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Chicago Mayor Unveils 'Gimmick-Free' Budget for FY 2018.

CHICAGO — Chicago Mayor Rahm Emanuel proposed a fiscal 2018 budget on Wednesday that he said eschews “fiscal smoke and mirrors,” but critics said vestiges of those practices remain.

In his annual budget speech to the city council, Emanuel said the spending plan is free of what he called any “budget gimmick” like so-called scoop and toss, which extends maturities on existing bonds to provide budget relief, for the first time since he took office.

“Every single bad financial practice we inherited in 2011 has now been eliminated from the budget,” he said.

The \$10 billion budget, which includes \$3.77 billion for operations, relies on \$94 million in savings from a future bond refinancing under a new debt structure.

A chronic structural budget deficit and an unfunded pension liability that totaled \$35.76 billion at the end of 2016 have led to low credit ratings and increased borrowing costs for the nation’s third-largest city.

The mayor’s budget accelerates savings from a plan approved by the city council this month to refinance up to \$3 billion of sales tax revenue and general obligation bonds through a new entity at lower interest rates.

The new Sales Tax Securitization Corp will be assigned Chicago’s state-collected sales tax revenue and will pledge that money to pay off the refinanced bonds. Bond investors will have a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

Carole Brown, Chicago’s chief financial officer, said the city will realize more savings from the debt refinancing in fiscal 2018, which begins on Jan. 1, than in 2019.

“But we’ll expect to show savings annually until we’ve amortized all the debt,” she added.

One critic, Alderman John Arena, said the new debt structure - which he opposed - could end up extending the life of some bonds by as much as 40 years.

“Our fear is that (Emanuel is) making the claim of moving scoop and toss out of the way we do business but really moving it over to that special entity,” he said.

Brown acknowledged that to achieve level debt service on the corporation’s bonds, maturities on existing bonds may change.

“It is possible we won’t 100 percent match maturity for maturity,” she said.

The budget counts on \$50.3 million in revenue growth, \$19.35 million in spending cuts, as well as other measures to address a \$114.2 million structural gap and more than \$87 million in new spending for additional police hires and reforms.

By REUTERS

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(Reporting by Karen Pierog; Editing by Matthew Lewis)

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