September 7, 2017

ILLINOIS HEALTH AND HOSPITAL ASSOCIATION
STATE ADVOCACY UPDATE

TO: Chief Executive Officers, Member Hospitals and Health Systems
    Chief Financial Officers
    Government Relations Personnel
    Public Relations Directors

FROM: A.J. Wilhelmi, President & CEO
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SUBJECT: Governor Moving Ahead with Refinancing Plan – Will Help Pay Down Backlog

Governor Bruce Rauner announced this morning that “he intends to exercise borrowing authority to issue $6 billion in bonds to pay down a portion of the state’s bill backlog.” (See Governor’s press release below.) The backlog now stands at $15.1 billion, including approximately $8 billion for Medicaid and state employee group health.

IHA commends the Governor for taking this action, and the General Assembly for authorizing the refinancing plan (Senate Bill 42). According to the Commission on Government Forecasting and Accountability, the refinancing plan could save the state up to $6 billion in interest and late payment penalty costs.

IHA thanks members for responding to our recent advocacy alerts – including contacting their local vendors and chambers of commerce – as part of IHA’s ongoing advocacy efforts in support of the refinancing plan. IHA will be providing further details on the state’s plan and timetable for paying down the backlog of unpaid bills as soon as they become available.

Governor’s Press Release:

Gov. Rauner takes budget actions

  Announces borrowing plan to pay down bill backlog, calls on General Assembly to help fix Illinois’ still out-of-balance budget

SPRINGFIELD (Sept. 7, 2017) – After conducting a thorough review of the out-of-balance fiscal year 2018 budget passed by the General Assembly in July, Gov. Bruce Rauner today announced he intends to exercise borrowing authority to issue $6 billion in bonds to pay down a portion of the state’s bill backlog.
“Illinois has been deficit spending for many years, resulting in a huge unpaid bill backlog. The state has been, in effect, borrowing from local service providers, including nonprofits and small businesses, because it takes months for them to get paid,” Gov. Rauner said. “My preferred solution has always been for state government to reform its spending, and for a strong, competitive economy to grow family incomes faster than the cost of government.

“Unfortunately, the General Assembly passed a tax hike and an out-of-balance budget over my veto. Even with a permanent income tax increase costing the average Illinois household more than $1,000 a year, the budget is more than $1 billion out of balance and is still growing the unpaid backlog. We’re choosing to exercise borrowing authority because it’s better to have Wall Street carry our debt than Main Street Illinois.”

A significant portion of the bill backlog is currently subject to late-payment interest penalties at rates of up to 12 percent annually. The governor directed his staff to initiate a bond issuance to refinance this high-cost debt by borrowing from banks at a much lower interest rate, which will result in considerable savings to the state.

The General Obligation Bond Act was amended by the legislature as part of the fiscal year 2018 budget package. It grants the state the authority to issue up to $6 billion in general obligation bonds as Income Tax Proceed Bonds. The Income Tax Proceed Bonds must be issued before Dec. 31, 2017, and must be used to pay for expenses vouchered from general funds or state employees’ group health insurance costs that were incurred before July 1, 2017.

Bonds issued under this authority must be paid within 12 years from the date of the sale and require level principal payments each year. For example, a $6 billion issuance would require 12 annual principal payments of $500 million, plus interest payments depending on the interest rate.

The legislature-passed budget did not account for the increase in debt service costs to cover the bill backlog bond issuance. The governor’s office is identifying several hundred million dollars in possible spending reductions to address this budgetary shortfall. The governor also would like the General Assembly to return to Springfield this fall to work with him to balance the budget and enact structural reforms that could save much more.

“Illinois cannot afford to repeat the mistakes of the past,” Gov. Rauner said. “We have to work together to truly balance the budget. We must protect residents from further tax hikes while ensuring the most vulnerable receive the services they need. Building upon the success of the recent bipartisan education funding law, we can find common ground for real solutions.”

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