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Chicago Crisis Obscures \$8.4 Billion Pension Gap in Small Towns.

Larry Morrissey is mayor of the old industrial hub of Rockford, [Illinois](#), and he says that if bankruptcy revived the U.S. auto industry, it might save his city of 151,000 from “the slow death” of pension costs.

“Bankruptcy is designed to avert that kind of a slow, perpetual indentured servitude for individuals and corporations — why the hell should cities be treated differently?” said Morrissey.

This borders on fantasy in Illinois, where municipalities can’t file for court protection without legislative approval. Yet the discussion reveals alarm over mounting shortfalls among the 650 pensions in large and small towns outside [Chicago](#) that cover police and firefighters. Fiscal crises in the state and its biggest city have diverted attention from the \$8.4 billion in liabilities those systems faced in 2012, up from \$4.1 billion in 2001.

Partisan gridlock in the legislature and lawsuits have stalled attempts to stabilize them, and costs are mounting in tandem with mayor’s frustration.

“In the next three to five years, you’re going to find communities in situations they cannot financially recover from,” said Scott Eisenhauer, mayor of the central Illinois town of Danville, with a population of 32,000. “Pension debt is now factored into bond ratings, and you’ll find that some of them won’t be able to borrow like they once did because of pension debt.”

General Disarray

Illinois pays more to borrow than any of the 17 states tracked by Bloomberg, with investors demanding an extra 1.03 percentage points above AAA munis to own state debt, Bloomberg [data](#) show. The penalty trickles down to localities.

The state itself faces a \$100 billion pension liability, the largest in the U.S. In December, after years of inaction, lawmakers approved a benefit-cutting bill last December designed to wipe out the shortage in the next 30 years. Its fate is likely to be determined by the Illinois Supreme Court, perhaps not until 2015.

Rating companies have also raised the specter of insolvency in Chicago, the nation’s third-largest city, where gaps in its four pensions total \$20 billion. Democratic Governor [Pat Quinn](#) hasn’t signed a bill passed last month to stabilize two of them, expressing concerns about an associated property-tax increase.

Although state retirement funds cover municipal employees and teachers, police and fire retirements are handled by local units. Many struggle.

No Unicorns

Moline's police fund was 41 percent funded in 2010, according to the Illinois Department of Insurance. In Cairo, the firefighter system was 24 percent funded.

As a group, police pensions outside Chicago were 56 percent funded in 2012, down from 76 percent in 1999, while firefighter systems dropped to 55 percent from 78 percent over the same period, according to the Illinois Department of Insurance.

Morrissey said liabilities in Rockford, about 85 miles (137 kilometers) northwest of Chicago, have grown to \$120 million from \$20 million in 1999. Only benefit cuts or bankruptcy, he said, can control them.

"What makes anybody think a miracle's going to happen?" Morrissey said. "We don't live in the land of fairies and magic beans."

Diverting Blame

Morrissey said bankruptcy allowed General Motors Co. and Chrysler Group LLC to become profitable. The record for municipalities is less clear cut. Voters in Stockton, [California](#), approved a sales-tax increase last November to help move toward solvency. [Detroit](#) still needs state assistance to emerge from bankruptcy, Emergency Manager Kevyn Orr said May 13.

Illinois unions representing police and firefighters dismiss bankruptcy talk as a cover for mismanagement and a desire to break promises and contracts.

"That's really idiotic," said Sean Smoot, director and chief legal counsel for the Police Benevolent and Protective Association of Illinois, which represents about 10,000 active and retired police officers.

Crises are largely of towns' own making, said Sean Devaney, president of the Associated Fire Fighters of Illinois.

"Blaming police and fire benefits are really convenient talking points for some of these mayors to relieve themselves from poor decisions," Devaney said.

Last Resort

About two-thirds of the 50 states prohibit or place tight restrictions on municipal bankruptcy, while a dozen allow it. The legacy of Detroit's Chapter 9 filing in 2013 is that more states are intervening early to prevent crises from spinning out of control, said [James Spiotto](#), managing director at Chapman Strategic Advisors and a municipal bankruptcy specialist.

Illinois oversees some towns, such as the Mississippi River communities of East St. Louis and Washington Park, through a program to assist distressed cities.

Joe McCoy, legislative director for the Illinois Municipal League, said mayors' talk of bankruptcy is a vote of no confidence in the state's leadership.

"It may be the only viable option short of these problems being addressed by the general assembly," he said. "They don't have a lot of confidence in the general assembly to address intractable problems."

By Tim Jones May 18, 2014 5:11 PM PT

To contact the reporter on this story: Tim Jones in Chicago at tjones58@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman
at smeruleman@bloomberg.net Mark Schoifet

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