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Illinois Fight With Chicago Schools Escalates Over Bond Sales.

Illinois's quest to take over Chicago's schools intensified as Governor Bruce Rauner said the state can block the district from borrowing in the municipal-bond market, a claim the nation's third-largest school system rejects.

The Illinois State Board of Education is investigating the finances of the district, which is facing projected deficits of \$1 billion a year through 2020, and the Republican governor is pushing for legislation to strip the city of its control. The system has routinely relied on bond sales to help cover operating costs and push debt payments further off into the future.

"If it determined that any school district was in financial duress, the state board has the right — the legal authority — to block any debt offerings," Rauner told reporters on Monday. "The state board has not ever chosen to do that for the city of Chicago. I hope that never becomes necessary, but we've got to be ready to take action and step in."

The Chicago Board of Education is struggling to avert insolvency after years of borrowing, drawing on its reserves and shortchanging the workers' pension fund, which is causing its annual retirement payment to soar. With a junk credit rating, the board sold \$725 million of bonds this month for yields as high as 8.5 percent, more than twice that demanded from most credit-worthy state and local governments.

The district said the state doesn't have the power to keep it from borrowing, as Rauner claimed.

"The governor has come up with a number of novel legal theories," Forrest Claypool, chief executive officer of the district, said in comments aired Monday on Chicago Tonight, a public-television show. "The statute is very clear that the authority he seeks to exercise does not apply to the Chicago public schools."

In the days leading up to this month's bond sale, Rauner called for changes to Illinois law to put the state in charge of the district and authorize bankruptcy. That plan has been rejected by Democrats who control the legislature.

Provisions in the state's school code make it clear that the Illinois education board's authority to block debt sales doesn't apply to Chicago's schools, the district said. Rauner's administration said the statute that the district cited, which established a school finance authority that was dissolved in 2010, no longer applies.

"That applied only when the reform board existed, which it no longer does," said Catherine Kelly, a spokeswoman for Rauner. "CPS can be required to develop a financial plan and would be prohibited from issuing bonds during that period."

Bloomberg Business

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February 23, 2016 — 10:46 AM PST

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