

INVESTING IN YOUR OWN BONDS

In Illinois there are two primary investment statutes for public entities.

The Public Funds Investment Agreement (30 ILCS 235/1) requires public agencies to purchase only “highly rated” or “high grade” municipal bonds while the Investment of Municipal Fund Act (50 ILCS 340) is a separate and independent authority without the “highly rated” restriction.

The Public Funds Investment Act permits a public agency to purchase its own unrated bonds, or those of a neighboring agency. If a municipal corporation’s investment policy includes investments under the Investment of Municipal Funds Act, it would permit such municipal corporation to consider purchasing unrated debt, including its own.

Ancel Glink, on behalf of one of our mutual park district clients, proposed the following purchase category amendment to the client’s policy:

“Interest bearing bonds of any Park District or any county, township, city, village, incorporated town, municipal corporation or school district. The bonds must be registered in the name of the District or held under a custodial agreement at a bank. ~~The bonds must be rated at the time of purchase within the four (4) highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.~~”

Naturally, your individual investment policy will need review and editing by local counsel to incorporate any such added flexibility of the Investment of Municipal Funds Act.

ILLINOIS ENTERPRISE BACKED ALTERNATE GENERAL OBLIGATION BOND CHANGES

Changes to General Obligation (Alternate Revenue Source) Bonds have been adopted but are limited to enterprise backed bond issues. These bonds have been the source of some publicity in the past when the failure of the enterprise revenues to materialize resulted in the unlimited property tax levy so that bond holders are paid from property taxes, much to the chagrin of the affected tax payers.

If you are considering a solely enterprise backed Alternate Bond, please recognize that the petition level has been lowered from 7.5% to 5.0% and the length of the petition period has been extended from 30 to 45 days.

RATING SURVEILLANCE

The rating agencies have developed a thorough and all-encompassing process to review all ratings on an annual basis. This gigantic sweep may, in some instances, entail a call and information submittal to a surveillance analyst.

In those instances where you are contacted, please also inform your Speer Financial primary contact as we would like to participate. Most contacts in surveillance are to explore downward pressure to the contact should not be dismissed as trivial but instead elevated as a threat alert.