As you might know already, Moody's earlier this month slapped Illinois with the worst credit rating of any state in the nation. But while Moody's report was damaging, S&P's rating was far more negative about the state's future.

Moody's cited Illinois' "weak management practices" as one reason for its ratings downgrade. The state's failure to implement any pension-funding reforms and to pay off its mountain of overdue bills were the two top reasons for the downgrade. But Moody's moved Illinois from a "negative" to a "stable" outlook for the future.

Fox Chicago News quoted a spokesperson for Governor Pat Quinn saying that the Moody's rating drop was an "outlier" because ratings agencies S&P and Fitch had decided not to lower the state's credit rating last week. On the surface, that's true. Underneath, not so much. Trouble is, S&P's rating contained much harsher language about Illinois' credit future, the agency also put Illinois on negative watch, and it issued a sternly worded warning that the state is in danger of another ratings downgrade this year.

S&P focused mainly on the state's overdue bills, which the governor estimated at about $7 billion last week. Without "meaningful changes" to balance the books, S&P warned, "we could lower the rating this year."

The ratings agency also strongly warned against implementing the governor's plan to use long-term bonding to pay off its past-due bills. "The outlook also reflects ... the possibility that [Illinois] might issue a significant amount of additional debt as part of its effort to address the large accumulated budget deficit" was the blunt message from S&P, and it added that a downgrade could be triggered if "debt levels increase significantly."

In other words, pay off the past-due bills, but do so without issuing "significant" new debt. The governor's budget office seemed to be taken somewhat aback by this warning, saying that its capital-markets manager would have to work with S&P on the structure of a bond plan that would "minimize impact on near-term cash flow." But backloading the repayment of such a plan would also likely create howls of protest, and, in any case, getting a three-fifths vote in both legislative chambers has been next to impossible, and is now probably even more unlikely (if that was even possible) with S&P's latest pronouncement.

All three ratings agencies also highlighted Illinois' pension problems. Moody's focused on funding the pensions, not with the ever-rising costs of paying off old debts to the pension funds. S&P worried about deteriorating "pension funding levels."

But even with the downgrade and all the warnings, the state still managed to get the lowest interest rate on January 11's tax-exempt bond sale since at least 1976, according to the governor's budget office, which couldn't find any records before that date.

How the heck did that happen?

Essentially, the strong demand for municipal bonds (billions of dollars in municipal bonds are maturing around the country this month while few are being sold, and investors continue to look for safe havens) and the current record-low interest rates (the rate on the latest federal issue was a mere 1.9 percent) combined to make the bond sale highly attractive to investors.

The predictions of gloom and doom simply didn't materialize. Illinois beat every published expectation. Yes, the interest rate would've probably been even lower if the state had a better credit rating, and the state's interest rate was about triple the spread between top-rated bonds and what Illinois got when compared to the state's last tax-exempt bond sale in 2009. And nobody would say that this sale signals any particular strength in our state's financial situation.

But as Quinn's capital-markets director told reporters last week, it would be pretty tough for any state to get an interest rate all that much lower than the 3.9 percent Illinois got.

So while the Moody's downgrade did have an impact, it wasn't nearly as negative as you might've thought by reading the editorials and political press releases during the past couple of weeks.

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