

# **Bond Case Briefs**

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## **Financial Experts and Social Service Providers Challenge State, Municipal, and Chicago Public Schools Payments to Wall Street Banks.**

Chicago, IL -(ENEWSPF)-April 27, 2016. On Wednesday, a set of financial experts and social service providers gave testimony before the Illinois House Revenue and Finance Committee detailing how Wall Street banks have soaked all levels of government in Illinois for hundreds of millions of dollars through interest rate swaps and other complex financial deals.

"In essence the banks lured the state of Illinois into a suckers bet - heads I win, tails you lose," stated Saqib Bhatti, Director of the ReFund America Project. "During the budget stalemate this year, while the Governor has refused to fund critical services, the state has nevertheless paid more than \$92 million in fees to banks. \$68 million of this money was for toxic swaps—the same toxic swaps that have drained more than a billion dollars out of the Chicago and CPS's budgets."

The panel of experts included: Saqib Bhatti, ReFund America, Greg Will, SEIU HCII, Jonathan Jackson, Business Professor at Chicago State University; Brad Miller, Former US Congressman; and Tom Sgouros, Senior Policy Advisor, Rhode Island General Treasurer.

The expert panel questioned the ability of local and state governments to win bets against savvy Wall Street bankers.

"The parties to an interest rate swap are each taking different sides of a bet. One party is betting that interest rates will rise, while the other is betting they will fall. Pricing risk is a tricky business. People write doctoral dissertations about it, and win Nobel prizes in Economics for figuring out the essential problems involved," explained Sgouros.

"There are many other specific risks that the banks knew well and even the most sophisticated public issuers did not. The failure to disclose those risks seems very much like a realtor not telling a homebuyer that the basement floods," added Miller.

In addition to the interest rate swaps the panel of experts pointed out the numerous add on fees that have continued to be paid during the budget impasse despite the lack of a budgetary authorization. "The state has paid banks and other finance industry companies for a litany of fees and charges: letters of credit, other credit enhancements, remarketing fees, trustee fees, ratings agency fees, fees to counsel, underwriter fees, fees associated with cash management functions - the list goes on," explained Greg Will, Research Director for SEIU HCII.

Experts made clear that the state paying these fees without a budget was likely illegal, "What's truly scandalous is that the Governor's office is actually breaking the law to pay the banks. The state has paid more than \$10.5 million in bank fees that have no budget authorization. These are illegal payments," said Saqib Bhatti.

Prioritizing payments to Wall Street banks over human service providers is having a devastating

impact on the social service infrastructure in Illinois. Inspiration Corporation, an agency that provides job training and employment placement, supportive housing, meals, and other services to Chicago's homeless and low-income residents has had to lay off staff and reduce services as a result of late payments from the state.

Evan Cauble-Johnson, Chief Development Officer at Inspiration Corporation explained during the hearing, "Study after study has shown that the cost of providing supportive housing to the homeless is a fraction of the cost of relying on emergency services like policing, emergency medical care, or incarceration. If we do not preserve supportive housing for our most vulnerable neighbors now, if we choose to direct the money that we have towards interest payments on risky loans instead of on vital services to our most vulnerable neighbors and fellow citizens, not only do we fail the people that need our support the most, we fail ourselves. We will pay for this choice down the road. There is no avoiding it."