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Reluctant Chicago Finance Committee Authorizes $1.1 Billion Borrowing.

Amid comparisons to “shuffling the deck chairs” on the Titanic, the City Council’s Finance Committee agreed Monday to add another $1.1 billion to the mountain of debt piled on Chicago taxpayers after aldermen were warned the city’s junk bond rating demanded it.

When its bond rating dropped below investment grade, Chicago could have faced paying nearly $2.2 billion to bankers under a series of complex deals dating back to former Mayor Richard M. Daley’s tenure.

The city has already eliminated roughly half that risk by converting $918 million in variable rate debt to fixed interest rates and by terminating 21 “swap” agreements. The other half was still outstanding, and therein lies the risk.

“We are technically in default…There would be the potential that we would have to come up with close to $900 million to pay back the banks if we did not execute this transaction,” newly-appointed Chief Financial Officer Carole Brown told the Finance Committee.

“It’s a critical first step. … We are addressing some …financial practices that … were inherited and have happened over the course of many years. We’re trying to get [them] off the balance sheet … to help prepare the finances of the city and this body for some of the financial choices you’re gonna be asked to make in the future.”

The biggest borrowing of Mayor Rahm Emanuel’s tenure will be used to pay those “legacy costs” inherited from Daley and to complete Emanuel’s debt restructuring plan to end or move away from risky financial practices that Daley used to “mask” the true cost of city government.

Plans for the borrowing include: $151 million to convert variable-rate general obligation bonds to fixed interest rates; $192 million to cover swap termination costs; $40 million in variable-rate penalties triggered by the double-drop in the city’s bond rating; $170 million to continue so-called “scoop and toss” and two years of capitalized interest.

Bond proceeds also include: $35 million to make the city’s 2015 payment on a loan Daley used to purchase the site of the old Michael Reese hospital for an Olympic Village that was never needed; $19 million to compensate the consortium that leased Chicago’s parking meters for meters taken out of service; $62 million to pay a judgment tied to Daley’s decision to authorize a parking garage at the Aqua building even though the deal that privatized downtown parking garages included a do-no--compete clause; $4 million to terminate an equipment lease transaction; $181 million to terminate a 2005 agreement that financed work on the CTA’s Orange Line and $75 million to bankroll a retroactive pay raise and back pension payments for Chicago Police officers.

As promised, the police borrowing will be paid back over the two years remaining on the contract.

The kitchen sink of projects without any discussion of new revenue to solve the city’s $30 billion pension crisis infuriated Ald. John Arena (45th). He peppered Brown with questions, even though he is not a member of the Finance Committee.

“Are we just shuffling the deck chairs [on the Titanic]?” Arena asked Brown.

“We don’t hear anything about new revenue. We get fines here and fees there and everybody knows it’s not enough. When we have $1.1 billion put in front of us and say, ‘Approve this’ without at least a plan for revenue — this is irresponsible. It makes it very hard for me to support this strategy because I don’t know this strategy. I don’t know the plan.”

Brown countered: “This is not kicking the can. This is not shuffling the deck chairs. This is a real step toward doing what I think all of you … want to see us doing, which is to return to a state of more fiscal stability.”

The CFO acknowledged that new revenue “has to be part of a larger discussion around — not just this year’s budget, but budgets going forward” and said that’s a debate Emanuel is “committed” to having in plenty of time for aldermen to weigh the difficult choices.

“I understand the frustration. But what the administration has to bring to this body is a responsible plan that addresses all of the upcoming obligations of the city. That’s what the mayor is committed to doing,” she said.

Since Arena does not have a vote on the Finance Committee, his Progressive Caucus colleague, Ald. Scott Waguespack (32nd), cast the only “no” vote.

“We’re just kicking the can down the road. They’re not addressing the core issues that the rating agencies keep telling us is the problem. … We need to find hundreds of millions to pay off what we’re borrowing here today,” Waguespack said.

The senior managing underwriter on the $1.1 billion borrowing with an estimated $2.64 million in fees is Morgan Stanley. The company’s affidavit was signed by William Daley Jr., whose uncle is the former mayor and whose father and namesake replaced Rahm Emanuel as White House chief of staff.

That not only raised eyebrows among black and Hispanic aldermen demanding a bigger seat on the gravy train tied to city bond issues. It rankled Arena.

“The same folks who told us we should sell these assets to generate all this revenue and then turned around and sued us are now gonna benefit from these actions because this is how we’re generating the money to do this. They’re the ones in the room telling us this is the right step. There’s got to be a certain amount of caution or skepticism,” Arena said.

Rookie Ald. David Moore (17th) asked Brown whether there was any alternative to the $1.1 billion borrowing. The CFO said there was not. Moore then asked whether the massive borrowing came with a guarantee that there would be no further ratings downgrade. Once again, Brown’s answer was no.

Emanuel has promised to phase out the dubious practice of scoop-and-toss by 2019. But, he still plans to use it to the tune of $225 million this year, $150 million next year, $100 million in 2017 and $50 million in 2018, Brown said.

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WRITTEN BY FRAN SPIELMAN

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