Rauner takes steps to reduce risks from Blagojevich-Quinn inherited financial deals

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Administration Spent Last Year Working to Reduce Taxpayers' Financial Risk

SPRINGFIELD – Over the past several months, the Rauner Administration has taken steps to reduce the state's financial risk on interest rate swaps and letters of credit. The Governor's Office of Management and Budget (GOMB) recently completed renegotiations with all the banks that hold the state's swaps to reduce the state's financial risk.

“Governor Rauner inherited these swaps and letters of credit, which have been hanging over the heads of Illinois taxpayers for years,” Rauner spokeswoman Catherine Kelly said. “The Rauner Administration has successfully negotiated better terms for Illinois’ taxpayers, which have reduced our financial exposure and increased our ability to direct the state’s limited resources to education and social services.”

The new terms are more favorable to the state and reduce the state’s financial risk. Under the new terms, the state is less likely to have the swaps terminated and owe a payout to the banks because the credit rating thresholds that allow the banks to terminate have been lowered. These new terms are better for the state than the terms agreed to by the Quinn administration in 2013 and the Blagojevich administration in 2003.

The Governor’s Office of Management and Budget has made negotiating with the providers of letters of credit a priority with the goal to renew or replace them prior to the expiration date of November 27, 2016.

Background

In 2003, the General Assembly passed a bill that authorized variable rate bonds and swaps. The bill was SB1601 in the 93rd General Assembly and was sponsored by Sen. John Cullerton and Rep. Gary Hannig.

In October of 2003, the Blagojevich administration negotiated five separate, interest rates exchange agreements totaling $600 million. At the time they cost the state 4.16% in interest and fees, they now cost Illinois 6.79% in interest and fees.

The payouts the state would owe to banks now if all the swaps were terminated is approximately $150 million. If the letters of credit are not renewed or replaced, there would be additional obligations on the state.