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Challenge to \$14 Billion in Illinois Debt Revived.

The decision is a victory for the head of a conservative think tank who had sued to block further payments on state debt sold in 2003 and 2017

An appeals court in Illinois has reinstated litigation seeking to block payments on \$14.3 billion in municipal debt, saying the attempt to restrain borrowing in the country's worst-rated state isn't frivolous or malicious.

The appellate court said John Tillman, chief executive of the right-leaning Illinois Policy Institute, had put forth a legitimate claim in support of his theory that past bond sales by the state were impermissible. The court stressed that it wasn't deciding the merits of Mr. Tillman's claims but said that the litigation could continue in a lower court.

The complaint accused Illinois of taking on more debt than its constitution allows and breaking a state rule prohibiting deficit financing with bond deals in 2003 and 2017. Some of those bonds raised money to prop up Illinois pension funds, while others funded back payments to stretched government vendors.

Mr. Tillman, a prominent foe of public-sector unions, argues Illinois is barred from taking out long-term debt except for "specific purposes" or to refinance longer-term debt, while the state had instead borrowed to bridge deficits and to speculate on financial markets.

He has asked for a court order declaring the 2003 and 2014 debt sales invalid and unenforceable and prohibiting state officials from making further payments to bondholders.

A state judge dismissed the litigation last year, saying it risked "an unjustified interference with the application of public funds" and it would draw the courts into political questions that should be left to lawmakers.

Mr. Tillman's challenge has drawn fierce responses from state officials, including Gov. J.B. Pritzker, a Democrat who was named as a defendant in the complaint and who has accused Mr. Tillman of a "pathological focus to drive Illinois into bankruptcy."

A spokeswoman for Mr. Pritzker said, "This lawsuit continues to be a tired tactic of the extreme right who continue to push their ideology over sound fiscal policy. This administration will continue to focus on the important work of acting responsibly to keep the state on stable fiscal footing."

Municipal bond-market investors including Nuveen Asset Management and AllianceBernstein LP have defended the state, saying the case had roiled the market for Illinois debt and cost them money.

While state and local governments nationwide are grappling with how to cover revenue gaps stemming from coronavirus restrictions, few are as strained as Illinois, which entered the pandemic with the worst credit rating of any state—just above junk status.

Financial instability at the municipal level has become a national political issue, with both President Trump and Senate Majority Leader Mitch McConnell (R., Ky.) questioning whether states should receive federal assistance during negotiations over stimulus legislation.

Mr. McConnell suggested in April that instead of coming up with a federal bailout for states, Congress should consider allowing them to use bankruptcy protection to cut their debts, an option they don't currently have. Illinois was the first borrower to access the Federal Reserve's municipal lending program earlier this year.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

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By Andrew Scurria

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