

Bond Case Briefs

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Illinois Appeals Court Allows Constitutional Challenge to State's Bonds.

CHICAGO, Aug 6 (Reuters) - An Illinois appeals court on Thursday gave the green light for a lawsuit to be filed challenging the constitutionality of \$16 billion of the state's general obligation bonds.

The court reversed a Sangamon County judge's ruling last year that blocked a so-called taxpayer lawsuit from being filed, calling it political in nature. The appeals court said it expresses no opinion on the merits of the claims, but merely concluded the lawsuit should be permitted to be filed because it was not "frivolous or malicious."

Illinois, the lowest-rated state at a notch above junk, pays the biggest yield penalty among states in the U.S. municipal bond market and an ensuing lawsuit is likely to pressure prices on its bonds.

In July 2019, John Tillman, CEO of the conservative Illinois Policy Institute, petitioned to file a taxpayer lawsuit against state officials to stop billions of dollars in future payments on the approximately \$14 billion of bonds, backed by the state's full faith and credit pledge, that remained outstanding.

The petition claimed bonds Illinois sold in 2003 and 2017 violated the state constitution because the proceeds were not used to fund specific purposes like capital improvements. Illinois used proceeds from 2003's \$10 billion bond sale for its underfunded retirement system, while money from \$6 billion of bonds sold in 2017 was used to pay overdue bills.

There was no immediate reaction to the ruling from state officials. Tillman said he looks forward to his day in court. "By continuing to issue debt in violation of the rule of law, state politicians in Illinois have harmed taxpayers and the poor and disadvantaged who depend on the delivery of government services," he said in a statement.

(Reporting by Karen Pierog in Chicago Editing by Matthew Lewis)