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Chicago Mayor Searches for Answers to Gaping Budget Hole.

Lori Lightfoot says residents should prepare themselves for tough choices as city looks to close a \$838 million shortfall

CHICAGO—Mayor Lori Lightfoot warned that residents needed to be prepared for hard choices to tackle an \$838 million budget hole, the largest in the city's recent history.

On Thursday evening, Ms. Lightfoot, who in May became the first black woman and first gay mayor of Chicago, said she was open to every possibility for closing the gap. But she said she wanted to avoid hurting low-income residents or risk driving away businesses with overly burdensome taxes.

"I cannot in good faith promise you that I will take any option off the table to tackle this crisis, whether it's through budget reductions or by raising revenue," Ms. Lightfoot said.

Despite a thriving downtown and prosperous North Side, the city's population has been shrinking for years, eroding its tax base.

Chicago has the largest net pension liability of any major U.S. city at \$41.7 billion, according to a 2017 analysis by Moody's Investors Service. That estimate surpasses the city's projection of around \$30 billion. Moody's rates Chicago's bonds at "junk," or below investment grade.

Ms. Lightfoot said residents should be prepared for painful choices if new sources of revenue, like a new casino proposed for the city, didn't come to fruition.

Ms. Lightfoot said the original budget gap was \$1 billion, but as a result of new forecasts and some changes implemented so far—such as crackdowns on worker absenteeism and vendors who fail to deliver—that shortfall has been narrowed to \$838 million. A third of the deficit is due to higher pension payments, another third from increased labor costs, a nearly \$100 million jump in debt servicing, and \$90 million from lawsuit settlements, she said.

"To put this into perspective, folks, for every dollar you pay to the city, 80 cents goes to pay for the cost of personnel and benefits, along with pensions," she said.

Laurence Msall, president of the Civic Federation, a business-backed watchdog, said "it is a frightening and dangerous place where the city of Chicago is right now."

Ms. Lightfoot said she couldn't rule out raising property taxes, a controversial measure, because her predecessor Rahm Emanuel already increased property and other taxes to fund pensions. Ms. Lightfoot brought up other possibilities for new sources of revenue, like a graduated real-estate transfer tax on expensive homes or some sort of congestion tax.

The mayor said she planned to address the substantial drag on the city's finances created by its bond and pension liabilities but gave few specifics.

She said the city could save \$100 million by refinancing higher-cost debt and another \$22 million by

curbing short-term borrowing.

She said pension costs are expected to grow by \$200 million in 2021 and \$400 million the following year, adding that she hoped revenue produced by the legalization of cannabis, set to take effect in January, and the proposed casino would help fill the resulting budget gap. She said cooperation with lawmakers in Springfield would also be key.

Michael Belsky, executive director of the center for municipal finance at the University of Chicago, said the mayor was “very frank and honest about the scope of the problem and that new taxes will be on the table.”

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By Shayndi Raice and Heather Gillers

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