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Chicago Schools Get Lifeline From State to Cover Pension Costs.

- **Move extends rally in the school district's bond prices**
- **State to provide \$1.1 billion more over next five years alone**

A school bus drives by a school in Chicago, Illinois. Photographer: Scott Olson/Getty Images
Chicago's cash-strapped school district is set to receive an additional \$1.1 billion from Illinois over the next five years alone to pay for its teachers' pensions, providing significant relief from the escalating costs that have reduced its bond rating to junk.

The changes to how aid is distributed, ushered in by legislation Republican Governor Bruce Rauner signed Thursday, triggered a rally in Chicago school bonds, pushing the price of some securities to a more than two-year high. The amount to be provided by the state marks an 18-fold increase from the \$62 million it had previously been set to pay into the teachers fund, according to pension documents.

"It's a big dose of good news for a change," said Richard Ciccarone, the Chicago-based president of Merritt Research Services, which analyzes municipal finances. The law "provides a meaningful mitigation of the burdens that they have at the school district."

Rising pension liabilities, triggered by years of shortchanging the retirement plan, have ravaged the finances of Chicago's school system, the nation's third-largest, with about 400,000 students. It's been borrowing at punishing interest rates and raiding reserves to stay afloat.

Chicago has been receiving far less help than other school systems with its pension costs because it's the only one in the state with its own teachers fund. The rest participate in the Illinois Teachers' Retirement System. Last year, the state made a \$4 billion contribution to that fund, which breaks down to about \$2,447 per student, while Chicago got only \$12 million, or \$32 per student, according to figures from the Chicago district.

Officials from Forrest Claypool, the schools' chief executive officer, to Mayor Rahm Emanuel have blamed what they viewed as an inequitable state funding system for the district's distress. The school board unsuccessfully sued Illinois this year, trying to wrest more cash from the state. The judge rejected the board's assertion that the system discriminated against the heavily minority-student district.

"In terms of us being able to make plans and plan with greater certainty, I think we're in a better place today than we were," Charles A. Burbridge, executive director of the Chicago Teachers' Pension Fund, said in a telephone interview.

The aid increase comes as Illinois contends with a \$14.8 billion backlog of unpaid bills after going two years without a budget. The spending plan enacted in July over Rauner's objections included an income-tax hike that's expected to generate about \$5 billion and gave Illinois authority to issue debt to pay down some of the unpaid bills.

Bondholders applauded the school funding revamp. The price of the school system's bonds that mature in 2042 traded for an average of 97.3 cents on Thursday, the highest since April 2015, for a yield of 5.2 percent, according to data compiled by Bloomberg. That price is up from 76 cents at the end of June.

Beyond the state help, the funding bill allows the city's board of education to raise property taxes to generate revenue for pensions.

"This is above expectations for even the people who are bullish on the city of Chicago public schools," said Paul Mansour, head of municipal research at Conning, which oversees about \$9 billion of state and local debt, including some Chicago school securities. "With these new sources of revenue in play, this should reduce their future borrowing costs. And give them access to the mainstream municipal market in the future."

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