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Chicago's New Mayor Grapples With Nation's Worst Pension Debt.

Lori Lightfoot vows to avoid excessive parking fees and other nickel-and-dime strategies

CHICAGO—Mayor Lori Lightfoot has been in office only five months, but she is facing the prospect of having to ask a lot of residents in the nation's third-largest city.

Chicago has the most pension debt of any major U.S. city, a shrinking population and an \$838 million budget gap—and the city's teachers have been striking since Thursday. At the same time, Ms. Lightfoot, a former federal prosecutor, has eschewed some of the nickel-and-dime approaches taken by many cities, ending Chicago's practices of turning off residents' water for nonpayment and suspending drivers' licenses for unpaid parking tickets.

Ms. Lightfoot will deliver her first budget to the city council Wednesday. Her efforts to make the math work as Chicago's pension payments increase rapidly will provide a window into the challenge of addressing the burdensome legacy costs weighing on many older American cities.

"Cities that have pension challenges are facing the same sort of question, which is 'How do you cover future liabilities and current costs without driving people away with higher taxes?'" said Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago.

Cities' net pension liabilities grew 76% in nominal dollars in the five years ending in 2017, according to a study by Moody's Investors Service of cities rated by that firm. The number of large cities that have on hand less than half of the assets they need to pay promised future benefits doubled between 2009 and 2015, according to a study by the Pew Charitable Trusts.

Philadelphia, Providence, R.I., and Fort Worth, Texas, are all in that situation, as is Chicago, according to 2018 data from Merritt Research Services.

The reasons: Amounts owed to workers and retirees for pensions have lagged behind the assets on hand to pay them. Losses in 2009, plus years of falling short of investment targets, left pension funds with far less than projected, while governments have also contributed to the shortfall by skimping on annual pension contributions to balance budgets. Court protections in many states have made it difficult to cut benefits for already hired workers.

Rising costs for pensions and other expenses "have become a new normal since the recession," said Mary Murphy, project director at the Pew Charitable Trusts.

In an effort to shore up Chicago's finances, former Mayor Rahm Emanuel, a former congressman and White House chief of staff who served eight years, raised property taxes and also helped attract new investment and construction to the city's downtown. But decades of paltry contributions to the city's four pension funds have left Chicago \$30 billion short of what it needs by the city's own estimates. The city has the largest pension liability of any major city, according to Moody's.

“The pressure is building on Chicago,” said Laurence Msall, president of the Civic Federation.

Now the city’s pension cost jumps each year, and Ms. Lightfoot must find \$1.7 billion for pensions, up from \$1.3 billion last year, according to the city’s 2020 budget forecast. Total spending by the corporate fund, which pays the city’s general operating costs—aside from pensions and debt, is \$3.8 billion this year.

“There’s no more road to kick the can down,” Ms. Lightfoot told attendees at the Chicago Investors Conference last month.

Ms. Lightfoot must also contend with the teachers’ strike, going on since Thursday over pay, class size and other issues.

The school district, which is run by a mayor-appointed board, sets its own budget and levies property taxes that are in addition to the taxes levied by the city on the same properties, and are subject to a state cap. Ms. Lightfoot has more latitude to raise property taxes and has made clear she may do so.

Two strategies touted by Ms. Lightfoot—additional taxes on real-estate sales and a casino in Chicago—will likely require cooperation from state lawmakers. Ms. Lightfoot’s administration has also talked about plans to go after businesses delinquent on their taxes, to add ride-share and restaurant taxes, and to refinance city debt at lower interest rates. Along with pensions, Chicago also faces escalating bond payments.

The city’s finance chief said Monday that 40% of the budget gap will be filled by one-time revenues and 60% will be structural solutions such as recurring revenues or lasting cuts. She said the city plans to save \$200 million next year by refinancing existing debt. A spokeswoman said Ms. Lightfoot isn’t currently considering shoring up the city pension fund with borrowed money, a possibility contemplated by Mr. Emanuel.

Ms. Lightfoot will also forego an expected \$15 million in revenues, following through on a campaign promise to offer relief to residents burdened by parking fines and fees. Ms. Lightfoot has said that she expects the city to recoup some of the revenues as residents take advantage of new installment plans. The initiative has won kudos from residents but attendees at the Chicago Investors Conference were underwhelmed.

“Most of the investors don’t live there,” said Howard Cure, director of municipal bond research at New York City-based Evercore Wealth Management, which holds some Chicago debt. “They’re just looking at ‘How best can they pay their debt service and balance their budget?’”

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By Heather Gillers

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