THE CIVIC FEDERATION/FEDERAL RESERVE BANK OF CHICAGO

Chicago Fiscal Future: Growth or Insolvency?

Dealing with and Overcoming Fiscal Distress

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 James E. Spiotto is the Co-Publisher of Muninet Guide and a retired partner of Chapman and Cutler LLP as well as Managing Director of Chapman Strategic Advisors LLC and President of JASSEE Advisors, LLC. This document is for informational purposes, general in nature and based on authorities that are subject to change. It is not intended as a recommendation or advice with regard to any action or inaction to be taken. The views expressed herein are solely those of the author and do not reflect the position, opinion or views of Chapman and Cutler LLP or Chapman Strategic Advisors LLC. This presentation discusses the current state of the Chapter 9 market including a detailed analysis of these issues. For further reading: Remarks of James E. Spiotto of Chapman and Cutler LLP to the U.S. Securities and Exchange Commission field hearing at Birmingham, Alabama on July 29, 2011 on the State of the Municipal Securities Market, Remarks of James E. Spiotto of Chapman and Cutler LLP, and the Second Edition of "MUNICIPALITIES IN DISTRESS?" authored by James E. Spiotto and published by Chapman and Cutler LLP which is a 50-State Survey of State Laws Dealing with Financial Emergencies of Local Governments, Rights and Remedies Provided by States to Investors in Financially Distressed Local Government Debt, and State Authorization of Municipalities to File Chapter 9 Bankruptcy, which is available from Chapman and Cutler LLP or on Amazon.com, PRIMER ON MUNICIPAL DEBT ADJUSTMENT, published by Chapman and Cutler LLP, which is available from Chapman and Cutler LLP, "The Role of the State in Supervising and Assisting Municipalities, Especially in Times of Financial Distress," by James E. Spiotto in the MUNICIPAL FINANCE JOURNAL, Winter/Spring 2013 and "How Municipalities in Financial Distress Should Deal with Unfunded Pension Obligations and Appropriate Funding of Essential Services," 50 WILLAMETTE LAW REVIEW 515 (2014), "Reducing Risk to Payment of State and Local Government Debt Obligations, Statutory Liens from Rhode Island to California SB 222" MUNINET GUIDE (July 28, 2015) http:www.muninetguide.com/articles/reducing-risk-to-payment-of-state-and-local-government-debt-7401, and Remarks of James E. Spiotto to the United Stats Senate Committee on the Judiciary in connection with the hearing on December 1, 2015 on the financial distress in Puerto Rico and the role of Congress.

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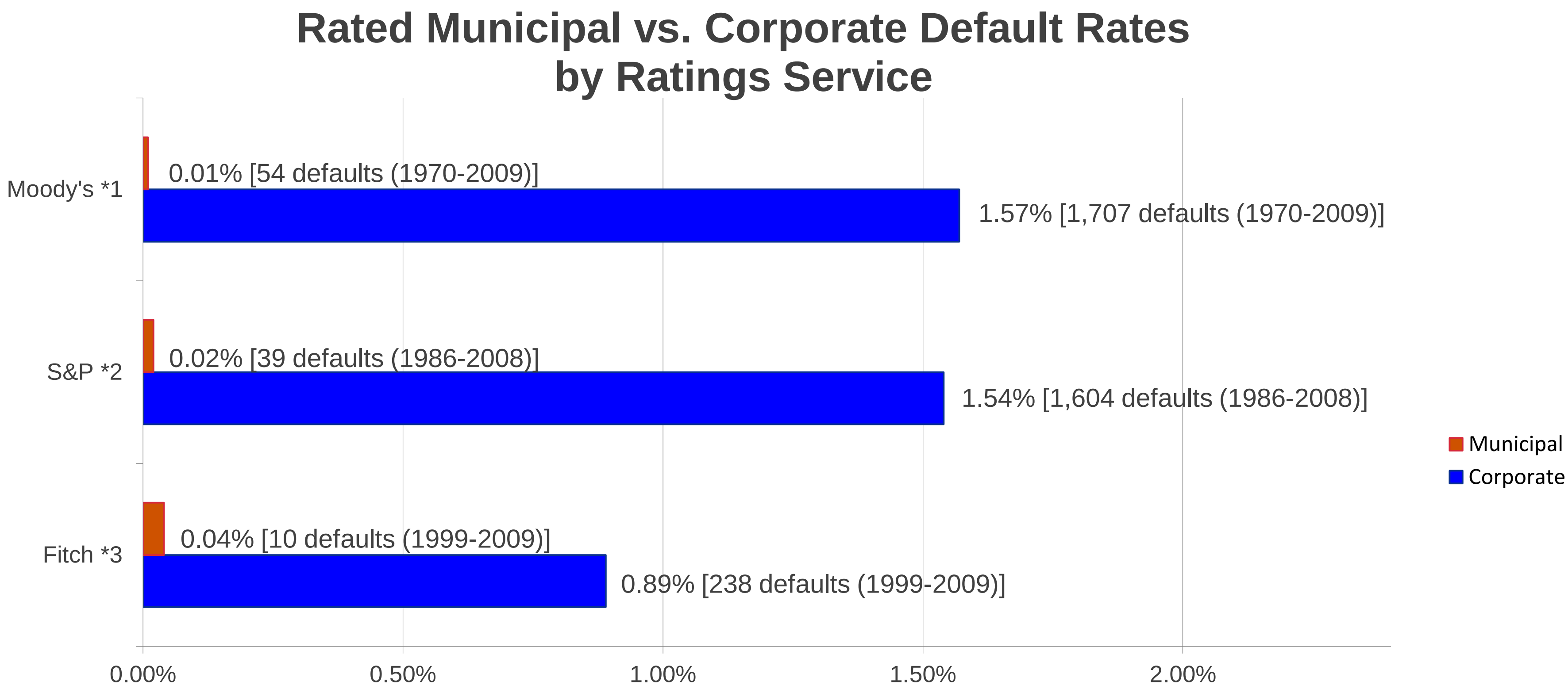
I. THE GATHERING STORM

A. Financial Distress of State and Local Governments is Rare but It Does Occur:

1. The default rate for rated state and local government bond debt is 1/50 to 1/100 (1 or 2%) of that of the rated corporate bond defaults.
2. The rate of Chapter 9 bankruptcies for municipalities is actually .086% of corporate Chapter 11 filings or 8.6/10,000 of that of corporate Chapter 11 per year over the last 36 years.

I. THE GATHERING STORM



1. Moody's Investors Services, U.S. Municipal Bond Defaults and Recoveries, 1970-2009 (February 2010); Moody's Investors ServCorporate Default and Recovery Rates, 1920-2009 (February 2010). Percentages based upon average one-year default rate.
2. Standard & Poor's, 2009 Global Corporate Default Study and Ratings Transitions (March 17, 2010); Standard & Poor's; U.S. Municipal Ratings Transitions and Defaults, 1986-2009 (March 11, 2009). Percentages based on average default rate.
3. Fitch Ratings Inc. U.S. Public Finance Transition and Default Study (1999-2009), March 25, 2010; Fitch Ratings Global Corporate Finance 2009 Transition and Default Study.

I. THE GATHERING STORM

B. Recent Default Rate: Historically, there is a low default rate for bonds issued by municipalities and states and studies of recent default since 1970 continue the trend:

- The late Dr. John Petersen of George Mason University noted in his paper on “Municipal Defaults: Eighty Years Made a Big Difference” (2011) that, between 1970’s-2000’s, the municipal default for municipalities averaged per decade .10% to .24% (adjusted for WPPSS and Jefferson County, Alabama) not including the fact that over 80% of the defaults were conduit financings and not essential public financings. This is a far cry from the corporate bond default rate on average for investment grade and non-investment grade of about 10%. (Petersen, 2013).
- States have not defaulted on general obligations bonds since the late 1880’s, with the exception of Arkansas debt in 1933, which was thereafter refinanced.

I. THE GATHERING STORM

Recorded Defaults, by Type of Local Government Unit
1839-1969

	1839 -49	1850 -59	1860 -69	1870 -79	1880 -89	1890 -99	1900 -09	1910 -19	1920 -29	1930 -39	1940 -49	1950 -59	1960 -69	Total Defaults	Number of Local Governments in 1967[a]	% of Annual Default Rate Over 130 Yrs.[b]
By Type of Units																
Counties and parishes		7	15	57	30	94	43	7	15	417	6	12	24	727	3,049	.183%
Incorp. munics.	4	4	13	50	30	93	51	17	39	1,434	31	31	114	1911	18,048	.081%
Nunincorp. Munics.		4	9	46	31	50	33	5	10	88	7	4	26	313	17,105	.014%
School districts				4	5	0	11		14	1241	5	23	60	1,272	21,782	.048%
Other districts				2	1	12	11	7	107	1,590	30	42	70	1,872	21,264	.067%
Totals	4	15	37	159	97	258	149	36	185	4,770	79	112	294	6,195	81,248	.058%

a The number of local government units has changed rapidly. For example, in 1932 there were 127,108 school districts, 8,580 other districts, and 175,369 state and local government units.

b The percent of annual default in total defaults by type divided by number of governments divided by 130 (years).

Sources: Default information in *The Daily Bond Buyer, The Commercial and Financial Chronicle* and *The Investment Bankers' Associations Bulletin:* default lists from Federal Deposit Insurance Corporation, Life Insurance Commission, and U.S. Courts; and Albert M. Hillhouse, *Defaulted Municipal Bonds* (Chicago: Municipal Financial Officers Association, 1935). Number of local government units from: U.S. Department of Commerce, Bureau of Census, Census of Governments, 1967, Vol. 1 "Governmental Organization" (Gov't Printing Office, 1969) and ACIR Report Bankruptcy, Defaults and Other Local Government Financial Emergencies U.S. Government 1973.

I. THE GATHERING STORM

- Historically, based on default rate, willingness to pay has not been a real problem but current events may test that premise.
- Essential service debt financing has historically enjoyed a significantly lower default rate than healthcare, housing and conduit state and local governmental financing.
- Unfunded pension obligations and deferred infrastructure costs are a more recent phenomenon – Prior to 1960s, most pension obligations were treated as gratuities and a significant number of big ticket infrastructure costs are only now starting to age such as the interstate highway system, electric grid, waste water treatment facilities, etc.
- We are closer to a tipping point and departure from the historical assurances than we have ever been. The difference may be whether there will be adherence to the Washington-Hamilton principle of honoring the payment of public debts and reinvesting in state and local government going forward.

I. THE GATHERING STORM

C. Historically the Use of Chapter 9 Bankruptcy by a Municipality Has Been Rare and a Last Resort Especially Compared to Corporate Chapter 11 Filings:

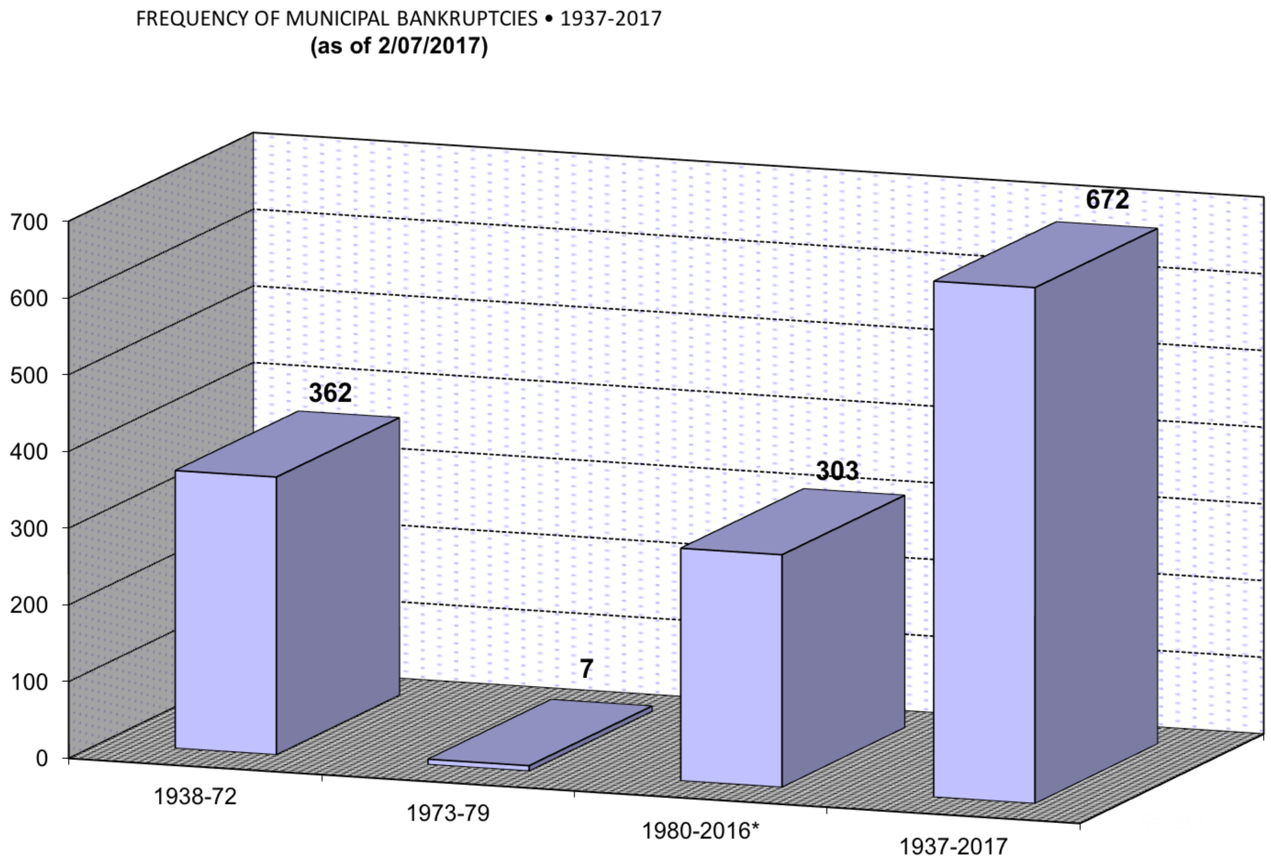
- Since 1937 when Chapter 9 municipal debt adjustment was enacted almost 80 years ago there have been only 672 Chapter 9 filings namely by small municipal utilities and special tax districts and by some cities, towns, villages and counties but generally not of any significant size.
- Since 1954, virtually all of those municipalities that filed Chapter 9 were small or not major issuers of bond debt except for Bridgeport, CT in 1991, Orange County in 1994, Vallejo, CA in 2008, Jefferson County, AL in 2011, Stockton and San Bernardino, CA in 2012 and Detroit in 2013. Both Harrisburg, PA and Boise County, ID. cases were dismissed as was Bridgeport in 1991.

I. THE GATHERING STORM

D. Current Use of Chapter 9:

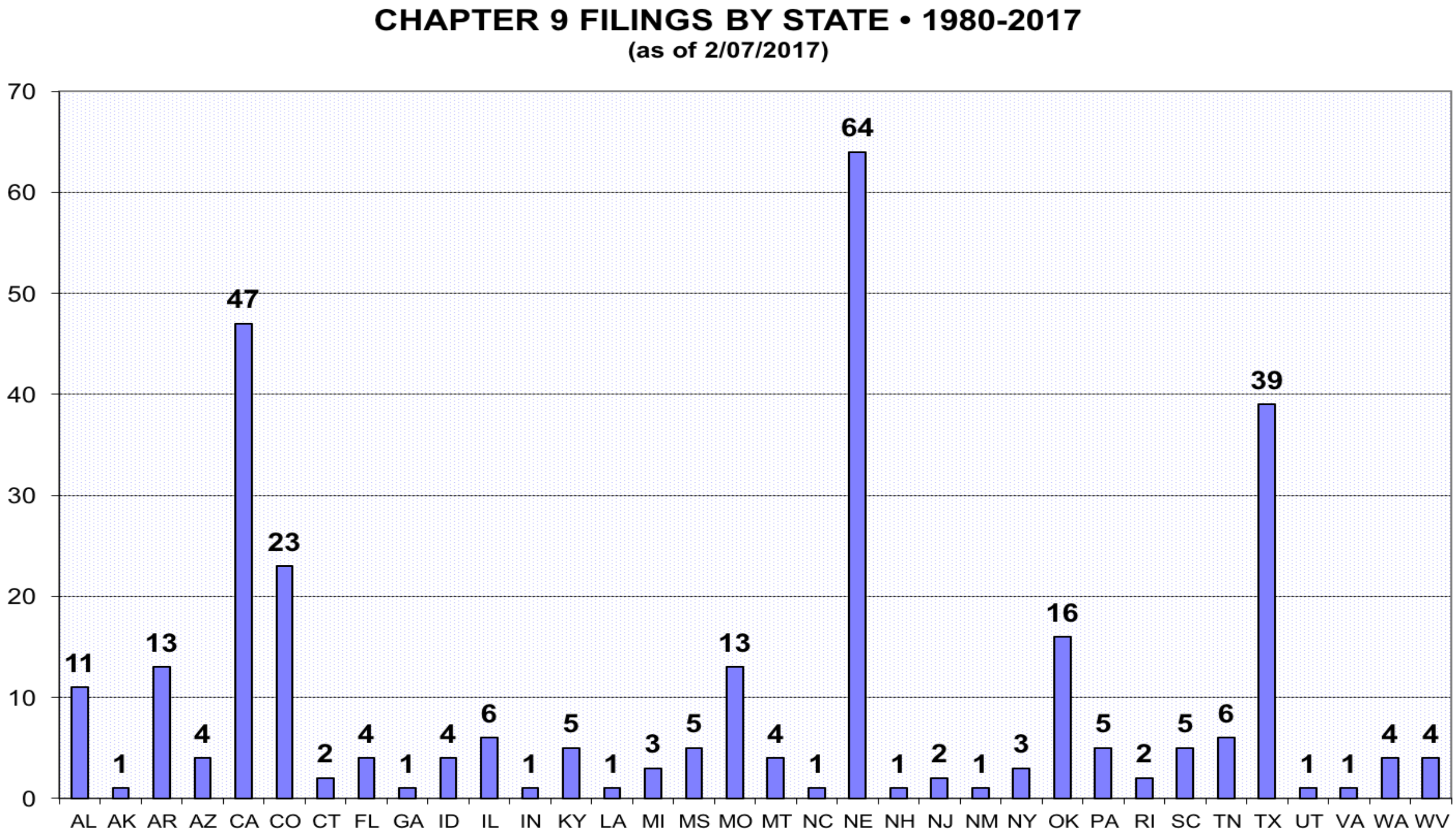
- No Tsunami of Chapter 9 filings in 2012, 2013, 2014, 2015 and 2016.
- Only 13 Chapter 9 filings in 2011, 12 in 2012, 8 in 2013, 10 in 2014, 3 in 2015, 6 in 2016 and 2 so far in 2017.
- Only 4 cities, towns, counties or villages filed Chapter 9 (municipal bankruptcy) in 2011, namely Jefferson County, Central Falls, Boise County and Harrisburg, PA (Boise County and Harrisburg were dismissed), 3 in 2012, namely Stockton, San Bernardino and Mammoth Lakes (which was dismissed that year) and only 1 in July, 2013 – namely Detroit. Since the Detroit Chapter 9 was filed in 2013, 2014, 2015, 2016 and, so far in 2017, only one city, Hillview, KY in August 2015, filed and that was dismissed in April, 2016 without filing a plan of debt adjustment.
- Total Chapter 9 filings since 1937 – 672. States cannot file Chapter 9 – Co-Sovereign with Federal Government and 10th Amendment Issues.
- Still RARE and mainly small special tax districts, municipal utilities.
- In the last 60 years, only 64 cities, towns, counties and villages have filed out of 328 Chapter 9 filings that have been made. Twenty-nine of the 64 (44%) were Chapter 9 cases dismissed before any plan of debt adjustment was confirmed with purportedly the city, town, village or county finding a better resolution or was not authorized to file under state laws.

I. THE GATHERING STORM

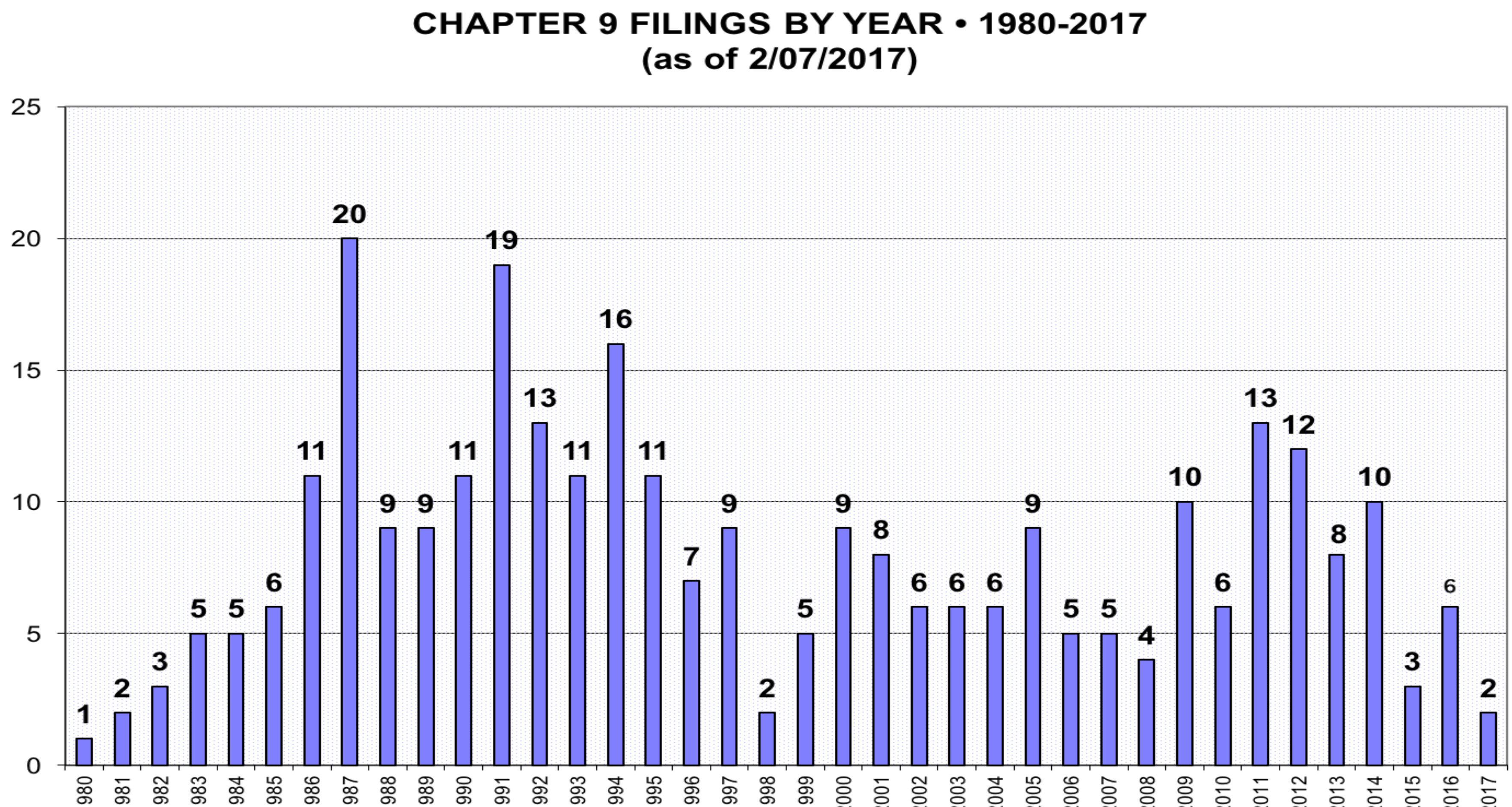


* Since passage of the Bankruptcy Code.

I. THE GATHERING STORM



I. THE GATHERING STORM



I. THE GATHERING STORM

E. Illinois and Its Municipalities Have Faced Some Challenging Financial Developments Due to the Great Recession, 2010 Reduction in Income Tax Rates and Income, Increased Unfunded Pension Obligations and Loss of Manufacturing Jobs Among Other Reasons:

1. Illinois and Chicago Metropolitan Statistical Area ("MSA") had A bittersweet economic climate since 2000.

   The Sweet!

   - Illinois is the 5th largest state by population and GDP but the 15th by per capita GDP
   - Chicago MSA in 2015 is the 8th, 6th or 5th largest metropolitan area by GDP in the world (it was 4th in 2008).
   - In the Midwest, Illinois has the highest GDP per capita but also the highest public debt per capita and the highest percentage of public debt to GDP

I. THE GATHERING STORM

The Not So Sweet and Bitter!

- From 1985 to 2000, Illinois and Chicago MSA were competitive with the increase in percentage of personal income and jobs compared to that for the U.S.A. average and the Los Angeles and New York City MSAs.
- After 2000, Illinois and Chicago MSA lagged in the percentage increase in personal income and jobs in comparison to the average for the U.S.A. and New York City and Los Angeles MSAs.
- This could be due to the adverse effects of NAFTA, China joining the World Trade Organization or the economic downturns of 2001 and 2008 and the combined loss of over 75% in value of the Dow from the beginning to the end of the 2001 and 2008 economic downturns.

I. THE GATHERING STORM

Since 2000:

- Illinois' increase in jobs was 17% slower than U.S.A. average.
- Illinois and Chicago MSA had 22-24% less GDP growth than U.S.A. average and higher unemployment rates.
- Due to a sunset of a tax increase in 2015, Illinois income tax collections were reduced by $4 billion in FY2016 compared to 2014.
- Illinois' unpaid bills were estimated to be $14 billion by the end of FY2017.
- Illinois' five pension systems unfunded liabilities have increased over 650% since 1995 to about $129 billion by the end of FY2016.
- The Chicago Public Schools purportedly had no unfunded pension liabilities in 2000 and now have as of FY2014 over $9.4 billion unfunded pension liabilities.

I. THE GATHERING STORM

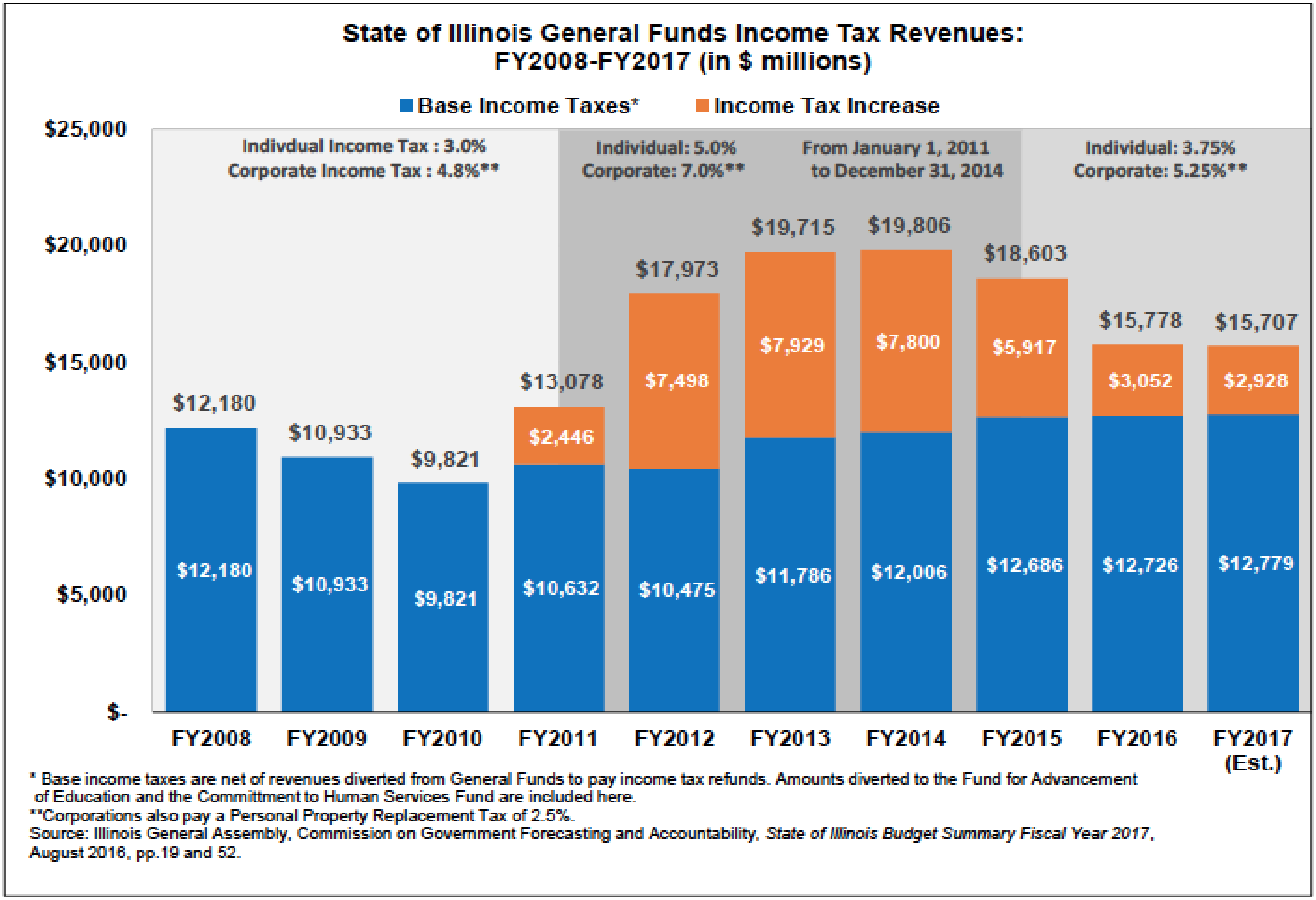
- Illinois and Chicago MSA are one of the largest manufacturing areas in the U.S.A. Chicago MSA is the second largest manufacturing area in the U.S.A. Since 2000, Illinois and Chicago MSA lost about 18% more manufacturing jobs than the U.S.A. average. However, the City of Chicago in 2015 added a net 80,000 jobs and a net 60,000 additional jobs in 2016 with an average annual salary of about $72,000 mainly due to company headquarter relocations to Chicago.
- The following charts provide additional detail on the financial distress suffered by Illinois and the Chicago MSA over the last 16 years.

I. THE GATHERING STORM

2. Due to a legislation sunset, income tax rates were rolled back from 5% to 3.75% for individuals and from 7.0% to 5.25% for corporations, effective January 1, 2015, plus another 2.5% of net income for corporations as personal property replacement tax.

   - After a rate increase in 2010, income tax revenues had more than doubled to $19.8 billion by FY2014 from FY 2010.
   - By FY2016, income tax revenues had declined by over $4 billion or 20.7% between FY2014 of $19.8 billion and FY2016 of $15.8 billion.

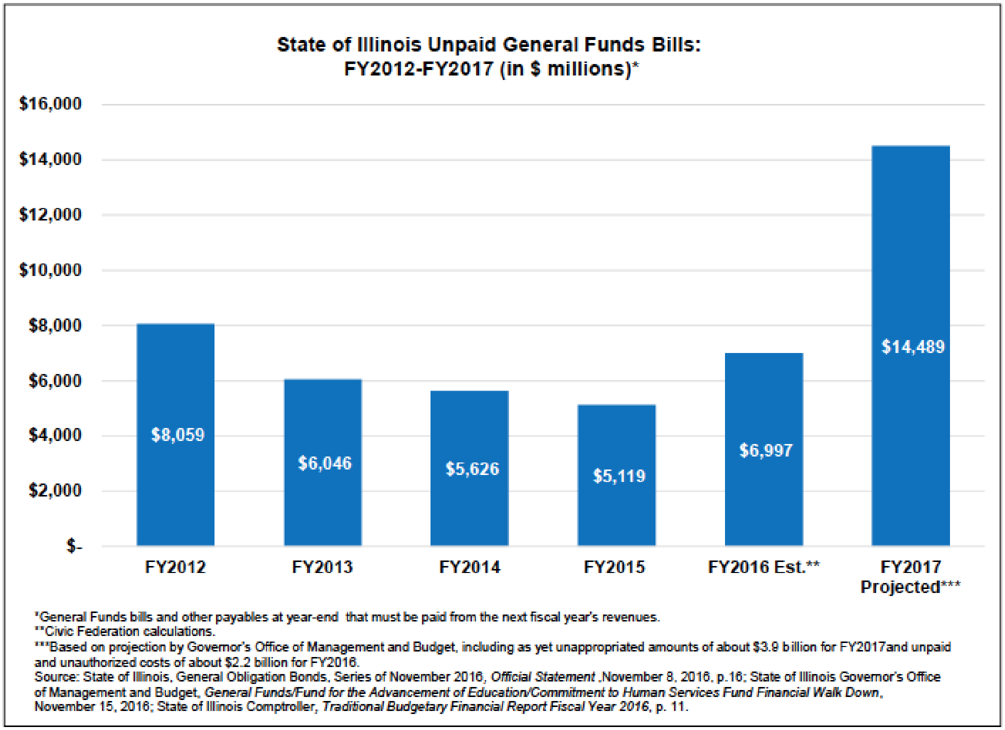
I. THE GATHERING STORM



Source: Civic Federation

I. THE GATHERING STORM

3. The State of Illinois unpaid bills reached $6.997 billion by FY2016 and are estimated by the Civic Federation in its State of Illinois FY2018 Budget Roadmap February 10, 2017 (herein “Civic Federation”) to reach $14.489 billion by FY2017.

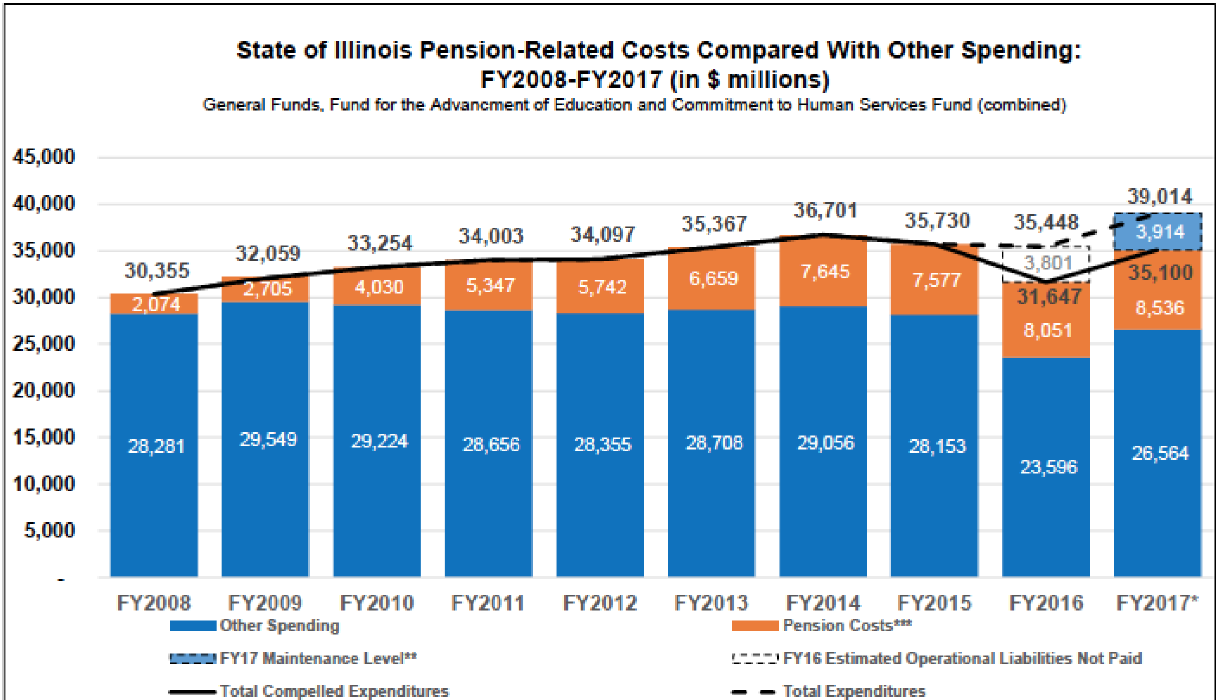


Source: Civic Federation

I. THE GATHERING STORM

4. According to the Civic Federation, by the end of FY2016, the State of Illinois’ unfunded liability for its five pension systems had grown to $129.8 billion based on the market value of assets and funded ratio at 37.6% which is one of the lowest funding ratios among states. In 1995, when the state enacted pension funding legislation, the unfunded pension obligation for the State of Illinois was $19.8 billion.
   - Pension contributions from general funds more than quadrupled to $6.9 billion in FY2017 from $1.6 billion in FY2008 and are expected to increase to $7.9 billion in FY 2018 or approaching 25% of the general fund revenue in FY2016.

I. THE GATHERING STORM



* Estimated by the Governor's Office of Management and Budget based on authorized or compelled spending as of January 2017.

** As-yet unappropriated amount estimated by the Governor's Office of Management and Budget to achieve historical levels.

***Includes State contributions under existing law and debt service on pension bonds. Pension contributions in FY2010 and FY2011 were made through issuance of bonds and included for purposes of comparabiity.

Source: Civic Federation calculations based on State of Illinois, General Obligation Bonds, *Official Statements*, November 8, 2016, July 18, 2014, April 10, 2014, February 23, 2011, and January 7, 2010; Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2015*, March 2016, pp. 117-121; Illinois Office of the Comptroller, *Traditional Budgetary Financial Report Fiscal Year 2016*, pp. 11 and 31; Illinois State FY2017 Budget, pp. 75, 261, 325 and 465; State of Illinois Governor's Office of Management and Budget, *GOMB Review of Senate Revenue and Spending Provisions*, January 2017.

Source: Civic Federation

I. THE GATHERING STORM

5. While there are various measures of financial health of a sovereign, one of the more traditional is the relationship of debt to Gross Domestic Product (“GDP”), public debt per capita and GDP per capita. The following is an analysis using these measures for Illinois compared to the other Midwest states and compared to California and New York who have the other two largest cities in the U.S.A., and New Jersey, Connecticut and Rhode Island that have or have recently experienced similar financial distress. This analysis demonstrates in the Midwest, that Illinois has the highest public debt to GDP and public debt per capita, but it also has the highest GDP per capita indicating the ability to address financial issues.

I. THE GATHERING STORM

State and Local Government Comparison FY2017 Estimate			
State	% Public Debt to GDP	GDP Per Capita Midwest	Public Debt Per Capita
IL	18.45%	$65,727	$12,132
IN	15.98%	$54,149	$7,298
Iowa	11.36%	$59,612	$6,774
KA	16.49%	$53,517	$8,827
MIO	15.79%	$51,101	$8,070
MINN	14.31%	$64,357	$9,214
MO	15.73%	$51,786	$8,147
NEB	13.34%	$64,263	$8,578
OH	14.53%	$56,293	$8,181
Other States Outside the Midwest			
CA	17.17%	$68,412	$11,769
NY	22.70%	$79,065	$17,954
NJ	16.84%	$68,355	$11,511
CONN	17.53%	$77,000	$13,472
RI	19.38%	$55,818	$10,818
Source: USGovernmentSpending.com			

I. THE GATHERING STORM

6. Personal income for Illinois and its major MSA, Chicago, has not increased in recent years at the pace that is the average for the U.S.A. and the metropolitan statistical areas for New York and Los Angeles. Further, the increase in jobs in recent years for Illinois and the Chicago MSA has lagged as compared to the U.S.A. generally and New York MSA and Los Angeles MSA. The following chart indicates that while between 1985-2001, the percentage of increase of personal income and jobs was somewhat comparable for Illinois, Chicago MSA, U.S.A., Los Angeles MSA and New York MSA, that is not true for 2001-2015 and 2007-2015 where Illinois and Chicago MSA's personal income and job increases lagged the pace of the U.S.A. generally and New York MSA and Los Angeles MSA.

I. THE GATHERING STORM

Percentage Increase of Personal Income and Jobs in U.S.A., Illinois and Chicago, NYC, Los Angeles MSA			
	1985-2001	2001-2015	2007-2015
Illinois			
Personal Income:	140%	50%	20%
Jobs:	27.4%	6%	2%
Chicago MSA			
Personal Income:	146%	52%	20%
Jobs:	30%	9%	3.6%
Los Angeles MSA			
Personal Income:	130%	79%	42%
Jobs:	21%	16%	8%
New York MSA			
Personal Income:	154%	62%	26%
Jobs:	14%	19%	10.2%
USA			
Personal Income:	151%	74%	28%
Jobs:	33%	11%	2.6%

I. THE GATHERING STORM

7. Likewise, the percentage increase in GDP for the Chicago MSA was less than that for the U.S.A., or the New York MSA or Los Angeles MSA between 2001-2015.

% Change in GDP for 2001-2015 for U.S.A., Chicago, New York, and Los Angeles (Current Dollar GDP)

Area	2001-2015	2007-2015
U.S.A.	76%	28.5%
Chicago MSA	53.8%	19%
Los Angeles MSA	71%	22%
NYC MSA	64%	26%
Illinois	54%	20.1%

% Change in GDP Per Capita 2001-2015 for U.S.A., Chicago, New York, Los Angeles MSAs (Real GDP 2009 Dollars)

Area	2001-2015	2007-2015
U.S.A.	10%	0.5%
Chicago MSA	16%	0.7%
Los Angeles MSA	22%	1.4%
NYC MSA	14%	2.6%
Illinois	9.6%	1.8%

I. THE GATHERING STORM

8. Illinois is a major manufacturing state and the Chicago MSA is the second largest manufacturing MSA in the U.S.A. Between 2000-2016, the U.S.A. lost 29% of its manufacturing jobs while Chicago MSA and Illinois lost 35%. Among the three major MSAs, between 2006-2016 in the U.S.A., Chicago actually performed better than New York MSA and Los Angeles MSA in reducing the loss of manufacturing jobs and was competitive in professional business services, trade, transportation and utilities. The City of Chicago in the meantime has recently seen a net increase in jobs of approximately 80,000 in 2015 and 60,000 in 2016 with an average salary of approximately $72,000 due in part to a number of major corporation corporate headquarters relocated to the City of Chicago.

I. THE GATHERING STORM

Manufacturing Jobs Change 2000-2016 (in thousands)				
Area	2000	2007	2016	% Change 2000-2016
U.S.A.	17181	13746	12336	-29%
Illinois	863.4	669	566.5	-35%
Chicago MSA	635.6	481.1	411.6	-35%
Source: U.S. Department of Labor Bureau of Labor Statistics				

Number of Jobs by Major Categories (in thousands) % Change 2006-2016 for Chicago, Los Angeles and New York MSA									
	Chicago MSA			Los Angeles MSA			New York MSA		
Job Categories	2006	2016	%	2006	2016	%	2006	2016	%
Manufacturing	489.9	410.3	-16%	639.3	510.3	-25%	472	369	-22%
Professional and Business Services	740	823.7	11%	889.9	914.9	2.8%	1335	1525	14%
Trade, Transportation and Utilities	954.3	967.8	1.4%	1133	1132	-0.1%	1743	1798	3.2%
Source: U.S. Department of Labor Bureau of Labor Statistics									

I. THE GATHERING STORM

9. Estimate of Combined Pension Underfunding in Chicago Metro Area (Chicago and Cook County):
   A. The pension fund unfunded pension obligations for the City of Chicago's four city pension funds was 242.8% of the City revenue for FY2014 or FY2014 revenues for the City were 41.2% of the underfunding.
   B. When you add the underfunding of pension funds for the Chicago Teachers and the Chicago Park District to the underfunding of the City's four municipal pension funds, the underfunding was 364.5% of the City's revenues for FY2014 or FY2014 revenues for the City were 27.43% of the underfunding.
   C. The pension underfunding for Cook County for FY2014 was 391.69% of Cook County's FY2014 revenues or Cook County revenues for FY2014 were 25.5% of the FY2014 underfunding of pensions.
   D. For all City of Chicago and Cook County major government pensions, the FY2014 underfunding was 382.95% of FY2014 revenues for the County and the City or FY2014 combined revenues for the City and the County were 26.112% of the FY2014 pension underfunding of their pensions.

I. THE GATHERING STORM

Estimate of Combined Pension Underfunding and Shortfall for Chicago Area Governments and Cook County FY2014

Combined Shortfall in Pension Contributions for Chicago Area Governments: FY2014				
Fund	Unfunded Liability	FY2014 ER Contribution	FY2014 ER ARC	Shortfall
Chicago Municipal*	$7,285,291,571.00	$149,746,748.00	$839,038,303.00	$689,291,555.00
Chicago Laborers*	$754,252,757.00	$12,160,815.00	$106,018,725.00	$93,857,910.00
Chicago Police	$8,399,242,182.00	$178,158,132.00	$491,651,208.00	$313,493,076.00
Chicago Fire	$3,355,446,240.00	$107,334,399.00	$304,265,411.00	$196,931,012.00
Subtotal City Funds	**$19,794,232,750.00**	**$447,400,094.00**	**$1,740,973,647.00**	**$1,293,573,553.00**
Chicago Teachers'	$9,422,373,613.00	$585,416,141.00	$719,781,746.00	$134,365,605.00
Chicago Park District	$507,077,925.00	$11,225,438.00	$35,307,186.00	$24,081,748.00
Subtotal Chicago	**$29,723,684,288.00**	**$1,044,041,673.00**	**$2,496,062,579.00**	**$1,452,020,906.00**
CTA**	$1,330,274,621.00	$82,268,000.00	$165,499,808.00	$83,231,808.00
Cook County	$6,508,281,618.00	$190,032,872.00	$634,722,132.00	$444,689,260.00
Forest Preserve	$125,316,848.00	$2,886,463.00	$13,072,570.00	$10,186,107.00
MWRD	$1,033,151,630.00	$73,906,168.00	$69,924,438.00	-$3,981,730.00
Total All Major Cook Governments	**$38,720,709,005.00**	**$1,393,135,176.00**	**$3,379,281,527.00**	**$1,986,146,351.00**

* This number is calculated prior under assumptions contained in Public Act 98-0641, before the legislation was struck down by the Illinois Supreme Court

** CTA not included in "Chicago" calculation because the CTA is not funded by property taxes.

Sources: Pension Fund Actuarial Valuations and Financial Statements
Civic Federation

I. THE GATHERING STORM

10. Illinois and its municipalities since 2007 have suffered from the adverse effects of the Great Recession, lagging personal income increases, loss of traditionally key industry jobs such as in manufacturing, slower growth in GDP due to lagging personal income increase and loss of jobs.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

A. Growing and Increased Use of State Oversight, Supervision and Assistance for Emergencies of Local Governments:

1. States that Provide Oversight and Assistance. At least twenty-eight states, the District of Columbia and Puerto Rico have implemented some form of municipal debt supervision or restructuring mechanism to aid municipalities:

   - These range from Debt Advisory Commissions (*e.g.* California) and Technical Assistance Programs (Florida) which provide guidance for and keep records of issuance of municipal debt to the layered approach of Rhode Island and Michigan of oversight commission and fiscal manager or receiver. (See Appendix for further details).
   - Examples of state oversight, supervision and assistance for fiscal emergencies of local government.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

	STATE	INTERVENTION PROVISION
1.	Arizona	School District Receivership
2.	California	Debt and Investment Advisory Commission
3.	Connecticut	Ad Hoc State Intervention
4.	District of Columbia	Financial Responsibility and Management Assistance Authority
5.	Florida	Bond Financial Emergencies Act; Division of Bond Finance and Local Government Financial Technical Assistance Program
6.	Georgia	Government Monitoring
7.	Idaho	Debt Readjustment Plans
8.	Illinois	Financially Distressed City Law; Financial Planning and Supervision
9.	Indiana	Distressed Political Subdivision Protections and Township Assistance
10.	Kentucky	County Restructuring Provisions

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

	STATE	INTERVENTION PROVISION
11.	Louisiana	Appointment of a Fiscal Administrator
12.	Maine	Board of Emergency Municipal Finance
13.	Massachusetts	Ad Hoc State Intervention and State Bond Payment Intervention
14.	Michigan	Local Financial Stability and Choice Act
15.	Minnesota	Back-up Payment Procedures for Municipalities and School Districts
16.	Nevada	Local Government Financial Assistance and Audit Enforcement Act
17.	New Hampshire	Emergency Financial Assistance
18.	New Jersey	Local Government Supervision Act; Municipal Rehabilitation and Economic Recovery Act of 2002; Special Municipal Aid Act
19.	New York	Emergency Financial Control Board; Municipal Assistance Corporation; New York Financial Control Board; State Comptroller's Fiscal Stress Monitoring System

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

	State	Intervention Provision
20.	New Mexico	Financial Auditing and Emergency Loans
21.	North Carolina	Local Government Finance Act
22.	Ohio	State Auditor's Fiscal Caution and Fiscal Watch; Fiscal Emergencies and Financial Planning and Supervision Commission
23.	Oregon	County Technical Assistance Program; Municipal Debt Advisory Commission
24.	Pennsylvania	Financially Distressed Municipalities Act; Intergovernmental Cooperation Act; Municipal Receiver
25.	Puerto Rico	Puerto Rico Oversight, Management and Economic Act
26.	Rhode Island	Fiscal Overseer; Municipal Receiver; Budget Commission
27.	Tennessee	Emergency Financial Aid to Local Governments; Financially Distressed Municipality Procedures
28.	Texas	Municipal Receivership

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

	State	Intervention Provision
29.	Virginia	Bond Payment Guarantee Provisions
30.	Wisconsin	Deficiency Protection for Public Improvement Bonds

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

B. States Recognize the Use of a Municipal Receiver:

- The Rhode Island Experience and The City of Central Falls:
  - Overseers.
  - Budget Commission.
  - Receiver.
  - Chapter 9.
- Texas' use of judicially appointed receiver versus financial control board, emergency financial managers, coordination overseers and refinance.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

C. Financial Control Boards and Active Supervision Examples:

- The Rhode Island experience and The City of Central Falls.
- The New York Experience – Financial Control Board.
- The Pennsylvania Experience – Act 47.
- The Michigan and Indiana experience – Emergency Managers.
- The Massachusetts *Ad Hoc* experience.
- The California experience – Neutral Evaluator.
- The North Carolina – Local Government Commission – oversight and approval from the cradle if debt issued to annual financial reports.
- Puerto Rico – Puerto Rico Oversight, Management and Economic Stability Act.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

D. Development of a Local Government Protection Authority ("LGPA") as a Quasi-Judicial Entity to Determine What Costs are Sustainable and Affordable and Which are Not, Including Labor Costs and Benefits and Whether Taxes Should be Raised or Costs Reduced. (Illinois H.B. 2575 modeled after a Civic Federation Proposal):

1. Evolution of Past Mechanisms that Worked. Under consideration by some states is the use of a local government protection authority utilizing some of the best aspects from the mediation process of the neutral evaluator and the oversight and supervision of financial control boards and a receiver.
2. State-Created Quasi Judicial Function. Under this municipal debt resolution mechanism, the state would establish an entity that would have a quasi-judicial function and power similar to a commission or special master appointed by a state supreme court or other objective nonpolitical process. The members of the authority would be independent, experienced experts in governmental operation or finance as well as in mediation and debt resolution techniques, including bankruptcy.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

3. Initiation of Proceedings. The authority would start with those municipalities that petition for help or those municipalities that have triggered certain established criteria where the jurisdiction of the authority may be mandated by state law.
4. First Phase – Mediation and Consensual Agreement. The first phase is mediation and consensual agreement by the municipality and the affected creditor constituencies similar to the neutral evaluator process.
   A. However, participation by the authority may be voluntary by petition of the municipality or other affected constituencies asserting that a financial emergency exists or, under the most direct circumstance could be required, and negotiation and discussion of positions are strictly confidential.
   B. The state law establishing the authority may have an exception to its open meetings law and its freedom of information law to allow for open discussion of any sensitive and confidential topics.

C. If additional tax revenues or loans or grants from the state are needed, recommendations to the state by the authority may be made.

D. The authority may be empowered to likewise call for a referendum on a local basis for increased taxes or other actions.

E. Specified time periods for resolution will be set forth and, if the voluntary process is not successful, the second phase may be requested or may be mandatory if the authority so requires.

5. Second Phase – Determination of a Recovery Plan. In the second phase, the authority and its designated members turn into a quasi-judicial panel, and the municipality is required to set forth the actions proposed to be taken to address its specific financial problem (recovery plan) for authority approval.

A. Creditors, workers, and taxpayers will have the ability to comment and to attempt, through negotiation, to modify the recovery plan within a set period of time.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

B. Then, the recovery plan is presented to the panel members of the authority for determination of the plan's feasibility and whether it is reasonably fair to creditors' interests in relation to the requirement that, under all circumstances, essential governmental services, at least at an established necessary level, must be maintained for the reasonable future.

C. One of the triggers for the authority's jurisdiction is the petition by the municipality, its workers, or taxpayers that a governmental function emergency exists.

D. The municipality or petition must state that essential services as to the health, safety, and welfare of its residents are being threatened and that the forced reduction in services, given the municipality's financial condition and its limited revenues, impairs the health, safety, and general welfare of its residents.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

6. Power of the LGPA. The authority, after hearing all sides (municipality, workers, taxpayers, affected creditors), will determine:
   - What is sustainable and affordable;
   - What the municipality can afford; and
   - What adjustments must be made to the recovery plan to allow the municipality to continue to provide essential governmental services to its residents at established mandated levels to preserve the health, safety, and welfare of its residents and to pay what is feasible to its creditors, including workers' wages and pensions.

7. Determination Process of the Authority.

   A. The Authority to be an Honest Broker. The authority will act as an “honest broker” to mandate increases in taxes, where necessary; increases in contributions by the municipality or workers for pension or other benefits, if necessary; or reduction, delay, or stretching out of payments to creditors.

   B. Preserve the Health, Safety and Welfare. Further, if necessary to preserve the public health, safety, and welfare of the municipality’s residents, the authority will have the power to reduce workers’ wages, pensions, or other benefits.

   C. Adjusting Tax Revenues. A municipality that underestimates in its recovery plan its ability to pay creditors and workers will have necessary increases recommended and found by the authority to be required for the benefits of the workers and the creditors. A municipality that overestimates its ability to pay or makes promises that are not sustainable and affordable will be subject to the recommendation of the authority that payments available to creditors be reduced and taxes possibly increased.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

D. Enforceable Findings of the LGPA. The findings of the authority will specify if they are final and enforceable by the parties or if further negotiations or proceedings are necessary.

E. Maintain Access to Capital Markets. The authority will be charged to make sure that the municipality and the state maintain access to the financial markets, and the ability to borrow will be protected if possible. This authority process should help protect all parties, workers, vendors, and creditors and the taxpayers and the municipality so they will have needed means of continued financing credibility that can be accomplished on the local level based upon maintaining market credibility.

F. Enforcing Findings through Prepackaged Chapter 9. The authority can authorize the municipality to enforce its findings. Such means of enforcement can include having the recovery plan approved or revised by the authority as the basis for a pre-negotiated or "pre-packaged" Chapter 9 plan. Such a pre-packaged Chapter 9 plan can significantly reduce costs, expenses, uncertainty, and financial market risk of a free-fall Chapter 9 proceeding.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

E. The Structure for Oversight and Emergency Financing:

- Grants from federal, state and regional governmental bodies.
- Loans from federal, state and regional governmental bodies.
- State intercepts of tax revenue.
- Involvement in local government budget process.
- Required financial performance and targeted levels of essential governmental services.
- State legislative assistance in tax revenue and powers.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

- Back-up by moral obligations of the state.
- Considerations regarding the appointment of authority members.
- Acceleration of loans and obligations if performance triggers are violated.
- Dealing with the press.
- What powers are essential for state oversight and assistance.
- Exploration of transfer of certain governmental services (and related costs) to other governmental bodies.
- Consolidation of regional essential governmental services.
- Power to authorize Chapter 9 if needed or bridge financing or refinancing of troubled debt.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

- Use of intercept of state tax payable to municipality to ensure essential municipal service.
- Private public partnerships – Lease and sale of municipal properties to provide bridge financing and cash flow relief.
- Vendor assistance program – Providing vendor payments through securitization financing of payables. Payment from dedicated tax revenues over time. Provide current cash flow relief from current or future vendor payments.
- Explore consolidation on a regional basis of certain governmental services.
- Monitor compliance with any restructuring plan to ensure compliance and prevent financial erosion.

II. ALTERNATIVES AVAILABLE TO THE STATE OF ILLINOIS AND ITS MUNICIPALITIES TO MONITOR AND PROVIDE OVERSIGHT AND ASSISTANCE TO FINANCIALLY TROUBLED MUNICIPALITIES

F. Applicable State Assistance, Refinancing and Restructuring Mechanism Should Be Disclosed:

- To the degree state has effective and applicable mechanism to help prevent default or provide funds or assistance to prevent default or methods of solving financial problems of municipal issuers this is information important to the investor and should be considered to be disclosed to the investor. Such information may improve the perception of the issuer's credibility in the market.

For a summary of what the various states have provided to assist their municipalities in financial distress see Appendix I which indicates whether the municipality (i) can file Chapter 9, (ii) has debt limits and allows refunding bonds, (iii) has access to municipal restructuring mechanisms, (iv) allows for receivers, examiners, financial control boards, coordinators, etc., (v) has default resolution remedies, permits creditors to obtain through court proceeding an accounting, foreclosure, injunction, a writ of mandamus to levy taxes or other remedies, (vi) permits special revenues bonds and (vii) authorized statutory liens.

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

A. We Cannot Avoid Economic Cycles But History of Financial Stability Points the Way: In the U.S.A., financial challenges and difficulties are caused by economic cycles such as panics, recessions and depressions. The cycles are exacerbated by unfunded pension obligations that are not sustainable and affordable as well as the adverse effects of failing to fund essential services and needed infrastructure at an acceptable level. The healthy economy of a state or local government goes hand in hand with full funding of essential services and needed infrastructure improvements and making sure all costs, including labor and pension obligations, are sustainable and affordable.

B. Need to Address the Systemic Problems of the Past that Caused Financial Distress: Other countries that have suffered the need for a debt restructuring have generally repeated the process numerous times with band aids rather than a permanent fix because they merely reduced debt without addressing the systemic problems that caused the financial distress. States and local government should always strive for the permanent fix as opposed to the band aid.

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

C. <u>Balanced Budgets Require Services and Infrastructure at the Level Desired</u>: The state and local governments in the U.S.A. have a long history of financial credibility having learned that quick fixes and failure to maintain governmental services and infrastructure at an acceptable and desired level result in a loss of businesses and individual taxpayers with the accompanying fiscal distress.

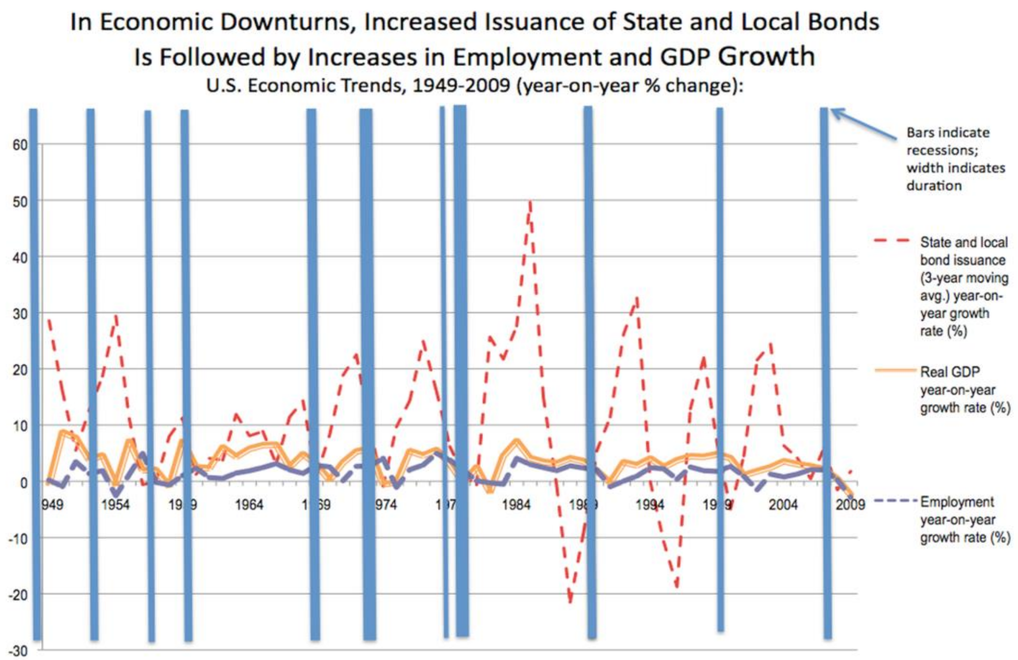
D. <u>The State Legislatures Have Assisted in Balancing the Budget with Needed Legislation</u>: State legislatures have assisted state and local governments by passing legislation that (i) limits debts and taxes, (ii) provides financial oversight and assistance to those who need it, (iii) assures and requires funding of needed services and infrastructure at the level desired, (iv) respects the principles of government financing and uses statutory liens and special revenues to reduce the cost of borrowing and reinvests in the state and local governments and (v) encourages reinvestment in the state and local governments and creation of new, good jobs and business development.

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

E. The Need to Reinvest in State and Local Governments:

1. The $3.6 Trillion Price Tag and Cost of Delay. The American Society of Civil Engineers ("ASCE"), in its 2013 Report, estimates the cost to maintain infrastructure at a passable level will be $3.6 trillion by 2020 or about 4 times the annual tax revenues for all state and local governments. In 2009, ASCE's number for the next 5 years was $2.2 trillion. Inattention has caused the number to increase by $1.4 trillion in 5 years.
2. Historically, State and Local Government Increased Reinvestment After Economic Downturn. Continued borrowing is required to fund needed infrastructure and stimulate the economy as demonstrated by increased borrowing after each economic downturn since 1949, except the last one (2008).
3. Economic Growth and Job Multiplier. Reinvestment in needed infrastructure improvements creates increased GDP as studies have shown $1.00 of hard infrastructure costs adds $3.20 over 20 years to GDP growth. Further reinvestment in infrastructure translates into year to year growth of number of employed workers and GDP growth given the economic stimulus and job multiplier (every new job creates service jobs that increase productivity indirectly; this can range from 2 or 3 to 4 or more new jobs depending upon the industry it is created in).

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES



- American Society of Civil Engineers estimates that by 2020, $3.6 trillion of infrastructure improvements must be made to keep U.S. infrastructure acceptable
- For every dollar of hard cost of infrastructure improvement, $3.21 of economic activity is generated over the course of 20 years
- At least $1 trillion of the $3.6 trillion needs future financing
- For every new job created due to infrastructure improvements or economic development, there are at least 2 to 5 jobs produced indirectly in supplier industries and induced in local servicing industries

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

F. The Economic Impact of Creating or Losing Current Jobs on a State or Local Government:

1. Examples of past loss of jobs. Since 1979, the U.S.A. has lost 7,231,000 or so manufacturing jobs down from a peak in June 1979 of 19,553,000 or down 37%.
2. A new job begets new jobs and economic stimulus and vice versa. There is an economic impact for each job lost as to the loss of jobs to ancillary or related businesses and suppliers (job multiplier effect in reverse) and accompanying loss of tax revenues from the cost of income earning tax payers.

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

3. The loss of jobs due to China. Since China entered the World Trade Organization ("WTO") in 2001, the U.S. goods trade deficit with China has eliminated or displaced 3.2 million U.S. jobs, 2.4 million (75%) of which were in manufacturing. The jobs displaced as a share of state employment ranged from the high of 3.6% in Oregon and 3.4% in California to a low of .59% in Wyoming and .65% in North Dakota.
4. Between 2001 and 2010, over 42,400 U.S. manufacturing factories closed, 36% of factories employing over 1,000 workers (which declined 1,479 to 947), 38% of factories employing 500 to 999 employees (3,198 to 1,972) and there were 90,000 manufacturing companies on the bubble.

III. SOLVING FINANCIAL DISTRESS WITH ECONOMIC DEVELOPMENT AND STIMULUS FROM NEEDED INFRASTRUCTURE IMPROVEMENTS AND REINVESTMENT IN STATES AND MUNICIPALITIES

5. The job multiplier in effect. While job multipliers vary by region and type of job, generally a manufacturing job supports 4.6 additional jobs, petroleum and coal production supports 7.3 additional jobs, while textile mills support .5 additional jobs, etc.
6. Manufacturing trade deficit and loss of jobs. The manufacturing trade deficit was stable between 1989 and 1997 and never exceeded $131 billion annually (or about 1% of GDP). However, it peaked in 2006 at $558.4 billion (or 4.1% of GDP), an increase from the stable period of over $420 billion. The effective state and local business tax competitive index in 2013 ranged from 3% to 16.67% with a 50 state mean of 7.9%.
7. The cost of NAFTA. Some claim NAFTA has cost $181 billion in trade deficits and one million jobs.

IV. THE NEED TO SUCCESSFULLY ADDRESS LEGACY COSTS SO THAT FUNDING OF ESSENTIAL SERVICES AND NEEDED INFRASTRUCTURE IMPROVEMENT BECOME THE SOLUTION

A. State and Local Government Pension Fund's Status: There are approximately 4,000 public sector retirement systems for state and local governments in the United States with $3.8 trillion in assets, 14.4 million current employees, 9 million retirees and annual aggregate benefit distributions of $228.5 billion. The estimated amount of pension underfunding for states and local governments is estimated to exceed $1 trillion. This unfunded liability for pensions of over $1 trillion can be compared to the estimated FY2016 revenue of $3.3 trillion for state and local governments.

B. Many State and Local Governments Have No Current Pension Fund Problem or Have Resolved It: It should be noted that the vast majority of states and local governments have or will successfully address public pension issues without extensive prolonged disputes or litigation.

IV. THE NEED TO SUCCESSFULLY ADDRESS LEGACY COSTS SO THAT FUNDING OF ESSENTIAL SERVICES AND NEEDED INFRASTRUCTURE IMPROVEMENT BECOME THE SOLUTION

C. The Aging Population and Possible Future Economic Downturn are Reasons to be Vigilant No Matter the Current Conditions of the Pension Fund: Those over 65 years of age in the United States constitute an increasing percent of the population, namely 14.8% of the 2015 population, which is expected to grow to 20.9% by 2050. Likewise, the working years of 18-64 of age are expected to be reduced as a percent of population, namely from 62.2% in 2015 to 57.6% in 2050. This results in about 40 million more people over 65 as potential retirees.

While the USA percentage of population over 65 in 2050 (20.9%) is lower than many other developed countries, such as Europe at 26%, China at 24% and Japan at 33%, it is still a concern. Likewise, there have been 11 economic downturns since 1949, about one every 7 to 10 years, so we now are facing the probability of an economic downturn in the next few years since the last downturn was 2008. Economic downturns result in losses on pension fund investments and less revenues available to state and local governments to address the issues.

IV. THE NEED TO SUCCESSFULLY ADDRESS LEGACY COSTS SO THAT FUNDING OF ESSENTIAL SERVICES AND NEEDED INFRASTRUCTURE IMPROVEMENT BECOME THE SOLUTION

D. Recent Pension Reform and Litigation: Between 2010 and 2014, over 40 states have addressed pension reform. To date, since 2011, there have been over 18 major state court decisions dealing with pension reforms by state and local governments.

- Over 80% (16 out of 18) of those decisions affirmed the pension reform, which covered reduction of benefits, including COLA, or increase of employee contributions, as necessary, and many times cited the higher public purpose of assuring funds for essential governmental services and infrastructures.
- Of the four states that did not approve the pension reform, two states, Oregon and Montana, cited the failure of the proponents of reform to prove a balancing of equities in favor of reform for a higher public purpose.
- Another state, Arizona, included state court judges in the reform, which violated other constitutional provisions about improper influence over judicial officers during service. Recently, firefighters recognized a sustainable and affordable pension fund and their government employers' best interest and agreed to pension adjustments with a one time constitutional amendment to best support and document the reform. There is now consideration of similar reforms for public workers with accompanying constitutional amendment.
- The recent Illinois Supreme Court rulings appear to stand singularly against pension reform for a higher public purpose or as a reasonable effort to save an insolvent pension system.

V. NEED FOR TIMELY AND COMPLETE CONTINUING DISCLOSURE ON MATERIAL EVENTS DURING FINANCIAL DISTRESS OF STATE AND LOCAL GOVERNMENT

A. <u>The Panic of Financial Distress Can Be Reduced or Eliminated by Full and Prompt Disclosure of the Financial and Evolving Situation</u>:

1. Disclosure should not be overly optimistic or pessimistic as to the situation.
2. Delayed disclosure of material events in the hope that there soon will be good news to offset the bad is not helpful.

B. <u>Tell One Tell All Is the Best Practice</u>:

1. While everyone will be inquiring, it is always better publicly to tell all investors.
2. If strategically, certain information is sensitive, then consider, for those investors who desire it, a non-disclosure, confidentiality agreement with recognition of the restriction on trading that is required by the law.

V. NEED FOR TIMELY AND COMPLETE CONTINUING DISCLOSURE ON MATERIAL EVENTS DURING FINANCIAL DISTRESS OF STATE AND LOCAL GOVERNMENT

C. Disclosure May be the Workout or Resolution's Best Friend:

1. Disclosure allows all to understand the situation including those who would constructively help if they knew the accurate situation.
2. The state and others who have an interest in the long term financial survival of the local government cannot offer help or solutions if they do not know the full accurate financial situation.

D. Checklist of Disclosures to Maximize Market Acceptance in Evaluating Repayment of Bond Debt and Help to Bondholders and Trustees in Asserting their Rights and Interests:

1. Authorized to file Chapter 9? Can the issuer file for Chapter 9, if not, then right to enforce obligation in state court by mandamus and other remedies without a required restructuring?

V. NEED FOR TIMELY AND COMPLETE CONTINUING DISCLOSURE ON MATERIAL EVENTS DURING FINANCIAL DISTRESS OF STATE AND LOCAL GOVERNMENT

2. <u>What is source of payment</u>? Is the general obligation debt a "naked" full faith and credit promise or does it have a pledge of special revenues or statutory lien pledging and dedicating a specific and adequate tax revenue source for payment. (Alexander Hamilton in the 1790s said the secret of making public credit "immortal" is that whenever public debt is increased, it ought to be accompanied by a sufficient tax increase dedicated to its payment. (Syrett, <u>The Papers of Alexander Hamilton</u>, Vol. 6, p. 106 and Vol. 18, p. 103)).
3. <u>Is there a lack of diversification of tax sources and limits on taxes that could realistically be triggered</u>? Are sources of tax revenues too limited or are there tax limits and debt limits close to being triggered that may prevent the raising of taxes to pay the obligation?

VI. THE NEED FOR INCREASING THE FINANCIAL CREDIBILITY OF THE FINANCIALLY-CHALLENGED STATE AND MUNICIPALITY BY USE OF STATUTORY LIENS AND SPECIAL REVENUE LEGISLATION TO LOWER BORROWING COSTS AND INCREASE MARKET ACCEPTANCE

A. The recent use of statutory lien legislation to gain market access in financially distressed times and to lower the cost of borrowing for the benefit of all:

1. Rhode Island. In 2011, in response to the threat of bankruptcy of Central Falls and economic distress in other local governments, the legislature and Governor of Rhode Island passed legislation that provided outstanding notes and bonds of cities and towns shall be paid and shall have a first lien on all ad valorem taxes and general fund revenues by the power and force of a state statutory provision (RI Gen. § 45-12-1). The expressed intention of this law was to assure market access at a lower borrowing cost especially in times of financial distress. As the Orange County bankruptcy in 1991 and those that followed demonstrated, a statutory lien cannot be impaired in a Chapter 9 and enjoys a favorable treatment in the financial market.

2. California. As noted above, in response to the Detroit contagion due to the attack on ULTGOs in its Chapter 9 case, California, through the efforts of CDIAC and California legislature proposed and passed SB 222, which expressly provides and reconfirms a statutory lien on voter approved unlimited ad valorem tax specifically levied, collected and dedicated to pay those ULTGOs and under California law the tax cannot be used for any other purpose by the local governments (*See e.g.,* California Ed. Code § 15251 and California Gov. Code § 53515). Federal Bankruptcy Courts in California in the San Jose School District case in 1983, Sierra King Health Care District case in 2009 and the following Chapter 9 recognized the Statutory mandate of the payment that could not be altered or impaired by a Chapter 9 municipal bankruptcy filing.

3. Michigan. As was noted in the exit financing for Detroit after confirmation of its Plan of Debt Adjustment, it was necessary in order to domesticate the financing to be acceptable to the public market that the Michigan legislature had to pass legislation providing that the financing had a statutory lien on pledged revenues. At the end of 2014 and in 2015, the Michigan legislature has considered legislation reconfirming a statutory lien for ULTGOs in Michigan. The Michigan House has passed HB 4495 and it is now pending before the Michigan Senate. This legislation was to address the unfavorable treatment of ULTGOs in the Detroit Chapter 9 bankruptcy and assure statutory lien status for ULTGO Bonds so that they are not impaired in a Chapter 9 proceeding.

4. Other states. In Nebraska, there is pending legislation granting statutory lien status to the bonds and notes issued by local gonment (NE LB 67). As part of the proposed legislation regarding authorizing Chapter 9 for certain local government in Illinois, there is a proposed statutory lien for all bonds and notes with pledged revenues as the source of payment as a first lien (unless otherwise specified) automatically attaching and perfecting and being senior to any other claims. (*See* Illinois Governor Rauner's Pension Proposal). *See also e.g.,* also statutes in California (Section 15251 of CA Education Code and Section 53515 CA Gov. Code), Rhode Island (R.I. Gen. Laws Chapter 45-12), Colorado (Colorado Revised Statute 11-57-208), Idaho (*Id.* Code Title 57, Chapter 2, Section 234). Compare: *e.g.,* Louisiana (LA Rev. Stat. 39:14301), Oregon (OR Rev. Stat. 287A.310), Texas (TX Govt. Code Title 9, Subtitle A, Sec. 1202.006 and 1208.002) and Utah (UT Code. 11-14-501).

B. Reducing Risk with Statutory Liens and Special Revenues Can Benefit all in Lower Costs of Borrowing:

1. The 200-300 basis point spread between strong and weak credits. Traditionally the spread in the municipal market between strong credits (top investment grade) and significantly weak credit (lower non-investment grade) was 200-300 basis points.
2. Being classified as a weaker credit increases the cost of the borrowing by 25% or more of the face amount of debt and should be avoided if possible. To a state or local government, a 200 point per year or 2 percent more interest cost a year on a 20 year bond with a bullet maturity would be 40% more of the principal amount paid as interest over 20 years. Put another way, on a billion dollar debt issue with a twenty year maturity and a bullet payment of principal at maturity, a 2% additional interest cost per annum would be a present value at a 5% discount of about $250 million or 25% of the face amount. That is $250 million not available to state or local governments to pay needed infrastructure improvements, public services, worker salaries, retiree benefits or tax relief to its citizens.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

A. In the U.S.A., the Current Cost of Energy has Significantly Been Reduced and the Productivity of the U.S. Worker has Continually Increased Since 1947:

1. U.S. workers have the highest productivity of large developed countries. The non-farming business sector had cumulative increases in annual production since 1947 of approximately 145% – the steel industry in the U.S.A. produces one ton of steel using 2-men hours, in China a comparable one ton of steel is produced with 12-man hours and three time the amount of carbon emission per ton of steel. China's overall productivity per worker is 17% of that of the U.S.A. and among the larger developed nations the U.S.A. has the highest productivity per worker.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

2. How low cost of energy and high productivity has opened the door to new manufacturing jobs. In 2014, 60,000 manufacturing jobs were added to the U.S.A. compared to 12,000 in 2003. In 2014, there was a net increase of 10,000 in manufacturing jobs, with 3 to 4 million manufacturing jobs offshore that could be done in the U.S.A. There is certainly potential for significant reshoring of jobs. Traditionally, lower labor cost countries are now experiencing wage escalation including China. Recent major U.S. companies that have reshored jobs include Walmart (2,514), GM (1,500), Caterpillar (1,400), Ford (1,400), GO (1,300). In 2014, U.S.A. ranked second behind only China among the world's top exporting economies.
3. The job multiplier for manufacturing jobs. Again, for every new job reshored, there is an indirect and induced economic benefit. For example, the job multiplier would range for a manufacturing job, from 2 to 6 or more additional jobs where related jobs for supply, servicing and transporting can range from .5 to 2.6 or more additional jobs.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

4. Corresponding increase in infrastructure improvements. With increased business activity comes the need for improvement in infrastructure and, as past and recent studies have shown, $1 of hard cost of infrastructure yields a $3.21 economic benefit over 20 years. With the projected need for $3.6 trillion of infrastructure improvement in the next five years that would mean over $10 trillion in economic stimulus over the next twenty years, with a corresponding increase to our current GDP.

5. Why everyone wants to invest in U.S.A. and U.S. businesses. The eroding currency market, especially for currencies in Asia and Europe has created a dynamic that the U.S. dollar is the strong, safe currency for investment purposes and given this respective exchange rate with the U.S. dollar, China and European Union are now highly motivated to invest in the U.S.A. to produce revenues in dollars that will be more valuable to them than investing in businesses in their own country. This motivation of foreign investment in U.S. manufacturing and moving operations to the U.S.A. could make all the difference to any challenges in balancing the state and local government budgets.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

B. Business Development and Economic Stimulus, Creating New Jobs and Taxpayers and Increased Revenue to Balance the Budget:

1. It is all about revenues. As most governments that successfully addressed financial distress have recognized, while efficiency and reductions or elimination of wasteful expenditures are helpful, it is business development and economic stimulus that create new jobs and increase tax revenues.
2. Avoiding the death spiral. If you raise taxes and cut services to balance the budget, you may well discover that tax revenues actually go down because individual and corporate taxpayers leave because they are asked to pay more for less services. If you repeat the raising of taxes and cut in services, it only gets worse. This “Death Spiral” was demonstrated by Bridgeport, Connecticut in the late 1980s and 1990s and Detroit in the decades before 2013.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

C. <u>We Cannot Avoid Economic Cycles But History of Financial Stability Points the Way</u>: In the U.S.A., financial challenges and difficulties in balancing a government budget is not so much caused by the desire to spend more than tax revenues currently generate but rather by economic cycles such as panics, recessions and depressions.

D. <u>Need to Address the Systemic Problems of the Past That Caused Financial Distress</u>: Other countries that have suffered the need for a debt restructuring have generally repeated the process numerous times with band-aids rather than a permanent fix because they merely reduced debt without addressing the systemic problems that caused the financial distress.

VII. BUSINESS DEVELOPMENT AND BALANCE BUDGETS FOR STATE AND LOCAL GOVERNMENTS

E. The Secret That Balanced Budgets Require Services and Infrastructure at the Level Desired: The state and local governments in the U.S.A. have a long history of financial credibility having learned that quick fixes and failure to maintain governmental services and infrastructure at an acceptable and desired level result in a loss of businesses and individual taxpayers with the accompanying fiscal distress.

Part of the Solution for Illinois and Chicago —

VIII. UPSIDE CHICAGO — CREATION OF 10-18 INDUSTRIAL PARKS IN THE CHICAGO AREA CREATING 20,000 NEW GOOD JOBS FOR ABOUT 100-140 NEW OR RELOCATED COMPANIES

A. The Natural Attributes of Chicago for Business Development.

1. Nation's Transportation Center. Chicago is the center of commerce especially as far as Transportation (major rail, land and air as well as water).
2. Major Manufacturing Center. Chicago USA is the second largest manufacturing metropolitan area in the U.S.A. and has a long history in manufacturing given its central location and ease of transportation.
3. Educated Workforce. Chicago has an educated workforce and the ability to educate and train new workers for the new manufacturing models of the future.

B. Development of Upside Chicago.

1. Business Lead Innovation. The Concept was created by local business professionals on a pro bono basis who had experience with operations, manufacturing, finance, insurance and Special Economic Zones, both domestically and internationally.
2. Use of Special Economic Zone Experience. The factors that produced lower cost for production and distribution of goods that led to the development of the Maquiladora in Mexico and Special Economic Zones in China and elsewhere are now present in Chicago.

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3. Significant Cost Saving. For Labor and Freight Intensive Manufacturing the cost of shipping can be 8-16% or more of Sales Price while labor can be 15-22% of Sales Price. A savings of 3-6% or more of sale costs is the equivalent of reducing employment cost by about 25% or more.
4. Project Costs. Chicago's unique transportation facilities could reduce shipping and handling costs by 4-6% or more of Sale Price depending on the comparative shipping locations.
5. Benefit of Managing Agent and Shared Services. Establishing a non for profit special purpose entity that would be the Industrial Parks Coordinating and Supervising Managing Agent ("Park Agent") that would offer manufacturing site with cost efficiencies for smaller manufacturing companies, 100-250 employees by shared services (similar to condominiums for manufacturing) where building outside maintenance, public safety, freight services, public safety inspection, insurance (worker compensation and other general liability) etc. are shared costs with the leverage in negotiation of the mega manufacturer with 20,000 workers. In additional all available financing assistance through local government economic development incentives, site improvement assistance and financing structures would be pursued to the extent appropriate.

VIII. UPSIDE CHICAGO — CREATION OF 10-18 INDUSTRIAL PARKS IN THE CHICAGO AREA CREATING 20,000 NEW GOOD JOBS FOR ABOUT 100-140 NEW OR RELOCATED COMPANIES

6. Target Manufacturing Businesses. The main focus would be the lower skilled jobs with the higher shipping and handling costs such as auto reclamation, parts remanufacturing (roughly 2,100 companies in U.S.A.), recyclers (about 3,000 companies in USA, 103,000 employees), return processing (or on-line sales return processing), data storage and processing center etc. Given the projected savings (from reduced shipping costs and shared services savings as well as possible governmental incentives), it would be very attractive to these companies to move to Upside Chicago.
7. Sufficient Workforce. More than sufficient supply of high quantity low skilled and semi-skilled workers in Chicago area — the commutable area has at least 1.4 million workers.
8. Attraction of Industrial Park. Companies can envision themselves in a clean, modern, safe, digitally wired, next generation industrial park opposed to being attracted to disparate (perhaps) degraded individual site. Park companies will bond with each other for the benefit of all. They will learn from each other with regard to workers, safety, security, environmental compliance, security etc. The bundled economics benefits of Upside Chicago gives small companies the benefit of a larger enterprise and increased free time by reducing or eliminating time which would have been spent negotiating individually on shared services provided by the Park Manager.

VIII. UPSIDE CHICAGO — CREATION OF 10-18 INDUSTRIAL PARKS IN THE CHICAGO AREA CREATING 20,000 NEW GOOD JOBS FOR ABOUT 100-140 NEW OR RELOCATED COMPANIES

C. Projected Economic Benefits of Upside Chicago Concept. Upside Chicago and the goal of creating 20,000 new manufacturing jobs (with additional indirect and induced jobs) should over the long run:

- Create 44,000 jobs more or less (direct, indirect and induced job multiplier).
- Increase state and local taxes by $426 million or more.
- Help improve infrastructure and government services with increase tax revenues in addition to the Industrial Park site improvements and infrastructures.
- Produce an estimated economic benefit of the Industrial Park Program of over $8 billion.

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

A. Illinois Does Not Presently Authorize Its Municipalities to Be Able to File for Chapter 9 Municipal Debt Adjustment Nor any Financial Supervision or Oversight Other Than the Illinois Financial Distressed City Law (65 ILCS 5/8-12-1 through 5/8-12-20) and the Local Government Financial Planning and Supervision Act (50 ILCS 320/1 *et seq.*).

1. What is a financially distressed city in Illinois?

- A home rule unit (municipality).
- The Department of Revenue at the request of the municipality by local ordinance certifies the municipality to be (a) in the highest 5% of all home rule municipalities in terms of aggregate of tax rate percent of all property taxes levied and (b) is in the lowest 5% of all home rule municipalities in terms of per capita tax yield.
- The home rule municipality has been designated by joint resolution of the General Assembly as a financially distressed city.

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

2. Financial Advisory Authority. A financially distressed city once it is designated as such by the General Assembly has a Financial Advisory Authority for the city appointed by the Governor (five directors, at least two directors must be residents of the distressed city) as an agency of state government.
3. Role of Financial Advisory Authority. The Financial Advisory Authority is to provide assistance to and a financial basis for the financially distressed city and to request funding by securities issued by the Illinois Finance Authority to provide financial aid to the city so it can provide municipal service to its residents while attempting to pay creditors and bondholders.

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

4. Powers of the Financial Advisory Authority. The Financial Advisory Authority is to have all powers necessary to carrying out it purpose of assisting the financially distressed city including but not limited to the power to organize, make and execute contracts and leases, approve city's financial plan, budgets, loans, grants and financial aid from the state agencies, engage consultants for technical assistance and advice to the authority and determine the terms and conditions of any loans it may make to the financially distressed city.
5. Virtually no power to impair contracts. The Financial Advisory Authority has no power to impair contracts or obligations of the city and may only during the first year of the contract approve or reject any multi-year employment or collective bargaining agreement.

6. Budget and financial plan. Financially distressed city within 30 days and 45 days of being designated a financially distressed city must submit a budget and an initial financial plan respectively to the Financial Advisory Authority for approval. The financial plan must be submitted by the city annually at least 60 days prior to the end of the fiscal year for the Financial Advisory Authority approval. The financial plan contains estimate of revenues and expenses and a budget for approval. Any rejection by the Financial Advisory Authority must state the reasons in writing.
7. Estimate, recommendation, and material change to budget. The Financial Advisory Authority may set a timetable for the city's submission of estimates of revenue for approval of the Financial Advisory Authority and timing of the city reports on its operations. The Financial Advisory Authority can issue recommendations, directives, may make material change to revenue or expenditure estimate or revisions to the budget or plan. The budget and financial plan is intended to be approved by the Financial Advisory Authority or rejected.

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

8. Budget and financial plan control. Any obligation entered into by the city must be consistent with the budget and financial plan.
9. Financial management officer. The Financial Advisory Authority can remove financial management officer from the financially distressed city. The financial management officer is to sign all expenditures from proceeds of state loans and financial aid provided by the Illinois Finance Authority Act. The Financial Advisory Authority and financial manager do not have the power to hire or appoint city employees or manage day-to-day operations of the city.
10. Reorganize operations. Upon direction of the Financial Advisory Authority, the financially distressed city may reorganize its financial accounts and management.

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

11. Issues with Illinois Financially Distressed City Law:
    - Do the highest and lowest 5% categories work?
    - Is obtaining a joint resolution of the General Assembly practical and efficient?
    - What professional advisors and qualified persons are available to serve as an uncompensated director of the Financial Advisory Board?
    - What are the criteria for state aid and how available is it?
    - Are financial plans the same as recovery plans and does the city have the ability to develop such?
    - Is the city the best person to develop a budget and financial plan?
    - If you really cannot impair contracts, how is there a recovery?
    - Ultimately, does the Financial Advisory Authority take control of the city even though it is prohibited from active management?
    - Why have so few Illinois cities ever used the Financially Distressed City Act?

IX. WHAT OVERSIGHT AND ASSISTANCE DOES ILLINOIS PRESENTLY PROVIDE FOR FINANCIALLY DISTRESSED MUNICIPALITIES AND WHAT PRESENT LEGISLATIVE PROPOSAL MAY PROVIDE

B. The Illinois Local Government Financial Planning and Supervision Act ("LGFPSA") Only Applies to Local Governments with a Population Less Than 25,000.

1. How does LGFPSA work?

   Under LGFPSA a local government with a population less then 25,000 and suffering a "fiscal emergency" in certain instances may upon two-third vote of the members of its governing body petition the governor for establishment of a financial planning and supervision commission in order to remove the "fiscal emergency." A unit of local government may contract out the LGFPSA.

2. LGFPSA has rarely been used.

   The Act sets forth a definition of fiscal emergency such as (i) a default in paying principal and interest on any debt obligation, for more than 180 days, (ii) the failure to make payments of over 20% of all payroll to employees that continues for 30 days unless two-thirds of the employees agree in writing to an extension, (iii) insolvency of the local government by not paying debts as they become due unless there is a bona fide dispute or the inability to pay them as they become due. There recently have been two examples of state supervision, the Chicago Board of Education in 1980 and East St. Louis in 1989.

A. H.B. 644 creates a Municipal Financial Distress Alert System Act:

1. The Act requires the state comptroller to establish an indexing system to identify municipalities in or approaching financial distress.
2. Other states have financial monitoring as well as established indicators of financial distress such as Pennsylvania, Michigan, Nevada, etc.
3. Early detection and prompt remedial action has been the hallmark of successful efforts to recovery from financial municipal distress.

B. HB 2575 Creates the Local Government Protection Authority ("LGPA"):

1. The LGPA is established for the purpose of achieving solutions to financial difficulties faced by municipalities. It is a quasi-judicial authority to help determine what is sustainable and affordable by a municipality and what is not in order to eliminate budget deficits and foster full funding of essential services and necessary infrastructure improvement at an acceptable level.
2. The LGPA provides a forum for municipalities, its taxpayers, public employees and creditors to address financial difficulties and develop a recovery plan this is feasible and affordable.

3. If the municipality, its taxpayers, public workers and creditors cannot agree on the financial numbers and an appropriate recovery plan, the LGPA has the powers and process to foster a determination and transparency into what is affordable and sustainable and the appropriate recovery plan that does not adversely impair funding of essential services and needed infrastructure. LGPA will develop criteria to determine the financial health of municipalities and uniform calculation method for the funding ratio of pension funds.
4. LGPA is an alternative to Chapter 9 municipal bankruptcy but, if necessary, to enforce a recovery plan of a municipality that LGPA has approved, can authorize a Chapter 9 filing as an expedited prepackaged plan consisting of the approved recovery plan.

5. The LGPA process attempts to assist the municipality to develop a recovery plan for financial stability, assuring taxpayers of prudent use of tax dollars, public employees of sound operational and financial practices and creditors including workers and retirees of payment of as much as reasonably possible without pushing the municipality into a financial death spiral that provides far less for creditors.
6. The LGPA is a refinement of Municipal Assistance Corp. for New York City in 1975, Pennsylvania Intergovernmental Cooperation Authority for Philadelphia in 1991 and the related Act 47, the Financial Control Board for the District of Columbia in 1995, PROMESA for Puerto Rico in 2016 and the Use of Emergency Managers in Michigan and Receiver in Rhode Island. LGPA attempts to address the local issues of “buy-in” to the process and the adverse comments of mayors and local officers to Emergency Manager and Receiver in having the municipality develop the first draft of the recovery plan to the extent possible.

C. HB 438 Creates the Local Government Bankruptcy Neutral Evaluation Act and HB 501 Amends the Illinois Municipal Code to Authorize Illinois Municipalities to File a Petition Pursuant to Federal Bankruptcy Law:

1. The Local Government Bankruptcy Neutral Evaluation Act (HB 438) is virtually identical to the California Neutral Evaluation law. It provides for a process of selection by the municipality and participating creditors of a neutral evaluator and a 60 or 90 day process of good faith negotiations and if resolution of the financial difficulties of the municipality is not reached, then and only then may a municipality file Chapter 9 municipal bankruptcy.

2. The Neutral Evaluation Act does provide, in the case of financial emergency as it defines it, the use of a neutral evaluator can be eliminated and the municipality may file for Chapter 9.
3. The use of a neutral evaluator in the only state that has it, California, has been questionable at best. In the *Stockton* bankruptcy, the case was delayed for at least a year by battles over whether there was good faith negotiation during the neutral evaluation process.
4. Some have commented that the neutral evaluation process does not produce resolution only delay to the detriment of all. Disputing creditors, workers and the municipality in the 60 to 90 day process do not have time or the willingness to reach agreement so they merely hold “their collective breaths” and wait 60-90 days and then there is a bankruptcy.

5. HB 501 is an unconditional authorization to file a Chapter 9 bankruptcy by a municipality based solely on the determination of the municipality and can be viewed as counter to the recent trend to restrict filing of Chapter 9 or require conditions and approval by a state agency or elected official ("Second Look") before a Chapter 9 filing can be authorized by the state.
6. States cannot file Chapter 9 due to being a co-sovereign with the federal government with state rights guaranteed by the 10^{th} Amendment. But states as sovereigns can authorize their municipalities to be able to file for Chapter 9 under the federal bankruptcy law. Under the U.S. Constitution the federal government has the exclusive power to enact bankruptcy law – states cannot.

7. Presently twelve states have statutory provisions in which the state specifically authorizes filing by the municipality based on the sole decision of the municipality (AL, AZ, AR, ID, MN, MO, MT, NE, OK, SC, TX, WA). Another twelve states authorize a filing conditioned on a further act of the state, an elected official or state entity, a second look and a restriction on filing (CA, CT, FL, KY, LA, MI, NJ, NC, NY, OH, PA, RI). Three states (CO, OR and IL) grant limited authorization to a specific type of entity, power agency, irrigation districts and special tax districts, respectively. Two states prohibit filing namely (GA) but one of them (IA) has an exception to the prohibition. The remaining 21 are either unclear or do not have specific authorization.
8. Analysis of the 303 Chapter 9 filed since 1980 show the likelihood of filing a Chapter 9 bankruptcy is six times higher in the unconditionally authorized states, where the municipality can decide by itself, as compared to the conditionally authorized states, where second look or a further approval or process of the state is required. It appears that once others become involved, other alternatives and resolutions to the financial condition are developed and Chapter 9 is avoided.

D. HB 2584 Amends the Illinois Local Government Debt Reform Act and Provides all Bonds Including General Obligation Bonds and Revenue Bonds Issued Under the Act Shall be Secured by a Statutory Lien:

1. This statutory lien legislation follows the 2010 statutory lien legislation in Rhode Island that was passed to assure access to the financial market without any significant increase in borrowing costs given the anticipated filing of Chapter 9 by Central Falls and possibly others.

2. California in 2015 passed legislation SB 222 that granted a statutory lien on unlimited ad valorem tax general obligations for cities, counties, school districts and special districts. This legislation was to again assure access to the financial markets and a lower borrowing cost by reducing, if not eliminating, any risk to the statutory lien bondholders from Chapter 9 filing.
3. As noted above, there is a trend of new legislation by states to use statutory liens to facilitate municipal borrowing at a low cost and reduce the distress or bankruptcy fear increased borrowing cost which can be 200-300 basis points a year or an additional 2% or 3% interest cost each year on the principal amount.

E. SB 10 Provides for a Form of Securitization Financing of Receivables to Reduce Credit Risk and Lower Borrowing Costs for Home Rule Municipalities.

1. SB 10 provides that a home rule municipality may enter into an agreement to assign, sell, transfer or otherwise convey its interest in all or part of any revenues or taxes it receives from the State Comptroller, the State Treasurer or the Department of Revenue and sets forth the requirement for such agreements.
2. SB 10 provides that the State pledges not to limit or alter the disposition of receipts transferred as part of the structured financing under the provisions thereof.
3. This structure make the financing bankruptcy remote since the municipal has sold and transferred its right to such transferred taxes or revenues from the state and has no ownership or interest therein and the state has pledged as long as the financing is outstanding to pay such revenues and taxes to the entity that has purchased the transferred revenues or taxes as part of the financing;
4. This legislation is similar to that used by other states such as Sales Tax Asset Receivables Corporation (“STAR”) in New York and Municipal Financial Authority in Michigan. Securities issued through the Municipal Financial Authority in the Detroit Bankruptcy were unimpaired.

XI. WHAT SHOULD I TAKE FROM ALL OF THIS?

A. <u>We Cannot Avoid Economic Cycles but History of Financial Stability Points the Way</u>: In the U.S.A., financial challenges and difficulties in balancing a government budget are not so much caused by the desire to spend more than tax revenues currently generate but rather by economic cycles such as panics, recessions and depressions.

B. <u>Need to Address the Systemic Problems of the Past That Caused Financial Distress</u>. Other countries that have suffered the need for a debt restructuring have generally repeated the process numerous times with band-aids rather than a permanent fix because they merely reduced debt without addressing the systemic problems that caused the financial distress.

XI. WHAT SHOULD I TAKE FROM ALL OF THIS?

C. The Secret that Balanced Budgets Require Services and Infrastructure at the Level Desired. The state and local governments in the U.S.A. have a long history of financial credibility having learned that quick fixes and failure to maintain governmental services and infrastructure at an acceptable and desired level results in a loss of businesses and individual taxpayers with the accompanying fiscal distress.

XI. WHAT SHOULD I TAKE FROM ALL OF THIS?

D. The State Legislatures Have Assisted in Balancing the Budget with Needed Legislation: State legislatures have assisted in balancing state and local governments by passing legislation that (i) limits debts and taxes, (ii) provides financial oversight and assistance to those who need it, (iii) assures and requires funding of needed services and infrastructure at the level desired, (iv) respects the principles of government financing and uses statutory liens and special revenues to reduce the cost of borrowing and reinvests in the state and local governments and (v) encourages reinvestment in the state and local governments and creation of new, good jobs and business development. The Illinois legislature has pending legislation to assist municipalities in dealing with financial distress. HB 644 creating the Municipal Financial Distress Alert System. HB 2575 creating the Local Government Protection Act to assist municipalities, taxpayers, workers and creditors in resolving disputes providing technical assistance and developing a sustainable and affordable recovery plan. HB 2584 providing for statutory lien for all bonds to assure financial market access, encourage lower borrowing costs to facility in assisting all municipalities including those in distress in finding essential services and needed infrastructure and stimulate economic development. SB10 provides a securitization structure financing vehicle for designated revenues and taxes in order to improve the credit rating for the bonds, lower borrowing costs and improve market access even for financially challenged municipalities.

XI. WHAT SHOULD I TAKE FROM ALL OF THIS?

E. Reinvestment in the State and Local Governments and Business Development is the Answer. Now is the time to invest in state and local government improvements that will help balance future budgets. The window of opportunity is now opening for the significant reshoring of good, new jobs due to lower energy costs, better worker productivity, improved and competitive costs of business, and current desire of foreign investors to invest in U.S. business due to their own currency erosion and lack of any other safe currency and economy to invest in.

APPENDIX – General Overview of a 50 State Survey of Rights and Remedies Provided by States to Investors Relating to Government Bond Debt and State Oversight and Supervision of Financial Emergencies and Authorization to File Chapter 9 Bankruptcy

GENERAL OVERVIEW OF MUNICIPAL INSOLVENCY PROVISIONS

State	Municipal Bankruptcy Authorization	Debt Limitation	Municipal Restructuring Mechanism	Receiver	Refunding Bonds	Other Default Resolution Remedies	Accounting	Foreclosure	Injunction	Mandamus	Other Remedies	Special Revenue Bonds	Statutory Lien SL-1*	Statutory Lien SL-2**	Statutory Lien SL-3***
ALABAMA	Y (bonds only)	X		X	X			X	X	X		X	X		
ALASKA	N				X	X (taxing limits; appointment of trustee)		X		X		X		X	
ARIZONA	Y	X	X (School District Receivership)	X	X	X (any action necessary for holders)		X		X	X (any action necessary)	X			
ARKANSAS	Y	X		X	X	X (taxing limits; appointment of an assessor)				X		X		X	
CALIFORNIA	Conditional (use of a neutral evaluator or declaration of fiscal emergency)	X	X (California Debt and Investment Advisory Commission)	X	X	X (negotiations; school district budget requirements)	X	X	X	X	X (bondholder action and any other action and special tax bonds)	X	X		
COLORADO	Limited	X		X	X		X		X	X	X (bondholder action)	X	X		
CONNECTICUT	Conditional	X	X (ad hoc state intervention)	X	X	X (appointment of a trustee; revenue set-aside)			X	X	X (bondholder action and contractual remedies)	X		X	
DELAWARE	N	X			X					X		X			
DISTRICT OF COLUMBIA	N	X	X (District of Columbia Financial Responsibility and Management Assistance Authority)		X		X		X	X	X (declare all bonds due and payable)	X			
FLORIDA	Conditional		X (Bond Financial Emergencies Act and Division of Bond Finance and Local Government Financial Technical Assistance Program)	X	X		X		X	X		X	X		
GEORGIA	N (specifically prohibited)	X	X (Georgia Local Government Financial Monitoring)	X	X	X (debt compromise)				X	X (court action to enforce collection)	X			

* The language of the statute appears to strongly support a determination that it is a statutory lien

** While the language of the statute may appear to create a statutory lien further clarification would be helpful to reaffirm the intent to create a statutory lien

*** While the language of the statute may appear to create a statutory lien it is insufficient and additional language is required to clarify the intent and to create a statutory lien. The language could be read as just providing for perfection of a pledge or lien without the intent and effect to create a statutory lien

APPENDIX – General Overview of a 50 State Survey of Rights and Remedies Provided by States to Investors Relating to Government Bond Debt and State Oversight and Supervision of Financial Emergencies and Authorization to File Chapter 9 Bankruptcy

HAWAII	N	X		X	X		X	X		X	X (bondholder action)	X			
IDAHO	Y	X	X (debt readjustment plans for certain districts)	X	X	X (Bond Guaranty Act)	X	X		X		X	X		
ILLINOIS	Limited	X	X (Financially Distressed City Law and Financial Planning and Supervision)	X	X			X	X	X	X (appropriate relief)	X	X	X	
INDIANA	N	X	X (Distressed Political Subdivision and Township Protections)	X	X	X (redemption bonds)	X	X	X	X		X	X	X	
IOWA	N, with exception	X		X	X	X (moratorium)				X		X	X	X	
KANSAS	N	X		X	X		X	X		X		X			
KENTUCKY	Conditional	X	X (county restructuring)	X	X	X (taxing limits; appointment of trustee)	X		X	X		X	X	X	
LOUISIANA	Conditional	X	X (appointment of Fiscal Administrator)	X	X	X (state taxing authority)		X		X		X		X	
MAINE	N	X	X (Board of Emergency Municipal Finance)	X	X	X (earmarking)		X		X	X (attachment and any action necessary)	X			X
MARYLAND	N	X		X	X					X		X		X	
MASSACHUSETTS	N	X	X (ad hoc state intervention)	X	X	X (state bond payment intervention)				X		X			X
MICHIGAN	Conditional	X	X (Emergency Financial Management and Local Government and School District Fiscal Accountability Act)	X	X					X		X	X	X	
MINNESOTA	Y	X	X (Back-Up Payment Procedures for Municipalities and School Districts)		X	X (school district expenditure limitations)				X	X (appropriate remedies to enforce bondholder rights)	X		X	
MISSISSIPPI	N	X		X	X	X (municipal borrowing)	X	X	X	X	X (other appropriate remedies)	X		X	
MISSOURI	Y	X		X	X		X	X		X	X (other appropriate remedies)	X			

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MONTANA	Y, but not counties	X		X	X					X	X (limited remedy and interest penalty; suits in equity)	X			
NEBRASKA	Y	X		X	X	X (debt compromise)		X		X		X			
NEVADA	N	X	X (Local government Financial Assistance and Audit Enforcement Act)	X	X	X (third-party agreements)	X	X	X	X		X		X	
NEW HAMPSHIRE	N	X	X (Emergency Financial Assistance)	X	X					X	X (contractual remedies)	X			
NEW JERSEY	Conditional	X	X (Local Government Supervision Act; Municipal Rehabilitation and Economic Recovery Act of 2002 and Special Municipal Aid Act)	X	X	X (school district fiscal monitor and Casino Tax Property Stabilization Act)	X	X		X		X	X		
NEW MEXICO	N	X	X (financial auditing and emergency loans)	X	X	X (emergency loans from state)				X		X			
NEW YORK	Conditional	X	X (Emergency Financial Control Board, Municipal Assistance Corporation; New York Financial Control Board)	X	X	X (appointment of a trustee)	X	X		X		X	X		
NORTH CAROLINA	Conditional	X	X (local government debt monitoring; local government fiscal management)	X	X	X (local government commission)		X		X		X			X
NORTH DAKOTA	N	X		X	X		X			X		X			X
OHIO	Conditional	X	X (state auditor's fiscal caution and fiscal watch; fiscal emergencies; financial planning and supervision commission)	X	X		X	X	X	X	X (general remedies provision, including appointment of trustee and action to declare bonds not paid from property taxes immediately payable)	X			

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OKLAHOMA	Y	X		X	X	X (settlement of debt)	X			X		X			
OREGON	Limited	X	X (County Public Safety Emergency and Fiscal Control Board; Municipal Debt Advisory Commission)	X	X	X (refunding bond cram-down)		X		X		X			X
PENNSYLVANIA	Conditional	X	X (Financially Distressed Municipalities Act; Intergovernmental Cooperation Act)	X	X	X (appointment of a trustee)	X			X		X	X		
PUERTO RICO	N	X	X (Puerto Rico Oversight, Management and Economic Stability Act)	X	X	X (first lien provisions)	X			X		X	X		
RHODE ISLAND	Conditional	X	X (fiscal overseer; municipal receiver; budget commission)	X	X	X (bond issuance requirements; bond payment guarantee)	X	X		X		X	X		
SOUTH CAROLINA	Y	X		X	X	X (state treasurer withhold of state appropriation)	X	X		X	X (any appropriate action)	X	X		
SOUTH DAKOTA	N	X		X	X					X		X		X	
TENNESSEE	N		X (financially distressed municipalities procedures)	X	X	X (emergency financial aid to local governments)	X			X		X		X	X
TEXAS	Y	X	X (municipal receivership)	X	X			X		X		X			X
UTAH	N	X		X	X					X	X (contractual remedies)	X			X
VERMONT	N	X		X	X			X		X		X			X
VIRGINIA	N	X	X (bond payment guarantee provisions)	X	X					X	X (any contractual remedy)	X			X
WASHINGTON	Y	X		X	X	X (designation of trustee)		X	X	X		X			
WEST VIRGINIA	N	X		X	X		X	X	X	X		X			
WISCONSIN	N	X	X (Deficiency Protection for Public Improvement Bonds)		X			X		X		X			
WYOMING	N	X		X	X		X	X	X	X		X			
Total ****		49	30	47	52	29	24	28	15	52	18	52	16	15	10

**** These numbers include both the District of Columbia and Puerto Rico where applicable and totals may differ from other materials that only review 50 states.

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