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Illinois Bid to Solve \$111 Billion Pension Shortfall Is Dead.

The Illinois Supreme Court rejected the state's solution for its worst-in-the-U.S. \$111 billion pension shortfall, handing organized labor a victory while deepening a crisis with national implications.

The court unanimously struck down a 2013 law, saying cuts in cost-of-living increases and a higher retirement age violate the state constitution's ban on reducing worker retirement benefits.

Across the nation, state and local governments grapple with pension deficits that exceed a combined \$2 trillion, according to a Moody's Investors Service report last year. Closing that gap by reducing payments to retirees would abrogate union contracts in many states and even constitutional guarantees. In Illinois, Chicago is grappling with \$20 billion in unfunded pension liabilities that threaten its solvency.

"Crisis is not an excuse to abandon the rule of law," the seven-member Illinois court ruled. "It is a summons to defend it."

State constitutions have been invoked elsewhere to prevent cuts to public pensions. In Rhode Island, unions settled with the state over cuts before their constitutional challenge could be put to the test. In municipal bankruptcy cases in Detroit and California, judges ruled that federal law can override state bans on cutting pensions.

Illinois Governor Bruce Rauner said he wasn't surprised by Friday's ruling. The Republican told reporters in Chicago that the measure "violates basic contract law." His own pension proposal, which is central to his budget for the coming fiscal year, is legal, Rauner said. He said his plan wouldn't reduce currently promised benefits.

Downgrade Threat

Friday's ruling raised the prospect of further downgrades by credit-rating firms. Investors already have been punishing Illinois. Its 10-year bonds yield about 3.7 percent, the highest since November and the most among the 20 states tracked by Bloomberg.

The Illinois bill was signed by former Governor Pat Quinn, a Democrat, in late 2013. A judge blocked the measure before it took effect after public-worker unions sued. Attorney General Lisa Madigan in March asked the high court to resurrect it.

During arguments before the court in March, Solicitor General Carolyn Shapiro argued the state should be able to make laws to protect public welfare and safety during fiscal crisis.

But the judge who voided the law concluded it violated a provision of Illinois's constitution that bars the diminishment of public-worker retirement benefits. The seven-member high court agreed.

"We do not mean to minimize the gravity of the state's problems or the magnitude of the difficulty facing our elected representatives," Justice Lloyd Karmeier wrote. "It is our obligation, just as it is theirs, to ensure that the law is followed."

Natalie Bauer Luce, a spokeswoman for Madigan, said in an e-mailed statement that, "The Court has provided a definitive interpretation of the Constitution that must now guide the legislature and the Governor."

Chicago Mayor Rahm Emanuel, a Democrat, drew a distinction between the rejected law and a separate agreement his administration negotiated with some city unions whose members will pay more for fewer benefits.

"That reform is not affected by today's ruling, as we believe our plan fully complies with the State constitution because it fundamentally preserves and protects worker pensions," Emanuel said in a statement.

Illinois Republicans lamented the court's action.

"I respect the Illinois Supreme Court, but disagree with the ruling," House of Representatives Republican Leader Jim Durkin said in an e-mailed statement. "I am prepared to continue working on meaningful legislative reforms to save our public pension systems."

Retiree 'Victory'

Democratic Senate President John Cullerton called the ruling "a victory for retirees, public employees and everyone who respects the plain language of our constitution."

The outcome, he said, "should be balanced against the grave financial realities we will continue to face without true reforms."

We Are One Illinois, a coalition of public-worker unions that pressed the legal challenge, applauded the decision.

"With the Supreme Court's unanimous ruling, we urge lawmakers to join us in developing a fair and constitutional solution to pension funding," state AFL-CIO President Michael T. Carrigan said Friday in a coalition statement. "We remain ready to work with anyone of good faith to do so."

The case is In Re Pension Reform Litigation, 111585, Illinois Supreme Court (Springfield).

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