

Bond Case Briefs

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Chicago's Bonds Aren't Akin to Puerto Rico's.

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Regarding your editorial "[Chicago's Puerto Rican Bonds](#)" (Feb. 1): Labeling Chicago's new issuance of sales-tax-backed bonds a "shell scheme" is a poor analogy. Chicago has been clear that the proceeds will repay higher-cost debt. That's not a con but the equivalent of refinancing a mortgage to help pay for a child's education. Rather than "diluting" other creditors, the city's move helps it achieve its goals. In positing that investors are so starved for yield that Chicago was able to essentially dupe them, the editorial overlooks key realities.

First, it's wrong to compare the yields on municipal bonds and Treasuries. Chicago's securitization bonds carry a 5% coupon and pay tax-free interest whereas Treasuries are taxable, thereby explaining the heightened demand for the former.

Second, the tax revenues backing the bonds are paid from the state of Illinois, which agreed to help securitize them and promised not to impair bondholders. The U.S. Constitution protects investors against states breaking such promises. And in bankruptcy, the Fifth Amendment would prohibit Chicago from taking property, which is determined under Illinois law.

The notion that a recession could prompt politicians to pick pensioners over bondholders is also a red herring. Investors know—and price in—that the Illinois Constitution prevents the diminishment or impairment of pensioners, as the state's Supreme Court held in 2015.

That Chicago, working with Illinois, lowered its borrowing costs should be applauded. Puerto Rico's sales-tax bonds faced unique challenges inapplicable to Chicago. They nevertheless delivered near-par recoveries for senior bondholders.

Wall Street Journal Letters

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