

# **Bond Case Briefs**

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## **Rauner's Illinois Pension Fix Depends on Three Sizable Ifs.**

Illinois Governor Bruce Rauner says he knows how to pull the state out from under a mountain of pension debt. Simply create a new retirement plan and change the constitution. That'll do it, he says.

If the legislature goes along. If voters approve a constitutional amendment. And if the Illinois Supreme Court, which last week overturned a 2013 pension repair, agrees the plan is sound.

The state's highest court ruled Friday that any restructuring can't cut promised benefits that have created a \$111 billion shortfall. Rauner's Plan B would preserve those that have been currently earned, create a new 401k-type plan and ask voters in 2016 to remove language from Illinois's charter that protects retirement payments.

"It seems less likely that the governor's plan will pass -- or that any plan where benefits are curtailed would pass -- the state court's test," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

Rauner, 59, said his plan will pass legal muster as long as voters approve the constitutional change. "We can't afford to have years and years in court," he told reporters Friday.

Yet that's exactly what many lawmakers and legal experts predict, given the plans outlined by Rauner, a former private equity executive who is the first Republican elected Illinois governor since 1998.

### **'Reckless' Approach**

His proposal is scheduled for a hearing Wednesday in a Illinois House of Representatives committee. The panel's chairman, Democratic Representative Elaine Nekritz, said she doubts the measure would avoid a legal challenge.

"It would be my reading of the Supreme Court decision that his solution would be precluded," Nekritz said.

House Speaker Michael Madigan, a Chicago Democrat who controls much of the legislative agenda, called Rauner's plan to use \$2.2 billion of anticipated savings from his pension-reform pitch "reckless" after the governor proposed his fiscal 2016 budget in February.

Asked to respond to such criticism, Rauner spokeswoman Catherine Kelly referred to his Friday comments.

Investors already have been punishing Illinois. The state's 10-year bonds yield about 3.7 percent, the highest since November and the most among the 20 states tracked by Bloomberg.

About \$4.6 million of taxable Illinois debt maturing in June 2033 changed hands today at an average yield of 5.6 percent, the highest since January 2014, according to data compiled by Bloomberg.

The pressure is unlikely to recede anytime soon; the road to a constitutional change is strewn with

obstacles. Adding an amendment to an Illinois ballot would require a three-fifths margin by both houses of the Democrat-led legislature.

To get adopted, it would then need to win approval by three-fifths of voters casting ballots on the amendment, or a majority of all those voting in the election, according to the state constitution.

If voters did approve it in November 2016, a court challenge could further delay relief for the system.

The court's ruling suggested that lawmakers bypassed a simpler fix: raising taxes. Rauner has rejected that option.

In its Friday decision, the court questioned why lawmakers allowed a temporary personal-income tax increase in 2011 to expire at the start of 2015. The move, in defiance of then-Governor Pat Quinn's desire to keep the levies, opened a budget hole in the current fiscal year that lawmakers are still trying to close.

"No possible claim can be made that no less drastic measures were available," the court ruling said.

In the wake of the decision, a new battle is evolving over alternative approaches to stabilizing the state pensions and those of Chicago, where a \$20 billion shortfall threatens the city's solvency.

Among the short list of suggestions is allowing municipalities to declare bankruptcy; shifting more retirement costs from the state to local government; and raising taxes.

The road ahead for Rauner and lawmakers is unclear.

"I don't think anybody really has a firm grasp on what kind of outcome we're going to have here," said Adam Buchanan, senior vice president of sales and trading at Ziegler, a broker-dealer in Chicago. "They can't file bankruptcy, they can't impair pensions, so what can they do?"

by Tim Jones, Elizabeth Campbell, and Brian Chappatta

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