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Chicago Financing Plan for 'Star Wars' Museum Draws Mixed Reviews.

Chicago Mayor Rahm Emanuel's proposal to fold financing for a museum sought by "Star Wars" filmmaker George Lucas into a redo of the city's massive convention center got mixed reviews from U.S. municipal bond market on Wednesday.

The proposal, which surfaced on Monday, calls for \$1.5 billion of tax-exempt revenue bonds issued by the Metropolitan Pier and Exposition Authority and the extension of existing so-called tourism taxes on hotel rooms, rental cars, restaurant meals and airport taxi rides to pay off the debt over 40 years. About \$1.16 billion would be used to raze part of the McCormick Place convention center to make room for and build the museum and replace the lost exhibition space.

Lucas, whose museum would showcase his collection of paintings, illustrations and digital art, would contribute \$743 million to cover interest payments on the bonds, according to Richard Oldshue, the authority's chief financial officer.

Illinois' fiscal and political woes, which pushed the credit ratings on \$3 billion of existing McCormick Place bonds into the low-investment grade level of triple-B last year, could taint the new bonds.

"The market can't trust the state to do the right thing and as such they will levy a pretty significant penalty before buying these bonds," said Nicholas Venditti, a portfolio manager at Thornburg Investment Management in Santa Fe.

Illinois' fiscal 2016 budget impasse led to a technical default on McCormick Place bonds last year because there was no state appropriation to transfer tax revenue to the bond trustee for required monthly debt service deposits.

Legislation appropriating the tax revenue subsequently passed, ending the default.

John Miller, co-head of fixed income at Chicago-based Nuveen Asset Management, said going forward, the state has no incentive not to appropriate for McCormick Place bonds.

"I don't think anybody could or should view a McCormick Place renovation and a Lucas Museum as a partisan issue. It's an opportunity," he said, adding that the taxes paying off current bonds have been growing.

Still, Venditti questioned how the state could approve the museum plan instead of tackling its growing public pension costs, a structural budget deficit and the severe financial problems of the Chicago Public Schools.

"If I lived in Chicago, this proposal would drive me insane," he said.

The financing package, which includes money and a tax pledge for the bonds by the state, requires approval from the Democrat-controlled Illinois Legislature and Republican Governor Bruce Rauner.

Reuters

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(Reporting By Karen Pierog, additional reporting by Dave McKinney; Editing by Bernard Orr)

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