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**State pension crisis;**

**Pension vote pleases Wall Street**

By Dave McKinney

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SPRINGFIELD - Wall Street offered an early thumbs-up Wednesday to the state Legislature's passage of a $160 billion pension-reform package, but it's too early to tell what impact that deal might have on Illinois' borrowing costs.

Fitch Ratings issued a statement that called the legislative action "positive," and the lead Illinois analyst for Moody's Investor Services described Tuesday's historic pension votes in Springfield as "significant."

But none of the major bond-rating agencies signaled a willingness to ease up on the ranking they've assigned Illinois as the least creditworthy state in the nation.

The statements by the two rating agencies came amid signs of a rally in the market for municipal bonds from Illinois. Bloomberg reported Wednesday that those bonds traded at a one-month high.

The business news service said $4.4 million of taxable Illinois general-obligation bonds that mature in March 2016 offered an average yield of 1.8 percent. That was the lowest yield - prices and yields move inversely to one another - since Nov. 8, Bloomberg reported.

Fitch has rated Illinois debt at A-, with a negative outlook, which is the lowest ranking of any state. But it expressed optimism at Tuesday's developments at the Statehouse.

Fitch "views the passage of pension reform legislation in Illinois yesterday as a positive indication of the state's willingness to take action on this complicated issue after many failed attempts," the company said in a statement.

Fitch's statement did not offer any indication whether it intended to boost the state's bond rating once Gov. Pat Quinn signs the pension legislation.

"Fitch has stated that pension reform that enhances the funding levels of the pension systems and controls the growing impact of pension payments on the budget is necessary to stabilize the credit and will analyze the reform to determine the extent to which it does," the company said.

"Supporters have stated that the reforms will save $160 billion over the next 30 years; however, the actual impact of the reform will not be entirely known until an actuarial study has been completed," Fitch said.

Meanwhile, an analyst for Moody's Investor Services offered praise for the Legislature's action on pensions but withheld judgment on whether it would alter the firm's rating of Illinois, which now stands at A3.

That makes Illinois the lowest-rated state in the country, two notches below its next closest competitor for the undesirable title: California.

"At first glance, I think this appears to be a significant reform package, but we really need to see formal, actuarial numbers indicating how the reduction in liability is achieved and what the state's longer-term funding burden will be and how it all works really," Ted Hampton, the Moody's analyst who monitors state finances, told the Chicago Sun-Times.

"We can't guarantee any rating outcome as a result of this action. But I would say all things being equal, this is something of a positive development for the state," Hampton said.