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Broke Chicago Schools Seek Court Help as Pension Bill Looms.

- **District leaders say schools may close early without state aid**
- **Judge deals setback to lawsuit in Friday ruling, paper reports**

Chicago's debt-ridden schools are running out of options.

The nation's third-largest school district — whose credit rating has tumbled well into junk — must make a \$721 million pension payment by June 30 and officials are scrambling to find the funds. Ending the year early, canceling summer school, and slashing classroom spending are all possible, the Chicago Board of Education said in connection with a lawsuit that's seeking to wrest more cash from Illinois.

"They're trying any way they can to try to make the state provide more funding," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages about \$19 billion of debt.

A local judge Friday dealt a blow to the schools' lawsuit against Governor Bruce Rauner and the state board of education, which challenges funding practices that have made the district the only one in Illinois that pays most of its pension costs. Cook County Judge Franklin Valderrama rejected the board's assertion that the funding system is discriminatory to the heavily minority-student district, though he gave Chicago until May 26 to file an amended complaint, the Chicago Sun-Times reported.

Escalating pension bills are the crux of the financial squeeze that's threatening the solvency of the school system. For years it has been draining reserves, shortchanging its pensions and borrowing to pay bills. Its retirement system is short by \$9.6 billion, and this year's required payment will eat up 13 percent of the district's operating budget.

Chicago covers a far greater share of its teachers' pension contributions than the rest of Illinois' schools, which receive more state aid. For the year that started July 1, Chicago's will spend about \$1,891 per student on teacher pensions, while other districts only spend about \$86, according to Chicago officials. Illinois kicks in about \$32 per Chicago student, while other districts get \$2,437, the district said in court documents.

The "disparate pension-funding obligations imposed by the state severely undercut CPS's ability to educate CPS students," according to court filings by the school board.

The lawsuit came after Rauner vetoed \$215 million of aid for Chicago's schools in December, though it wouldn't have received the money unless the state enacted pension reforms — something it's been unable to do. Illinois has more than \$129 billion of unfunded retirement liabilities and lawmakers haven't even been able to agree on a full-year budget in almost two years.

To get by, the district has had to "borrow massive amounts of money at crushing rates of interest," the board said in court documents. Given its fiscal woes, the school board probably couldn't borrow

in a big public offering right now, said Paul Mansour, head of municipal research at Conning, which oversees \$10 billion of state and local debt, including some Chicago school securities.

“They could probably do a private transaction or a direct placement of debt, but to try to issue debt in this environment where there’s so much uncertainty, the risk factors would scare most investors away,” Mansour said. “Who’s going to buy this?”

Bloomberg

by Elizabeth Campbell

April 28, 2017, 2:00 AM PDT April 28, 2017, 1:59 PM PDT

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