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TRIFECTA: ILLINOIS, CHIGAGO AND ITS SCHOOL DISTRICT

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Chicago, its School District and Illinois revive memories of New York City in 1975 and Philadelphia in the early 1990’s. In all three cases, the City, School District and State’s credit were intertwined.

In 1975, NYC suffered one of the worst melt-downs in history. The City was broke, the schools had no financial powers other than what the City would allow, and the magnitude of the crisis nearly shut down the State’s ability to borrow.

In the early 1990’s, Philadelphia faced 5 consecutive deficits, the independent school district was solvent but facing major financial problems. Although Pennsylvania was not legally on the hook, they were at the center of both crises.

Fast Forward to 2016, and we see that Chicago Board of Ed’s finances are on the ropes, the State has not adopted a formal budget for 2 years, and the School District relies on both the City and the State for funding and management. And while Illinois doesn’t guarantee City debt, there will be a permanent stigma if either the City, Schools or State default on debt.

Chicago City is probably least vulnerable, and they are taking steps to restore its finances. They are less dependent on state funding than schools or State General obligation debt. However, the 2-year delay in adopting a state budget is unprecedented. And the School District gets 25% of of its revenue from the State, which is not a pretty picture.

Whatever occurs by any of these three entities will influence the other two. Because of the size and relevancy of all three entities, I believe that despite the size of their problems, all three are likely to make sacrifices to avoid default by all three.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee.

"Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.

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