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Illinois GOP Sees Takeover, Bankruptcy for Chicago Schools.

Chicago's public school system should be taken over by the state and potentially file for bankruptcy to escape from its debts, Illinois Republican leaders said, escalating the partisan political clash over its mounting financial strains.

The Chicago Board of Education, the nation's third-largest district, is under fiscal siege because of soaring pension obligations. Its teachers union is threatening to strike, layoffs are looming, and without changes its operating deficit is projected to reach \$1 billion a year through 2020. Christine Radogno and Jim Durkin, the state's top Republicans in the legislature, outlined a proposal Wednesday that would allow the state to take control and even push the system, charged with educating almost 400,000 students, into Chapter 9.

"What we're proposing is a lifeline," state Senator Radogno told reporters in Chicago. "We didn't come to this lightly. The track record of Chicago and its public school system is abysmal."

Chicago's schools have sought the state's help to close a \$480 million budget shortfall brought on by bills for employee retirement benefits, which it has failed to adequately fund for years. Illinois Governor Bruce Rauner, a Republican who has been at odds for months with the Democrat-controlled legislature over the state budget, has said he won't bail out the schools unless Mayor Rahm Emanuel supports limits on unions or other proposals he's seeking to enact.

'Reckless Smokescreen'

The Republican proposal, which Rauner endorsed, was immediately dismissed by Emanuel, a Democrat, Senate President John Cullerton and the head of Chicago's schools.

"Instead of offering a reckless smokescreen that distracts from the real financial problems facing CPS, the Governor should pass a state budget that treats CPS students equally with the rest of the state," Forrest Claypool, the chief executive officer of the district, said in an e-mailed statement.

The legislation may be filed within the week, Durkin said. It would allow the state superintendent of schools to appoint as many as seven members to an independent authority to run the district. After the schools' finances steady, the control would be ceded to an elected board, stripping the mayor of his current power to appoint those who oversee the district.

The bill would also allow Chicago and its schools to file for bankruptcy. A proposal introduced last year, which stalled in the legislature, would allow municipalities statewide to file for Chapter 9.

"It would be good, the right thing to do to protect taxpayers and schoolchildren and their parents, to have bankruptcy be an option," Rauner told reporters in Chicago.

Bankruptcy, which could allow the system to seek to cut workers' pension benefits or debts owed to bondholders, is not currently an option for local governments in Illinois. Senator Cullerton said in an e-mailed statement that the Republican plan "is not going to happen."

"Giving control of our children's future to a governor who can't pass his own budget, who is racking

up billions in unpaid bills, and who is crippling higher education across the state makes zero sense,” Kelley Quinn, a spokeswoman for Emanuel, said in an e-mailed statement.

Chicago’s school district bonds have been cut to junk by all three major credit-rating companies. On Tuesday, Fitch Ratings lowered its grade on \$6.1 billion of general-obligation debt by three steps to B+, four ranks below investment grade. Bonds due in 2039 traded on Jan. 15 for an average of 88 cents on the dollar to yield 6.5 percent.

The proposed takeover comes as Illinois is in its seventh month without a budget as Rauner, the first Republican to lead the state since 2003, and legislative Democrats remain at an impasse. Without a spending plan in place, Illinois will end the fiscal year as much as \$5 billion in the hole.

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by Elizabeth Campbell

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