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Chicago School Bonds Rally Despite Governor's Veto Threat.

- **Lawmakers starting special session on school funding Wednesday**
- **Rauner wants to remove what he calls Chicago 'bailout'**

Chicago school bonds are rallying even as Illinois Governor Bruce Rauner repeatedly threatens to veto state aid for the cash-strapped district.

The average price of federally tax-exempt Chicago Board of Education general-obligation bonds due in 2046 was 100.33 cents on the dollar on Wednesday, yielding 6.95 percent, compared to 92.427 cents on the dollar to yield 7.65 percent when the bonds sold on July 10, according to data compiled by Bloomberg.

Lawmakers overrode Rauner's veto of a budget package, including an income-tax hike, to enact Illinois's first spending plan in more than two years on July 6. Tucked into the legislation is a requirement that Illinois use an evidence-based funding model to distribute money to schools. A measure that does just that — Senate Bill 1 — also includes more than \$200 million to help Chicago's schools pay pension bills.

But Rauner, a Republican, plans to issue an amendatory veto to remove what he calls a Chicago "pension bailout." Democrats haven't sent the bill to his desk yet, prompting Rauner to call lawmakers back to the capital for a special session starting Wednesday to address school funding.

"The market sees Rauner as effectively neutered so his attempts to defund the schools are taken somewhat less seriously than they would have been a month ago," said Matt Fabian, a partner with Municipal Market Analytics Inc.

The nation's third-largest school district, which expects to see enrollment drop by 8,000 students this year, has been struggling to stay solvent because of mounting pension bills. The board has been draining reserves, shortchanging its retirement fund and borrowing at punishing interest rates to stay afloat.

The state owes Chicago schools about \$466.5 million in delayed categorical payments, Moody's Investors Service said on July 6. Passage of a state budget is good news for the district, and an excuse to tighten the bonds, according to Fabian.

"They had over-corrected to the cheap side," Fabian said, "And now they're over-correcting to the rich."

Senate President John Cullerton, a Democrat, said he'll send Rauner the bill on Monday, saying that he wants time to negotiate with the governor and address his issues with the measure. If Rauner does a partial veto, lawmakers will try to override him, Cullerton told reporters in Springfield, and warned that Rauner is at risk of exceeding his constitutional authority if he makes major changes to the bill.

At a separate press conference, Rauner reiterated his demand that the bill be sent to him

immediately, and said he'll deal with it in a "fully constitutional way."

Bloomberg Markets

By Elizabeth Campbell

July 26, 2017, 10:19 AM PDT July 26, 2017, 2:06 PM PDT

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