



Gov. Rauner: State to borrow money to pay down bills; cuts still needed to balance budget

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Illinois Gov. Bruce Rauner announced Thursday that the state will borrow \$6 billion as part of a plan to begin to pay down its backlog of bills, a moving target that has been estimated to be in excess of \$15 billion by the comptroller's office.

Rauner is seeking more favorable rates in the lending marketplace than the current rates – as high as 12 percent because of the state's bond rating and the Prompt Payment Act, which requires additional interest on 60-day delinquent bills – at which the state currently borrows money.

“Illinois has been deficit spending for many years, resulting in a huge unpaid bill backlog,” Rauner said in a statement. “The state has been, in effect, borrowing from local service providers, including nonprofits and small businesses, because it takes months for them to get paid. My preferred solution has always been for state government to reform its spending, and for a strong, competitive economy to grow family incomes faster than the cost of government.”

Rauner noted that a significant portion of the bill backlog is subject to the late-payment interest penalties, so he is directing staff to issue bonds by borrowing from banks at a much lower interest rate, which he says will result in considerable savings.

The state's current bond rating, according to Moody's, is Baa3 – the bond-rating agency's lowest Investment Grade mark.

The comptroller's office, as of the close of business on Tuesday, indicated that there were 177,493 bills to pay in the state's queue of vouchers. As of Wednesday, the state had \$15.1 billion in backlogged bills.

Rauner also said Thursday that he is asking the state's General Assembly to return to Springfield in the fall to make statutory changes to the budget it approved, which he said is unbalanced by more than \$1 billion. Rauner said his staff has identified “several hundred million dollars in possible spending reductions” to help close the gap.

After a two-year impasse, lawmakers in July approved a \$5 billion tax increase to help fund a \$36.5 billion budget. Rauner vetoed both the budget and the 32 percent income tax increase, but some Republicans joined majority Democrats in overriding the vetoes.

“Unfortunately, the General Assembly passed a tax hike and an out-of-balance budget over my veto,” Rauner said. “Even with a permanent income tax increase costing the average Illinois household more than \$1,000 a year, the budget is more than \$1 billion out of balance and is still growing the unpaid backlog. We’re choosing to exercise borrowing authority because it’s better to have Wall Street carry our debt than Main Street Illinois.”

Dan Mitchell, senior fellow at the Cato Institute, said this isn’t the right path.

“You should pay the bills that you run up, but there’s no question ... the best way of doing it is by curtailing the growth of spending, not just by issuing new debt and letting government continue to grow and grow which is frankly, a major long run threat for Illinois,” Mitchell said, acknowledging that the state’s pension debt is “enormous, one of the worst three in the country ... I can sympathize with what the governor is doing, and I can sympathize with the fact that he has a state legislature that’s not serious about controlling government spending, but again, the bottom line is this is not going to make Illinois stronger or more competitive.”

The only way for Illinois to turn things around fiscally is to slow spending, he said.

“There should be some kind of long run spending cap so that government grows slower than the private economy,” Mitchell said. “The reason Illinois is in trouble is because you’re doing the opposite.”

Senate Minority Leader Bill Brady, R-Bloomington, called the governor's decision "responsible."

“I believe Gov. Rauner is taking responsible action,” Brady said in a statement. “Using this tool from the Democrat majority’s budget can get payments out the door to struggling state vendors, save taxpayers’ money and begin a renewed dialogue on how to manage the deficit in the Fiscal Year 18 budget. The Administration is forced to manage the budget as crafted by the Democrat majority but I am hopeful the Democrat leaders are willing to work collaboratively to try to close the gap on that deficit.”

Earlier this week, State Sen. Kyle McCarter, R-Lebanon, said the budget approved this summer is more than \$2 billion out of balance. He urged for paying down the debt by borrowing, but Tuesday during a Facebook Live broadcast, McCarter said the state has to find the money to pay off the debt.

“You’ve got to cut,” McCarter said. “The covenants of the bond should be that we reduce our spending, and we cap our spending, and the legislature cannot spend more than we're taking in.”

McCarter also said the state “should pay [vendors] off up to the 60-day late period, and people would have lived with that ... and we would have exempted ourselves from the Prompt Pay Act.”

The unpaid bills are just part of the state’s debt problem. Aside from being the state with the lowest credit rating, just above junk status, the state also has more than \$130 billion in unfunded pension liability. Government finance watchdog Truth In Accounting puts the state’s debt up to \$210 billion, including promised government retiree health benefits.