The Institute for Illinois' Fiscal Sustainability at the Civic Federation

177 North State Street, Suite 400, Chicago, IL 60601 ▪ 312.201.9066 fax 312.201.9041 ▪ www.civicfed.org/iifs

EMBARGOED UNTIL 12:01 A.M., MONDAY, AUGUST 30, 2010
For more information contact Laurence Msall, 312-201-9044

ILLINOIS CHARGED AN EXTRA $551 MILLION IN BORROWING COSTS OVER THE LAST 12 MONTHS

(CHICAGO) The Civic Federation released today a comparative analysis of the cost of the $9.6 billion in bonds the State of Illinois issued between September 2009 and July 2010. The report estimated that Illinois government may pay as much as $551.3 million extra for its borrowing as a consequence of its deteriorating bond rating. The full report is available at www.civicfed.org.

"Due to Springfield's failure to stabilize Illinois' finances, Illinois residents will pay nearly 21% more for one year of borrowing than they would have if the State had maintained its credit ratings," said Laurence Msall, president of the Civic Federation. "This report demonstrates that our State's inability to come to terms with the continuing fiscal crisis has a large and measurable cost which is in addition to the obvious toll the crisis has taken on State service providers."

The analysis calculated the cost of the $9.6 billion in bonds sold by Illinois in the past year based on yields and compared it to other state and local governments that maintained higher credit ratings and sold bonds under similar market conditions. By applying the yields charged to better-rated governments to the same principal and maturity schedule as the Illinois issuances, a reasonable estimate can be made of the additional long-term cost the State has been charged for access to the credit market.

The Federation also found that the additional borrowing costs are not spread evenly over the 25-year term of the bonds. Instead, the State of Illinois will pay more than half of the additional cost within the next five years, starting with $72.9 million in extra costs due in 2011. Between 2011 and 2015, the State will pay $301.2 million of the $551.3 million estimated additional interest cost. "These extra costs will put additional stress on a State budget that is already billions of dollars in the red at a time when it is unreasonable to expect a robust recovery in revenues," said Msall.

Although debt is currently less expensive overall for Illinois to sell now than when it had a AA credit rating in December of 2008, the State is still paying more to access credit markets than it would have if it had maintained a better credit rating. The lower interest cost charged to the State of Illinois and other municipal issuers is due to the low interest rate environment maintained by the Federal Reserve Bank and the ensuing low cost of credit over the past year and a half.

"The Civic Federation remains very concerned that the State of Illinois appears poised to borrow as much or even more debt in the coming year. Without a more reasonable budget plan, the State will continue to pay hundreds of millions in unnecessary costs," said Msall. "The failure of Illinois government to stabilize its finances means Illinoisans will be forced to pay more for their government while it delivers fewer services."

The Institute for Illinois' Fiscal Sustainability at the Civic Federation is made possible by a generous grant from the John D. and Catherine T. MacArthur Foundation. The Institute's mission is to improve the State's decision-making process by providing timely fiscal policy analysis and recommendations to State officials, the media, and the public through education and digital outreach. Please visit www.civicfed.org/iifs for more information.