

Bond Case Briefs

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Illinois Supreme Court Blocks Lawsuit Challenging State Bonds.

The Illinois Supreme Court on Thursday rejected a lawsuit that sought to challenge the constitutionality of \$16 billion of the state's general obligation bonds and threatened a massive default.

The high court reversed an August state appeals court decision permitting the so-called taxpayer lawsuit to move forward because it was not "frivolous or malicious," and affirmed a 2019 district court ruling that blocked its filing.

In 2019, John Tillman, chief executive of the conservative Illinois Policy Institute, petitioned to file a lawsuit aimed at ending payments on about \$14 billion of debt remaining from bond issues sold in 2003 and 2017.

In a unanimous opinion, justices cited an unreasonable delay by the plaintiff before challenging the bonds and raised concerns about a default.

"Enjoining the state from meeting its obligation to make payments on general obligation bonds will, at the very least, have a detrimental effect on the state's credit rating," the opinion stated.

Illinois is already the lowest-rated state at a notch above junk and it pays the biggest yield penalty among states in the U.S. municipal bond market. That penalty has eased as Illinois' revenue rebounds from the coronavirus pandemic and federal stimulus money flows into the state's coffers.

The spread for Illinois 10-year bonds over Municipal Market Data's benchmark triple-A yield scale, which ended 2020 at 198 basis points, was only 85 basis points on Wednesday.

Tillman had claimed the bonds, backed by Illinois' full-faith and credit pledge, 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.

Reuters

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