WSJ: Chicago Has Problems, but It’s No Detroit, S&P Says.

The Windy City has problems, but they’re far from those of Motown.

That’s the gist of a report out Thursday from Standard & Poor’s concluding the finances of Chicago and Detroit have “more differences than similarities.”

After Detroit filed for bankruptcy last year, the fiscal woes of Chicago drew more attention, particularly since its pension system is one of the most underfunded among U.S. cities and a big jump in payments looms. One local TV station posed the question: Is Chicago on the same financial path as Detroit?

S&P in the new report delivers some good news for Chicago, where leaders bristle at the comparison. The city’s economy is in far better shape because of its size and diversity. The ratings firm projects per capita income, for example, in Chicago at 93% of the national average, while putting it at 57% in Detroit. And while Chicago has seen population declines, they haven’t been nearly as sharp as Detroit, and the city continues to attract people in their 20s and 30s.

And while there’s plenty of complaints about Chicago politics, S&P analysts say the city has benefited from stability in the long-tenure of Mayor Richard M. Daley and the transition to Mayor Rahm Emanuel. Detroit has seen more turnover at city hall and plenty of political gridlock, the ratings agency says.

A spokesman for Mayor Emanuel wasn’t immediately available to comment.

Still, there’s plenty to worry about in Chicago, and S&P sees one of the things the city has going for it is its ability to raise taxes.

Like Detroit, Chicago has limited capacity to cut costs with an estimated two-thirds of spending tied to public safety. Chicago also has what S&P describes as very weak budget performance with the city in past years relying on one-time maneuvers to balance its annual spending plan. Budgeting will become even more difficult in the coming years with Chicago’s annual contributions to its deeply underfunded pension system set to more than double if it doesn’t push unions and state lawmakers to change retirement benefits.

Going forward, S&P says one major difference between Chicago and Detroit is the Windy City can raise basically any tax without voter approval — an option Detroit didn’t have. But Mr. Emanuel and other elected officials have been hesitant to turn to tax hikes, which isn’t a favorite of voters and raises fears people will exit the city.

Overall, Jane Hudson Ridley, an credit analyst at S&P, says “Chicago’s growing economy and taxing flexibility provide it with the resources to avoid a fate similar to Detroit’s.”

Recent trading in government bonds suggests the market essentially agrees with S&P, says Dan Berger, senior market strategist at Thomson Reuters Municipal Market Data.

“Chicago will trade cheaper than a lot of other credits, but clearly Detroit and Puerto Rico are in their own league,” he adds.

By MARK PETERS

–Mike Cherney contributed to this article.