Credit rating downgrades hit Illinois state agencies and local governments

Alexander Fangmann
9 September 2013

In the aftermath of the Detroit bankruptcy filing, the financial aristocracy has mounted a coordinated campaign of attacks on public employee pensions and benefits throughout the state of Illinois, and particularly in the Chicago area. A key component of this campaign has been a systematic downgrading of the credit ratings of municipalities and other bond-issuing government agencies by Moody's Investors Service, based on their supposedly too high "unfunded pension liabilities."

Recent downgrades have also been based on more conservative assumptions of future pension fund investment returns for issuers in the region, resulting in ballooning pension liability figures.

By making it more expensive to borrow, the credit downgrades worsen the financial position of these entities, leading them to lower pension payments, thus creating a vicious circle.

On August 16, Moody's cut by one level the credit rating of Cook County. Cook County provides county-level services such as health care to the city of Chicago. Moody's scrutinized the investment assumptions in Cook County's reports on its pension fund, which indicated an unfunded pension liability of $5.6 billion, and claimed instead that the figure could be as high as $12.7 billion.

On August 29 Moody's cut the rating of the Cook County Forest Preserve District by two levels, to A1.The Forest Preserve District, which is run by the Cook County Commissioners, had its rating cut, with Moody's noting that its $100.6 million in unfunded liabilities could be as high as $244.8 million.

On August 27, the Metropolitan Water Reclamation District of Greater Chicago was lowered by one level and given a negative outlook, even though it had already imposed a pension cut program of its own on workers. With the higher standards imposed by Moody's, the district's pension liabilities jumped from $1.1 billion to $2.3 billion.

The Chicago Board of Education, the governmental agency in charge of Chicago Public Schools, had its credit rating cut on July 24 by Moody's. The rating cut was given not only due to pension and debt levels, but also because the school system shares the same tax base with Chicago, which had its own rating knocked down by an unprecedented three levels.

Moody's also issued a series of downgrades to state universities on August 9. The University of Illinois, Illinois State University, Western Illinois University, Southern Illinois University, Northeastern Illinois University and Governors State University all had bond credit ratings lowered. The agency also indicated that all state universities would be put on review for downgrade.

In an email to Reuters, Moody's spokesman David Jacobson stated: "The primary reason for all the rating actions here is the Illinois public universities' high to moderately high reliance on the State of Illinois, which for many years in succession has delayed the payment of annually appropriated funds."

The delayed payments, which the state has used for a number of years in order to balance its budget, have amounted to unstated forced loans from school districts, colleges, private health providers and other service providers receiving state money. Lawmakers have invoked these delayed payments as a reason to enact massive cuts to pensions and health care benefits for retired workers.

However, Jacobson's email indicates that even if pension "reform" legislation currently being considered by the state legislature were passed, the universities' credit rating outlook would still be negative. This is because one provision of the legislation would transfer responsibility for university worker pensions to the universities themselves, rather than the state, forcing the states to make cuts in staff and facilities upkeep.

By making borrowing more expensive, the banks and rating agencies are hoping to spur the Democratic Party into enacting pension cut legislation. Though the Democratic Party is wholly in support of gutting pensions, legislation has stalled in the state legislature due to differences in the state Democratic Party over how openly the ruling elite can flout the state's constitutional protection of pensions without provoking a backlash among workers.

The AFL-CIO has organized the We Are One Illinois coalition to support the pension cut plan put forward by Senate President John Cullerton, which attempts to get around the state constitution's restrictions on pension cuts through legal maneuvering.