

Frequently Asked Questions for Pastors Regarding Leading a Church in Light of Illinois's Debt

What kind of problems is Illinois facing? Our state has fallen into a deep fiscal hole. Not Detroit deep, but close. As this graph shows, credit agencies rank our fiscal health below the other forty-nine states.

Illinois credit rating headed to junk, already lowest-rated in nation

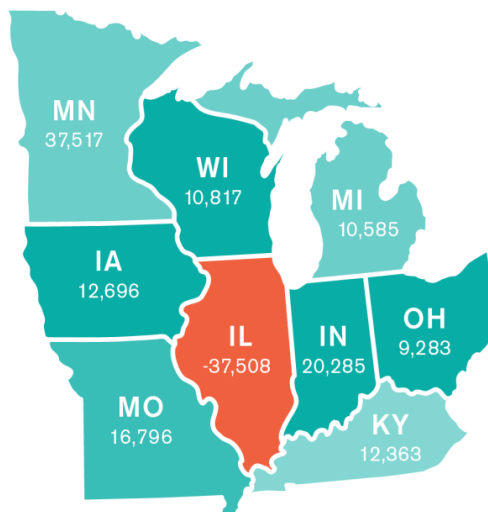
State ratings by Moody's Investors Science (Illinois neighbors highlighted in green)

Investment grade	Highest quality, lowest credit risk	Aaa	Delaware, Georgia, Indiana , Iowa , Maryland, Missouri , North Carolina, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia
	Highest quality, very low credit risk	Aa1	Alabama, Arkansas, Colorado, Florida, Hawaii, Idaho, Massachusetts, Michigan, Minnesota, Montana, New Mexico, New Hampshire, North Dakota, New York, Ohio, Oregon, Washington
		Aa2	Alaska, Arizona, Kansas, Kentucky , Maine, Mississippi, Nebraska, Nevada, Oklahoma, Rhode Island, West Virginia, Wisconsin
		Aa3	Connecticut, California, Louisiana, Pennsylvania
	Upper medium grade, low credit risk	A1	
		A2	
		A3	New Jersey
	Medium grade, with some speculative elements and moderate credit risk	Baa1	
		Baa2	
		Baa3	Illinois
Speculative grade "junk"	Judged to have speculative elements, significant credit risk	Ba1	

Not all experts claim that Illinois is in the worst shape of any state, but some do.¹ Clearly, the way forward will be challenging. As I noted in the letter, we should expect taxes and tensions to rise and social programs and stability to decline.

I've been told the sky was falling since third grade, but it hasn't. Why should I think this time is different? It's prudent to be skeptical, but current data points are hard to dismiss. Alongside our credit problems, Illinois's population is declining.² In fact, over the last few years, we have lost more people than any other state.³

Illinois is the only shrinking state in the region for 3rd year in a row
Population change by state, July 2015 – July 2016



Source: U.S. Census Bureau

@Illinoispolicy

Additionally, although the US has enjoyed a decade of stability and growth - and some states have secured their position in preparation for expected lean years - Illinois has not. Quite the opposite: during the last fifteen years we have not only suffered the lowest rate of economic growth of any state in the nation,⁴ we have also accumulated over seven billion dollars in unpaid bills.⁵ Since 2009 Illinois's economic growth has lagged behind almost every other state.

There is more bad news, but my goal is to get your attention, not send you into a depression. Besides, I am writing as a pastor, not as an economist. The specifics of the financial arguments I am setting before you are not that important. Perhaps Illinois is not in last place -maybe it's 45th not 50th. That hardly matters. The point is, our state's problems will have growing consequences for her citizens,⁶ especially the poor. We need to prepare to lead well during the coming challenges.⁷

Is there something specific you are worried about? A few years ago, I glanced up from an article on Illinois's pension crisis to a news report about rioting in Greece - which was being blamed on that country's pension woes. My first thought was, that will never happen here. My second thought was, I should probably give this some more thought.

That was two years ago. Since then I have read thousands of pages about the future, attended a few conferences on global trends (and written a book about them⁸) and met with a variety of Illinois politicians and journalists to discuss what they think is going on. For the record, I continue to believe civil unrest in Illinois is unlikely. What worries me is that I think most Illinois churches are unprepared for what will happen – i.e., in an effort to meet pension obligations, legislators will raise taxes and reduce social programming,⁹ which will shift the safety net to churches (and other NGOs). To all of this I add that it seems likely that this will happen during a time when giving to the church is declining.

What is the “worst case scenario”? Civil unrest would represent the worst. Seasoned politicians seem more concerned about a “downward spiral” fearing that once things start going wrong, trouble will pick up speed – i.e., in response to rising taxes, those with money start to leave the state. The resulting decline in tax revenue would then necessitate further cuts in programs and/or further increases in taxes. At some point the snowball would pick up more speed and start to subsume everything in its path.

Do you think Illinois will go bankrupt? Current laws do not prohibit a state from pursuing bankruptcy protection, but they do not make any provision for it either. Furthermore, though Arkansas was briefly in default during the Great Depression - and though Puerto Rico recently applied for bankruptcy relief - no state has ever filed for bankruptcy. Legal experts are divided over how such a request would be viewed by the courts.

What happens if Illinois “runs out of money”? Saying that a state cannot declare bankruptcy does not mean it cannot run out of money. If Illinois defaults, those with an informed opinion expect either the courts, the US Congress or the President of the United States¹⁰ to step in and map out a path forward. The binding plan that is developed will likely involve reducing some of the state’s debts.¹¹

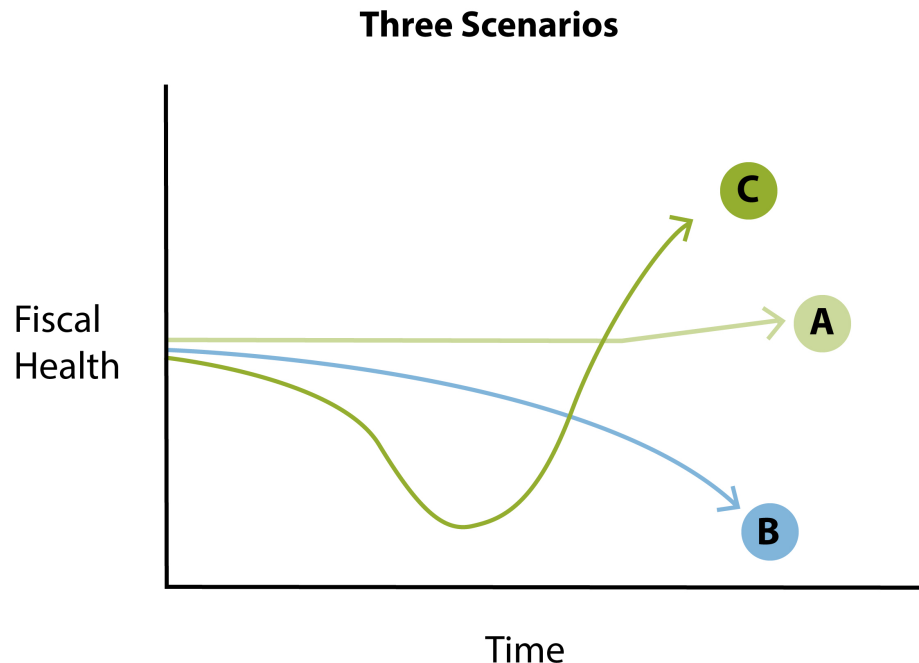
Why doesn’t the state just raise taxes? We can expect that they will, but raising taxes does not always equate to increasing revenue. The wealthy – who contribute the most to the state coffers – often find loop holes or leave the state. By the way, it’s worth noting that the people of Illinois already pay nearly the highest rate of state and local taxes.¹²

How would the church be affected if the state runs out of money? I recently spent three days in Detroit asking pastors to describe their experience with that city’s bankruptcy. I learned that what happens depends on who you are. For some people, life goes on as before with just a few new hassles – e.g., the potholes are larger, police response times are slower and the Department of Motor Vehicles office hours are reduced. For others – and here I mean, home and business owners, the poor,¹³ students, bond holders and perhaps public pension holders – the pain is much greater. How a specific church would be affected depends greatly on who attends the church and where it is located.¹⁴

Does Illinois’s debt represent the greatest challenge we face? Illinois faces many challenges – from gun violence and political corruption to racial tension, an aging infrastructure, changing demographics and a declining middle class. I am not suggesting that the debt represents the biggest problem. I am highlighting it because making debt payments will severely limit our ability to focus on other issues.

Will the problems be the same for people all over the state? Some aspects of the challenge will be felt equally across the state, but Illinois divides into Chicago and every place else, and Chicago will be a bit unique. The Windy City will likely fare better, for although her credit rating is lower than the state's,¹⁵ as a global city, she enjoys insulation from some of the problems the rest of the state will face.

Is there a pain-free way forward? I do not think so. The graph below represents my effort to map out the scenarios I heard the experts talking about.



Plan A is the most pain-free, but almost no one gives it even a one percent chance of happening.¹⁶ Plan B projects a long, slow decline. Plan C¹⁷ assumes a significant collapse and several years of pain, followed by a reset and growth.

Is C ideal? Those who can weather a crash without missing any meals generally favor C, because they want to get the bad news behind us as quickly as possible. But those who are already struggling cannot imagine the deep cuts that would accompany scenario C.¹⁸

You do not get invited to many parties, do you? Come to think of it, not many. Why do you ask?

Is there any good news? Yes, almost everyone thinks Illinois will rebound. Chicago is a world-class city with great universities, high-tech talent, sports teams, museums and the Lake, and the rest of the state has much to offer – great farm land, wonderful people, superior transportation abilities, etc.¹⁹ Only the Grinch thinks Illinois is going down for the count.

What do you think we should do? People are served well by leaders who understand the situation, do not panic and remind them that God remains in control and then work towards solutions. I think another valuable service we can provide is to help people keep things in

perspective. Even if the worst-case scenarios play out, most of the residents of Illinois will have it better than ninety percent of the people living in the world.

Will this be difficult? My experience is that the church always wants to look inward and that it takes a lot of energy to prioritize the hurt and pain of others. Do you remember Y2K? Not quite twenty years ago, a bunch of people – including more than a few pastors – got worked up over a computer coding issue and started talking about societal collapse. Many claimed that the only prudent thing to do was build a bunker, buy a gun and stock pile food.

And you want the church to take a different approach? Absolutely. During the fourth century persecution of the church under Emperor Julian, many Christians followed Christ's example of loving and caring for others. Their concern started with the poor and extended to those who oppressed them. As a result, the church grew. This infuriated Emperor Julian, who wrote to Arsacius, a pagan priest in Galatia, admonishing him to coerce the pagan priests to start acting more like Christians. Julian wrote:

The Christian faith has been specially advanced through their loving service rendered to strangers, and through their care for the burial of the dead. It is a scandal that there is not a single Jew who is a beggar, and that the godless Galileans²⁰ care not only for their own poor but for ours as well; while those who belong to us look in vain for the help that we should render them."

If we survey history, we can find times when the church got it wrong and also times when she got it right. I am praying that if things do get hard, this will be another time when the church gets it right.

Are there specific things you think Illinois pastors should be doing? I think our next steps need to start with prayer and expand into preparation. Across the state, pastors should gather their key leaders and be thinking through responses on three fronts:

- How will we mobilize to help the poor, elderly, mentally ill and homeless who are ill prepared to weather any cuts in social programming;
- How will we help those who lose their jobs;²¹ and
- How do we position our church to survive a decline in giving.²²

On top of this, I would recommend two other things:

- Pastors should take steps to understand how their community will be specifically impacted. For instance, because of the way Illinois pension law is written, poorer cities are likely to suffer first.²³ I recommend meeting with your mayor or a county official to ask how they think the next few years will unfold.
- Pastors should encourage those who are trying to address the issues before us – whether they are elected officials or others. We need good people working towards solutions.²⁴

What are you doing to prepare? I am trying to take my own advice in three ways:

- **One: I have been working to prepare myself.** During the last year, I've spent more time in prayer and private devotions,²⁶ doing so to be ready should things in general – or my job in particular – get harder. I've been paying increased attention to local events.

- **Two: I've been working with other leaders to prepare our church:** We've not done as much as we might, but we are working to: 1) strengthen our financial position; 2) expand our care ministries; and 3) further develop lay leaders. We've also been working to learn from churches that have served well during economic downturns. (My recent trip to Detroit was one of the steps I took on this front.)
- **Finally, I have been spending more time with other pastors and community leaders:** One of the benefits of challenging times is that organizations which have kept to themselves are more willing to partner with others to get things done. This starts with churches doing more things together and includes churches working more closely with municipalities. If things do turn south, it will be important for churches to help each other and to work hard not to duplicate efforts.

Conclusion:

There is more that could be said but I am going to stop here. Thanks for reading this. And thanks for the work you do. It matters. This letter has been gloomier than I would have liked, but I thought it best to make sure you heard the bad news and had time to prepare. Please be reminded that many things are going well, that God remains fully in control,²⁵ and that his Church will prevail. Please also remember that the months and years ahead will provide a wonderful opportunity for the church of Jesus Christ to proclaim the Good News and engage in good works. Challenging times are often times of great ministry.

If you would like to comment on this letter, correct some of my mistakes, raise questions, or be sure you receive any follow up letters I send out, click here and you'll be taken to a web site devoted to this discussion.

Press On,

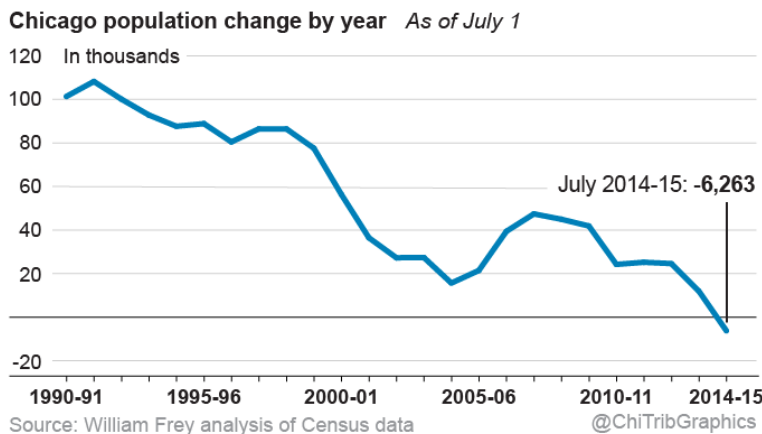
Mike Woodruff

¹ State legislators argue that Illinois's indebtedness is less than the \$280B Moody claims it is; however, that Illinois's indebtedness is less than the \$280B Moody claims it is; however, the lawmakers in Springfield do acknowledge that Illinois has the most underfunded public pension plan in the country. (See: "Who Pays the Bills?" *The Economist*, 7.27.13; Ted Dabrowski, "Illinois: Beware a junk bond rating" <http://www.wirepoints.com/illinois-beware-a-junk-bond-rating-wirepoints-original>; and <http://www.wirepoints.com/rating-agencies-warn-illinois-flirts-with-junk-wirepoints-original>.) There are several reasons it is hard to get specific numbers on the state's pension liabilities: 1) Though most of the liabilities are held in the five largest pensions, there are over six-hundred different public pension programs in Illinois. Some of the reports people cite do not contain the liabilities of all six; 2) Some reports do not include the payments on the bonds that have been taken out to prop up the pensions; 3) Many reports have overly optimistic forecasts; and 4) Pension accounting is complicated – what is the cost today of a promise to pay a benefit in 15 years? But we should not miss the main point made by the chart - Illinois has a financial problem.

² According to a *Wall Street Journal* article, the United States needs five trillion dollars to plug public pension short falls. According to *The Economic Policy Journal*, 32 states are bankrupt and are receiving a “shadow bailout” by the US Treasury. (Tyler Duncan, “32 States Now Officially Bankrupt: \$37.8 Billion Borrowed from Treasury to Fund Unemployment”) See also: Sarah Krouse, “State and Local Pension Woes are Starting to Bite,” *WSJ*, July 31, 2018, p. 1.

³ Illinois is losing more citizens than nearly every other state, and recently dropped below Ohio in terms of population, making it the sixth state. (Wirepoints.com claims that since 2000, Illinois has lost 1.37 million people.) As a result of this decline, we are expected to lose a representative in Congress. (Warner Todd Huston, “Illinoisans Fleeing State by Tens of Thousands Over Taxes and Financial Loss,” *Breitbart.com*, 5.22.18.) See: “Genesis of the Illinois Exodus,” *Chicago Tribune*, which notes that: 1) Illinois lost 33,703 people in 2017; 2) This was the fourth year of decline in a row; 3) Over the last 25 years, 65,000 more people left the state every year than moved in. In previous years this state-to-state migration was off-set by immigration. But that trend stopped several years ago. Some claim that the number of people leaving the state has spiked. Other articles suggest that our outmigration is not exceptional, but it is no longer being offset by immigration. On a related note, U-Haul ranked IL 49th for growth, meaning that only California saw a bigger ratio of outbound truck rentals leaving the state versus arriving. See also: “High-Tax State Exodus,” *The Wall Street Journal*, Dec. 29, 2018, A12, which claims that Illinois’s population has declined by 157,000 over the past five years, and is down by 1.5 million since 2000.

While I am here, I should note that even Chicago is declining, as is seen in the graph below.



⁴ One of the challenges of the exodus from Illinois is that it is people with money who are leaving. According to one elected official I spoke with, approximately 44% of the States revenue comes from just 20,000 people. Whether that specific number is true or not (I cannot verify it) it points towards the reality that a small number of people pay a high percentage of the revenue, and these people are among the most mobile. And it is very difficult to recover from their departure. Also, recent changes in federal tax law make it likely that more people will decide to move outside of the tax burden of Illinois. As the pastor of a church in a wealthy suburb, I can attest to the exodus. Indeed, several times a month I say goodbye to families that are moving to Indiana, Wisconsin, Florida, South Carolina and Texas. And I have heard from others in the area – both churches and ministries such as PADS – that they are seeing the same thing. By the way, Chicago is also in decline. In fact, The Windy City is the only major metropolitan area in the US to have consistently lost citizens over the last five years.

⁵ In addition to the lowest economic growth we can add two other sad points: 1) Illinois has had the second lowest wage growth; and 2) There are now fewer jobs in the state than there were in 2000. See:

“The History of Illinois Fiscal Crisis, *Illinois Policy.org* and Ferguson, “The Late Great State of Illinois,” *The Weekly Standard*. Also note, many companies have left Illinois and others have chosen to do all of their expansion out of the state.

⁶ Ted Dabrowski, Pritzker, “The Winner’s Curse and Illinois’s Fiscal Reality”, *Wirepoints.com*, Nov. 7, 2018.

⁷ We have other problems besides the ones I am listing – e.g., corruption, a toxic political culture, gun violence, etc., – but our unfunded pension obligations will soon overshadow everything else. The fact is, our pension short-fall is greater than the market value of Boeing, Caterpillar, United Airlines and Allstate combined. Indeed: 1) Every man, woman and child living in Illinois “owes” the pension plan about \$51K; (Statedatalab.org); 2) Our pension obligations may soon consume 30 percent of the state’s revenues - which is triple the percentage that most state budgets allocate. Some reports suggest that pension obligations currently consume about ten percent of our budget. (See: “The Illinois Exodus: A black comedy or disaster movie?” (*Chicago Tribune*, June 1, 2018) and Michael Bargo.) Other sources (“The Blue-State Housing Bubble,” *American Thinker*, July 27, 2018 and Fitch Ratings, Steven Hayward, Powerline Blog) put the number much higher. Bargo argues that pension obligations already consume twenty-five percent. Fitch puts it at twenty-nine percent). A recent *Wall Street Journal* article (“The Blue State Challenge,” *WSJ*, Dec. 26, 2018, A16) claims it is twenty-five percent but notes that: 1) This will leave the state with a \$1.2B short fall this year; and 2) Even at twenty-five percent it only funds about forty percent of the pension costs).

⁸ Mike Woodruff, *Future View*, 2017.

⁹ States facing revenue shortfalls look to raise the top line and/or lower the bottom. Although arguments can be made that the way to increase revenue is to lower the tax rate, what generally happens is that they raise the tax rate and/or sell state assets. When it comes to cutting expenses, the state’s options are: lay off employees, shut down/reduce programs, or short creditors.

¹⁰ On the one hand, Illinois’s problems are Illinois’s problems. However, every other state and the federal government would have a vested interest in the failure of a state. For starters, if Illinois were allowed to default on its debt, the interest rates charged to other struggling states (e.g., CA, NJ, CT) would immediately go up – which may push them into insolvency as well.

¹¹ Several years ago, the Illinois Supreme Court ruled that Illinois must honor its pension obligations in full. In bankruptcy, that would likely change, but it is not clear.

¹² Because tax codes are complicated, there is disagreement over which state has the highest tax burden. Most say New York, but some say Illinois. It does not actually matter. When you combine property and sales tax alongside state-income tax, it is clear that the people of Illinois are among the most heavily taxed in the country. Andrew Ferguson, “The Late Great State of Illinois”, *The Weekly Standard*, Oct. 29, 2018.

¹³ It is likely that any increase in taxes will be felt by the poor. Also, higher taxes on businesses – which seem likely – will lead those businesses to hire fewer people, which will also likely have a large impact on the poor.

¹⁴ It is worth noting that one thing that may happen is that churches will be taxed. As the State struggles, it will likely claim tax revenue previously collected by cities. In turn, cities will start looking for new sources of revenue. I would not be at all surprised if we are soon assessed a fire-protection-coverage-fee. No one will call it a tax, but it walks like a duck and quacks like a duck.

¹⁵ Both Chicago and CPS (Chicago Public Schools) are junk rated, with CPS in particularly deep trouble.

¹⁶ In **Scenario A**, Illinois inches its way back to health without any cataclysmic events or periods of significant pain. As I noted in the letter, the experts say this is very unlikely. Is it possible? If Scenario A happens, I am guessing that one of three things is true.

- First) It will turn out that things are not as bad as I am suggesting. This is a live option. I am reporting on what I've been hearing and reading, but there is a lot of spin out there. It's possible that I am being misled, intentionally or otherwise. It's not just that the "experts" may be wrong, on economic matters, many have a bias towards the negative. There are several things to point to here: 1) It's common to hear that although optimists live in bigger houses, pessimists sound smarter; 2) 150 years ago, John Stuart Mill wrote: "I have observed that not the man who hopes when others despair, but the man who despairs when others hope, is admired by a large class of persons as a sage"; 3) Matt Ridley wrote in his book *The Rational Optimist*: If you say the world has been getting better you may get away with being called naïve and insensitive. If you say the world is going to go on getting better, you are considered embarrassingly mad. If, on the other hand, you say catastrophe is imminent, you may expect a McArthur genius award or even the Nobel Peace Prize. (Morgan Housel, "Why Does Pessimism Sound So Smart?" 2016); finally; 4) It is certainly worth noting that, over the last two-hundred-and-fifty years, someone has always been screaming that the sky was about to fall. And yet, the chart below shows what has actually happened.
- A second path to Scenario A could happen if everything works out perfectly: the global economy continues its record bull run, Illinois politicians fix our pension system, technology helps us deal with budget shortfalls in unexpected ways, etc. If everything goes right, we might grow our way to health.
- A third scenario would be that a remarkable leader – or group of leaders – step up and help chart a sane path forward.

¹⁷ The trajectory for this scenario unfolds as follows: 1) A crisis of some type pushes Illinois into the dreaded downward spiral. It doesn't really matter whether the precipitating cause is a global recession, a contentious teachers' strike, civil unrest or something else. What does matter is that something spooks the bond markets enough so that the next time the state reaches out to borrow money, they are told "no". 2) The next phase in Scenario C occurs when the credit agencies make it official, announcing that Illinois's bonds have "junk" status. This magnifies the problem because it would cost Illinois a lot more to borrow money forcing the governor to make draconian cuts and ask for help. 3) Though the first two phases could unfold quite quickly, the third phase would likely take months. It is during this time that some type of federal official – e.g., the President or a judge – would establish a binding plan. 4) Phase Four pivots around Illinois operating under the fiscal discipline that has been forced upon it. Hopefully, if things go as planned, the state emerges several years later with a sane debt level and its credit restored.

¹⁸ There are two things worth noting about this model: 1) Under **Scenario C**, everyone is a loser for a while. The hassle factor will not be limited to reduced hours at the Department of Motor Vehicles. Rather: schools will be shuttered forcing classroom sizes to increase, public pensions will be reduced crime will spike and creditors will lose all (or some) of their investments. 2) Many who argue for C do so believing that it is in the long-term interest of everyone, including the very poor. Their belief is that a long and slow slide down only means that we slide that much deeper and delay the good news that much longer.

¹⁹ A quick list of Illinois's other assets would include: 1) 68 of the top 1,000 companies (by revenue); 2) a good quality of life (Forbes ranks Illinois 15th for quality of life); 3) remarkable people; 4) access to the largest body of fresh water in the world; 6) rich biodiversity; and 7) great transportation options, including O'Hare – which recently added a runway and is adding \$8.6B in expansion on top of that. Chicago is all of this and more; and it delivers this at a cost of living much less than New York, San

Francisco or DC. On a separate note, many of the business leaders I have talked to stand ready to reinvest in Illinois once they see that the state will address her problems, however painful that might be.

²⁰ In Julian's letter, he refers to Christians as "atheists". This is because virtually everyone else was a polytheist. Christians were mono-theists who did not believe in the Roman gods. I replaced atheist with Christians for clarity sake.

²¹ There are always people who feel oppressed and cheated. But as things change, we are seeing some who felt reasonably secure in the past, feel much less secure. Additionally, as the state makes cuts, we can expect pension holders, state employees, teachers, investors, home owners, parents and others to feel cheated.

²² Fewer residents translates into a weaker economy and declining property values. It also translates into less giving. This will force some churches to close, and others to reduce staff. Some studies suggest that people who are suffering are more generous than those who are not.

²³ The rules governing the pension funds for police officers and fire-fighters are established by the state, but the responsibility to collect and manage the funds rests locally. This means that individual communities are likely to become insolvent before the state does. It also means that poor communities – and poorly managed communities – will declare bankruptcy first. In recent weeks some communities – such as Harvey, IL – have had to take draconian action to address budget challenges. In an effort to make pension payments, Harvey fired 40 police and fire fighters.

²⁴ In Jeremiah 29:7 we are encouraged to work and pray for "the peace and prosperity of the city to which I have carried you," because "if it prospers, you too will prosper." In I Timothy 2:2 we are told to pray for kings and those in authority. Prayer needs to lead the way of our efforts forward. About a year ago I sensed two ideas emerging from my morning devotional times: 1) Who I *was*, was about to matter more than what I *did*; and 2) I was going to need to be "game ready." A passage I've been returning to is I Samuel 30:6, where – after a series of disasters hit David and his men - he withdrew to "encourage himself in the Lord". I believe that pastors need to prepare to lead well even if those around them are discouraged or panicking. Alongside seeking a deeper walk with Christ, I believe we need to expect ministry to get harder. I think Scott Peck can help us here. In the 1980s he opened his best seller –*The Road Less Traveled* – noting that those who expect life to be hard found the going much easier than those who expect it to be easy. But lately I find myself more drawn to a statement made by Mike Tyson. His now famous line is, "Everyone has a plan until they get punched in the face." I am expecting to get punched in the face and trying to prepare to be able to stay with the plan.

²⁵ Psalm 93, which is one of my favorites Psalms, is an appropriate one to mention here. David opens it by declaring the power and stability of God. ***The Lord reigns, he is robed in majesty; the Lord is robed in majesty and armed with strength; indeed, the world is established, firm and secure. Your throne was established long ago; you are from all eternity.*** He then pivots to a problem. In specific he writes: ***The seas have lifted up, Lord, the seas have lifted up their voice; the seas have lifted up their pounding waves.*** Most ancient Jews were uncomfortable around the water. In fact, one of the ways John advertises the safety and attractiveness of heaven is to say, "there is no sea!" So, when he says, "the seas have lifted up" and "the waves are pounding" he is saying, "We have trouble. We need help." But then, just as soon as he looks at the problem, he looks back at God and reports: ***Mightier than the thunder of the great waters, mightier than the breakers of the sea - the Lord on high is mighty. // Your statutes, Lord, stand firm; holiness adorns your house for endless days.*** I have written this because I suspect we are headed into some white water. The waves are going to knock us around a bit. But our foundations are strong.