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Bond Sales by Cities Borrowing to Pay for Lost Court Fights Jump.

- **Municipal debt issues for settlements hit $1.6 billion in 2018**
- **'It's sort of like putting your mortgage on your credit card'**

After serving 13 years in prison for a murder he didn't commit, Chaunte Ott won a $6.5 million settlement from Milwaukee, Wisconsin, in 2015. To pay him, the city didn't draw from its tax revenue. It sold bonds to investors.

The 595,000-resident city has issued about $28 million of debt to cover the cost of legal settlements over the past decade, adding to a wave of borrowing by governments to pay for police misconduct, contract disputes and other adverse judgments.

This year, states and municipalities have already raised $1.6 billion in the municipal-bond market for such settlements, up from $826 million in 2017 and $281 million the year before, according to data compiled by Bloomberg. Last month, Michigan State University approved a $500 million debt sale to pay more than 330 women and girls who were sexually abused by doctor Larry Nassar.

The growing use of debt to cover legal bills promises to increase the cost to taxpayers by extending the payments for years, leaving governments with interest bills that will linger long after many current leaders have left office.

"What you're doing is you're putting on the backs of future taxpayers the cost of an event that occurred in the past," said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris School of Public Policy. Debt "is supposed to fund hard capital that's going to serve the public over the years."

It's not clear whether the rise in bond sales reflects an increase in legal settlements or just a greater reliance on debt to cover them, and the data doesn't indicate what types of cases are behind the borrowing because securities documents vary in the degree of detail they disclose.

But the practice has drawn scrutiny in the wake of the the nationwide Black Lives Matter movement, which has focused attention on police brutality and unjustified shootings. The Action Center on Race and the Economy, an advocacy group, in June released a report that found that 12 cities and counties have sold $878 million of bonds to pay police-related settlements, with about $709 million from Chicago. It estimated that will roughly double the cost to taxpayers once interest payments are included.

Ruinous Consequences

The borrowing, though, can save some governments from potentially ruinous binds. South Tucson, Arizona, went bankrupt four decades ago after it was ordered to pay $3.6 million to a man who was left paralyzed after being mistakenly shot during a police raid on his home. The resort town of Mammoth Lakes, California, filed for court protection from creditors six years ago after losing a

dispute with a developer. In 2015, Hillview, Kentucky, followed suit because of a property dispute with a truck-driving school.

“You should be using financing for capital improvements and necessary items that help develop safety and welfare, but in my mind not going into Chapter 9 and using it to prevent that because you need the liquidity is a social good too,” said Jim Spiotto, managing director of Chapman Strategic Advisors.

This month, Dallas issued $58.7 million of general-obligation bonds to contend with four legal settlements over police and firefighter pay.

California has its own designation for securities sold to cover legal costs: judgement-obligation bonds. Last year, Los Angeles considered issuing up to $90 million of them to cover unanticipated settlements, though it later decided to use surplus revenue instead.

“They have no public benefit whatsoever,” said city council member Mitchell Englander, who objected to the plan. “It’s sort of like putting your mortgage payment on a credit card because you want to keep your money in your savings account — it makes no sense.”

Big City Burden

Despite criticism of the practice from some quarters, municipalities have little trouble selling debt. Richard Li, the public debt specialist for Milwaukee, said he hasn’t seen investors shy from the city’s bonds that paid for legal settlements — which are usually large bond issues that also fund other government expenses. He said the settlements aren’t generally large enough sums to be a concern to bondholders.

“These deals are in the hundreds of millions of dollars, and we line item that five or so million we are going to pay for legal settlements,” he said. “It’s not really material to the investor at that point.”

The year after Ott was exonerated by DNA evidence in 2015, Milwaukee had to pay $5 million to 74 people who were victims of unlawful body cavity and strip searches by police officers. The city issued bonds to pay for that settlement too.

Li said the $28 million that the city has issued to pay off settlements and judgments is a normal — if unpredictable — expense for large cities. “A small city that doesn’t have a very active police force doesn’t usually encounter this issue as often as a larger city like Milwaukee, which has an active police force that is always engaging with the public.”

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