



OFFICE OF THE ILLINOIS STATE TREASURER
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December 23, 2008

Dear Legislator:

The state of Illinois is in the midst of a financial crisis and we undoubtedly face one of the most challenging budget years in state history. This is further complicated by the governor's recent arrest and current legal situation. In fact, the charges of corruption leveled against the governor have already cost the state just under \$21 million during a time we can least afford it.

Most of us agree a short-term borrowing deal was necessary so state vendors – including health care and social service providers and state police – could get paid by the end of the year. However, the state was forced to delay its plan to borrow \$1.4 billion this month by three business days and missed the chance to sell short-term bonds at reduced interest rates because of the governor's arrest.

The short-term borrowing plan was halted after the arrest because of concerns that the scandal would stall approval of the closing documents. The closing documents had to be modified to include language detailing the governor's legal issues. More important, news of the governor's legal problems led to a rating downgrade that drove up the interest rate by several percentage points on the bonds sold.

Moody's "MIG 2" grade makes the securities less palatable for bidders. As a result, the state will pay approximately \$26.6 million in interest to borrow \$1.4 billion. JPMorgan Chase placed bids at a blended interest rate of almost 4.5 percent – more than four times the average of a Bloomberg short-term index – after Moody's Investors Service downgraded the state's bond rating.

If the sale had taken place the previous week as scheduled, my office estimates the state would have only paid about 1 percent or less to borrow \$1.4 billion, or a total of only \$5.8 million.

Fitch Ratings lowered its credit grade on \$19.1 billion of Illinois long term general obligation bonds one rank to AA-, the fourth highest of 10 investment-grade ratings. Although this may have had an indirect impact on the short-term borrowing plan, it will certainly affect future long-term borrowing and further damage Illinois' reputation and financial situation.

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Also, within a day of the Governor's arrest, Standard & Poor's put the state on "negative CreditWatch" fearing that the federal investigation could hurt the state's ability to address its \$2 billion deficit in a timely manner. As a result of the negative CreditWatch status, S&P will re-evaluate the quality of Illinois' debt obligations and likely deem our bonds higher risk. A drop in Illinois' credit rating will prompt investors who buy our bonds to demand higher interest rates. Illinois is only one of two states currently placed on a negative CreditWatch.

My fear is that the governor's legal issues will contribute to further financial hardship for the state, particularly when it comes to future borrowing plans. It's vital that we work together to resolve this situation as soon as possible to restore confidence in Illinois' fiscal health and build it's reputation in the financial world.

Please contact me if you need any additional information on these matters.

Sincerely,



Alexi Giannoulis
Illinois State Treasurer