

Bond Case Briefs

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Chicago Mayor Pushes Bond Sale, Constitutional Change to Aid Pensions.

CHICAGO — Mayor Rahm Emanuel laid out a multi-pronged plan on Wednesday to tackle Chicago's huge pension burden, urging the city council to approve the issuance of \$10 billion of bonds to boost funding for the city's four retirement systems.

Emanuel, who leaves office in May after declining to run for a third term as mayor, also called for changing the Illinois Constitution and earmarking new revenue from a possible casino and legalized marijuana for pensions.

"Issuing these bonds and depositing the proceeds directly into our pension funds would immediately increase the health of our pension funds to levels not seen in at least a decade before asking more of Chicago's hard-pressed taxpayers," the mayor said in a speech to the city council.

Chicago's big unfunded pension liability, which stood at \$27.6 billion in 2017, along with years of structural budget deficits, led to downgrades of the city's general obligation credit ratings and higher borrowing costs.

Even after raising fees and taxes in recent years to save the retirement funds from becoming insolvent, the third-largest U.S. city faces pension contributions that will grow to \$2.13 billion in 2023 from \$1.02 billion this year.

With the bond proceeds, the retirement systems' low funded ratio of just 26 percent would jump to 50 percent, while city contributions to the funds would decline, saving taxpayers nearly \$7 billion over 50 years, Emanuel said.

Emanuel introduced an ordinance to securitize state-collected revenue due the city, including income taxes, to back \$7.7 billion of the debt, which would be issued through a new Dedicated Tax Securitization Corporation.

Chicago has already employed a similar bond structure to refund low-rated outstanding debt through a securitization of sales tax revenue with a statutory lien for investors that resulted in higher credit ratings and lower borrowing costs.

The remaining \$2.3 billion of bonds would be backed by a water and sewer excise tax enacted in 2016 for the city's municipal retirement fund.

An economic adviser to Emanuel first introduced the idea of the bond plan at a city investors' conference in August. However, the plan was put on hold earlier this fall in the wake of Emanuel's September decision not to run again and surging interest rates.

S&P Global Ratings in October cautioned the city that the move comes with risk and could have negative rating implications depending on how the bonds are structured and other factors.

Emanuel said even higher taxes would pose a risk to Chicago's economy, while inaction on pensions risks more credit downgrades. He urged the 50-member council to act on the bonds, warning that interest rates are heading up and the market window for doing the deal will close.

It was unclear if aldermen would move forward with the bond plan before a new mayor takes office. Scott Waguespack, chairman of the city council's progressive reform caucus, said the plan should be "vetted when the next mayor comes into office."

One of the 21 candidates vying for mayor, Paul Vallas, a former Chicago budget director, said on Wednesday the bond plan "is just kicking the can down the road."

There was immediate pushback from labor unions against Emanuel's proposal to amend protections for public worker retirement benefits in the Illinois Constitution to lower a costly 3 percent annual compounded cost of living adjustment given to city retirees.

Leaders of the Chicago Federation of Labor and the Illinois AFL-CIO issued a joint statement that said: "Those pushing to repeal the Illinois Constitution's pension clause ignore the real problem, which is not the cost of benefits but the decades-long habitual failure of politicians to pay the employer's share."

Citing the clause, the Illinois Supreme Court rejected past attempts by the state and the city to reduce retirement benefits.

The Democratic-controlled Illinois General Assembly would have to approve the placement of an amendment on an upcoming state-wide ballot, as well as pass bills authorizing a Chicago casino and legalizing marijuana to complete Emanuel's proposal.

By Reuters

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(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)