Debt service on state bonds diverts billions from essential programs

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The problem with borrowing is that what you borrow today, you have to pay back, with interest, tomorrow. Tomorrow has arrived in Illinois. The high, ongoing cost of debt service on bonds issued years ago is eating away at Illinois' budget, taking scarce dollars from essential state programs.

According to the fiscal year 2015 budget summary[1] from the Commission on Government Forecasting and Accountability, the cost of debt service in fiscal year 2015 is nearly $4 billion on outstanding bond debt of more than $30 billion. The debt service amounts to more than 11 percent of the state's anticipated revenues for the fiscal year – 11 percent that can't be used for essential programs.

This debt problem in Illinois has snowballed since fiscal year 2002. Before then, outstanding debt had never exceeded $10 billion, annual debt service had always been less than $1 billion and debt service amounted to less than 5 percent of the state's general revenues.

But, in fiscal year 2003, state leaders began the unhealthy practice of using general obligation bond debt not to pay for long-term capital projects, but to pay for unfunded liabilities of the state pension funds. In short, they borrowed to pay old debts – like using one credit card to pay for another. And they did it in a big way.

The state issued $10 billion in general obligation bonds in fiscal year 2003 to pay a portion of its pension obligations, thus more than doubling the amount of bonds outstanding to nearly $21 billion. As a result, annual debt service rose dramatically in fiscal year 2004, and continued to rise over the next five years until annual debt service reached more than $2 billion in fiscal year 2008.

In fiscal years 2010 and 2011, the state again issued general obligation bonds totaling more than $7 billion to pay a portion of its pension liabilities. Outstanding debt jumped to more than $30 billion by the end of fiscal year 2011, and annual debt service skyrocketed to $3.2 billion from under $2 billion the previous year.

During this same time period, the state was issuing more and more bonds to cover the costs of the Illinois First and Illinois Jobs Now programs – massive economic development programs that included a mix of state capital projects, local-government projects and economic-development support for private businesses. Many of these expenditures had little direct value to the state.

Primarily as a result of these nontraditional uses of bond debt, the state began fiscal year 2015 saddled with more than $30 billion in bond debt requiring $4 billion, or 11 percent of its general funds budget, to pay the annual debt service. This represents nearly a 400 percent growth in debt service, more than 300 percent growth in outstanding bond debt, and more than 200 percent growth in debt service as a percentage of general revenues since 2002.

The state can't keep shirking its fiscal responsibilities by issuing excessive debt for purposes other than essential long-term capital needs of the state. The new administration would be wise to rein in the use of state debt in the coming years, and eliminate the use of state debt for other purposes that are not a direct benefit to the state. This means reining in the use of bonds for Illinois Jobs Now and refusing to use bonds to pay the state's retirement contributions.

If this is done, the state's debt service liability will steadily decline over the years, and more of the budget will be available for essential state services.

Endnotes

[1] Commission on Government Forecasting and Accountability, "State of Illinois Budget Summary, Fiscal Year 2015," Sept. 8, 2014, at http://cgfa.ilga.gov/Upload/FY2015BudgetSummary.pdf