

Governor's Borrowing Plan Could Be Bad for Illinois

Written by Rich Miller

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that Illinois Governor Rod Blagojevich wants to “re-finance” some state debt, which will supposedly free up \$1.9 billion to help close the state’s massive \$4.8-billion budget deficit.

But the media coverage of this plan has been ill-informed, at best, mainly because the governor has done a good job of obfuscating the issue.

 The editor of the respected

<I>Pensions & Investments</I> newspaper penned a column last week slamming the bond proposal as “ridiculousness.” She also criticized Illinois reporters for not realizing that the

governor’s use of the term “re-financing” is incorrect.

 What’s going on here? It’s complicated, but stay with me a minute. Blagojevich says he is refinancing debt. The “debt” in

question is money the state is required to pay into the pension system in years to come. That’s not technically “debt,” so it can’t actually be refinanced. But Blagojevich insists that future

obligations are a form of debt.

 Anyway, the governor claims that by borrowing \$10 billion now at 6-percent interest and then investing it and praying for an 8-percent return, he can

repay the bonds, and make a few bucks on the deal.

 But this is where it gets weird. The governor wants to “book” all of the profits right away. This means all of the profit that

was supposed to be made off of the \$10 billion in investments over the course of the 30-year bonds will be realized immediately. How does he do this? By instantly spending \$1.9 billion of

that \$10 billion before it has earned a nickel in interest. If this sounds to you like some Enron scheme, well, you’re not far off the mark.

 A few of Enron’s ideas worked,

however, so this might, too, but there is concern that it could have a negative effect on the state’s bond rating, and there’s plenty of worry about what could happen if the state invests in

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the wrong stocks and loses a lot of the cash.

 The House passed the bond bill last week. The proposal required a three-fifths vote to pass, so it needed a bipartisan majority and several Republicans supported the Democratic governor.

 The big problem might be in the Senate, where the Republicans appear to be balking at supporting the plan. The Senate Republicans are saying publicly that they want to wait and see what the governor's budget looks like first. Privately, they say they might only agree to a drastically scaled-back, \$3-billion proposal this year, and maybe another \$3 billion next year.

 Adding fuel to the fire could be Treasurer Judy Baar Topinka, who told the Legislative Audit Commission last week that she had several concerns about the proposal and indicated that she might not support it. Topinka has talked to several rating agencies and public-finance experts who tell her that the proposal is risky. The treasurer would reportedly like to see Blagojevich cut the budget much further before he moves his bond bill. Topinka is a former state senator, and she still has a lot of influence with Senate Republicans, who could use her for political cover if she ends up opposing the legislation.

 But here's the real bottom line, and the main reason so many House Republicans climbed on-board last week. Without this borrowing plan, the state will be forced to make a huge pension payment in a few months and then several more next fiscal year with money that the government simply doesn't have. So, either the state borrows now, or it uses money that would otherwise go to schools, roads, public safety, and human services to make those pension payments. Or it raises taxes on business.

 The state could also change the law to skip a few pension payments, but the governor has said he won't ever do that, and it's doubtful that the conservative Senate Republicans would agree to such an idea. And they definitely won't go for a tax hike on their friends in the business lobby.

 This should be a fascinating game to watch. Every tax-eating group imaginable is currently ginning up thousands of phone calls and letters to legislators. The media have so far taken a liking to the borrowing idea, so the editorial pages could turn against any obstructionists. And, of course, there's always the gubernatorial threat of losing local projects and jobs if anyone says "no." Let the fun begin.

 <I>Rich Miller also publishes </I>Capitol Fax<I>, a daily political newsletter. He can be reached at (<http://www.capitolfax.com>). </I>