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Illinois Bonds Gain as Court Rejects Case to Invalidate Debt.

- **Head of think tank had challenged state bonds from 2003, 2017**
- **State top court denied challenge on over \$14 billion in debt**

The Illinois Supreme Court on Thursday upheld a decision that shot down a conservative think tank leader's effort to invalidate more than \$14 billion of bonds sold by the state, promising to end a nearly two year legal saga.

John Tillman, the chief executive officer of the Illinois Policy Institute, a conservative think tank, filed a lawsuit in July 2019 claiming that pension bonds issued in 2003 and others sold in 2017 violated the state constitution because they weren't issued for "specific purposes" but general expenses. The state argued that laws authorizing the 2003 and 2017 bonds satisfied that requirement.

Illinois bonds rose in active trading after the ruling, driving the average yield on some sold in 2017 to 1.12% from 1.4% and the price jumped to more than \$1.20 from about \$1.19 a day earlier. The case has been closely watched by investors in the \$3.9 trillion municipal bond-market, where it was seen as a potential harbinger of potential lawsuits elsewhere if it prevailed.

"Even though the probability was low that the challenge was going to be successful, it wasn't zero," said Dan Solender, director of tax-free fixed income for Lord, Abbett & Co., which holds \$34 billion in muni assets. "The expectation was this was not going to be a problem but still the bonds are moving up because there is now some definite resolution to the situation."

In August 2019, a Sangamon County circuit associate judge denied Tillman's petition to file the suit. The Supreme Court upheld that court's decision, reversing a ruling from an appeals court.

"We hold that the circuit court did not abuse its discretion in denying the petition for leave to file a taxpayer action," according to an opinion of the court delivered by Chief Justice Anne Burke that was posted on its website. "Accordingly, we reverse the judgment of the appellate court and affirm the judgment of the circuit court."

A successful effort to invalidate the debt would have saddled investors with losses and potentially left the state facing higher interest rates to compensate for the risk of such challenges. The state already has \$141 billion of unfunded pension liabilities, almost no money in its rainy day fund and expects deficits through at least 2026.

"I am of course disappointed in the Illinois Supreme Court's ruling," Tillman said in an emailed statement Thursday after the ruling. "We are evaluating our options as to how to proceed from here. In the interim, I continue to be profoundly concerned about Illinois' reckless debt accumulation. All Illinoisans should care about this."

Tillman added that if the state doesn't push for pension reform now a fiscal crisis could pose a threat to taxpayers, people who depend on government services and retirees.

Illinois Governor J.B. Pritzker's "administration is pleased that the Supreme Court sided with hardworking taxpayers over a frivolous lawsuit designed to grab headlines," according to an emailed statement from spokesperson Emily Bittner. The court "rejected the plaintiff's belated attempt to create unnecessary havoc in Illinois' fiscal standing," Illinois Attorney General Kwame Raoul's office said in a statement.

The state's top court focused on how long Tillman waited to file his action rather than the constitutional question, and in the opinion said "we find that this delay is unreasonable."

With the outcome of the case now behind the state, it "can move forward in addressing the more pertinent fiscal issues," said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which owns Illinois debt that was challenged as well as other bonds issued by the state as part of a \$40 billion municipal-bond portfolio.

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