401k optimizer**

Don't set your 401k and forget it. Grow your 401k. Start now.

[Open Account](#)

Sponsors of BankingRates

[Advertiser Disclosure](#)

More from CNNMoney



Gig econc jobs aren't really taking over Ameri workfr



Why it matte so much every time a woma CEO leaves



Shoul I pay off my debt or save for emergc first?



Europ banks are flirting with each other again. Here's why



LeBro and the Cavs are in troubl

Policy Institute, a free market-oriented think tank.

Rickert said either the politicians knew what they were doing, or they "don't know how math works."

Lately, Illinois has been unable to reach a budget deal at all. Illinois has the distinction of being the first state ever to operate without a budget for more than a year, according to Msall.

"Unfortunately, the gimmicks that have worked in the recent past are not sufficient enough to make up the gaping hole that exists now," Msall said.

Problems could 'snowball' from here

The Democratic-led legislature planned to return to work Saturday morning in hopes of reaching a budget deal that Republican Governor Bruce Rauner would sign. He has threatened to keep them in session "until they get the job done."

That may not be enough to prevent Illinois from becoming America's first "junk" state. Moody's and S&P Global Ratings have indicated that failure to reach a budget deal will likely trigger a downgrade of Illinois's debt below investment grade. That means a downgrade could come any day.

Getting cut to junk could make things even worse because it signals a heightened risk of default. Illinois's borrowing costs would probably go even higher, which would only make the budget problems worse.

There's always the chance of a last-minute credible deal, but few are holding out much hope.

"I don't know that Illinois is going to get its act together in days after literally decades of being irresponsible," said Rickert.

CNNMoney (New York)
First published June 29, 2017: 1:49 PM ET

Paid Content

by Outbrain |



The Surprising New Sector that...
EquitiesToday



8 Cars So Cool It's Hard to Believe...
Pageo



They're Lucky To Still Have Their...
DailyForest

Schwinn 26" Meridian 3-Wheel...
Sears

More CNNMoney video

by Outbrain



Jim Beam bourbon blood



See Porsche's first fully electric car



'Iron Chef' reme his



EU trade chief: We're

Schwinn 26" Meridian 3-Wheel Bike
Sears

Rafaella Plus Studded Cotton Cardigan
Lord & Taylor

Alfred Dunner Suit Jacket - Plus
JCPenney

2 Pc. Choir Robe Suit by Especially Yours®
Especially Yours

Paid Content

More From CNN Money

Newsletter

BEFORE THE BELL

Sponsored by **E*TRADE**

Key market news. In your inbox. Every morning.

Start your day right with the latest news driving global markets, from major stock movers and key economic headlines to important events on the calendar. Daily newsletter, Sunday through Friday.

Sign up >

[Privacy policy](#)

CNNMoney Sponsors

The Crop Yahoo! Search

Your plane tickets will get more expensive

SmartAsset

Paid Partner

Schwinn 26" Meridian 3-Wheel Bike Sears

Top Bank Announces 1.65% APY Savings Account

Recommended by

Certificate of Deposit Rates

Paid Links

Here's Where You Can Earn More Interest on Your Savings

LONG TERM DISABILITY BENEFITS

FUNDING FOR BUSINESSES

LONG TERM INVESTMENT PLANS

RETIREMENT SAVINGS CALCULATOR

SHORT TERM BUSINESS LOANS

AVERAGE RETIREMENT SAVINGS

Is a Money Market Account or CD Right for You?

PUBLIC LIABILITY INSURANCE

3% INTEREST SAVINGS ACCOUNTS

NextAdvisor

Paid Partner

An outrageous card offering 0% interest until August 2019

7 outrageous credit cards if you have excellent credit

Cards charging 0% interest until 2020

The highest paying cash back card has hit the market



Contact Us

Closed Captioning

Site Map



Most stock quote data provided by BATS. Market indices are shown in real time, except for the DJIA, which is delayed by two minutes. All times are ET. Disclaimer. Morningstar: © 2018 Morningstar, Inc. All Rights Reserved. Factset: FactSet Research Systems Inc.2018. All rights reserved. Chicago Mercantile Association: Certain market data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Dow Jones: The Dow Jones branded indices are proprietary to and are calculated, distributed and marketed by DJI Opco, a subsidiary of S&P Dow Jones Indices LLC and have been licensed for use to S&P Opco, LLC and CNN. Standard & Poor's and S&P are registered trademarks of Standard & Poor's Financial Services LLC and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC. All content of the Dow Jones branded indices © S&P Dow Jones Indices LLC 2018 and/or its affiliates.

© 2018 Cable News Network. A Time Warner Company. All Rights Reserved. Terms under which this service is provided to you. Privacy Policy. AdChoices