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Illinois Governor Vetoes Chicago School Aid From Funding Measure.

- **Chicago Board of Education bonds higher since budget passed**
- **Move casts uncertainty over aid for schools statewide**

Governor Bruce Rauner slashed state aid for Chicago's cash-strapped school district on Tuesday, issuing an partial veto of a bill that overhauls Illinois's education funding practices.

Rauner, a Republican, had repeatedly called the measure a Chicago "pension bailout" since the Democrat-led legislature approved the law to provide more than \$200 million to help the district pay mounting retirement fund bills. His veto cuts a block grant for Chicago schools and nixes pension considerations from the evidence-based funding formula, according to a statement from Rauner's office.

Illinois's spreads have tightened since the state enacted a spending plan last month, ending its record-long budget impasse that spanned two years. The gap between yields on Illinois's 30-year bonds and benchmark debt fell to the lowest since October last week after Moody's Investors Service confirmed the state's bond rating, ending the imminent threat to Illinois's investment grade status.

But that tightening may be short-lived given this new political fight.

"The governor's walking a very dangerous tightrope in how the state's going to be perceived in the marketplace because it puts on edge opening the schools," said Richard Ciccarone, the Chicago-based president of Merritt Research Services LLC, which analyzes municipal finances. "For the state of Illinois, they're going to probably retrench on some of the gains they've made on tightening."

The move casts uncertainty on the timing of state aid for all Illinois schools as the legislature must now either concur with Rauner's changes or override his veto in order for the measure to become law. If they fail to do either or do nothing, it dies. Illinois enacted a budget in July after lawmakers defeated Rauner's veto of a \$36 billion spending plan and income-tax hike.

Tucked into that package is a requirement that any state aid to schools be distributed through a kind of evidence-based funding formula. Such money normally goes out to schools this month, and some schools may not be able to stay open if it doesn't come through.

The bill, Senate Bill 1, originally contained a \$250 million block grant credit for Chicago and more than \$200 million for pension costs, according to Rauner's office. He wants the latter to be added to the state's pension statute, not the school funding formula, according to a statement from his office.

"I believe these changes put Illinois on a better path for all our children," Rauner told reporters in the state capital of Springfield on Tuesday. "My suggestions ensure that our education funding system is fair and equitable to all students in Illinois."

Chicago Board of Education bonds had rallied since the state passed a budget despite Rauner's repeated veto threat. The nation's third-largest school district has been struggling to stay solvent because of rising pension costs. 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. Chicago Mayor Rahm Emanuel, a Democrat, slammed Rauner's partial veto.

"It is well past time for Governor Rauner to stop playing politics with our children's futures, start demonstrating leadership, and ensure a child's education isn't determined by their zip code or his political whims," Emanuel said in an emailed statement.

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