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Chicago's Credit Rating Takes Major Hit Over Unfunded Pensions.

Chicago's financial standing took a hit Tuesday when a major bond rating agency once again downgraded the city's credit worthiness because of a huge government worker pension shortfall and the overall amount of money it owes.

Moody's Investor Service rated the city's upcoming \$388 million bond issuance at Baa1, down from A3, a level set last year after an unusual triple downgrade. The new rating is still investment grade, but puts the city on a lower tier. Moody's also gave the city a "negative outlook."

The move could end up costing Mayor Rahm Emanuel's administration more to borrow money. Two other major agencies earlier had maintained their existing Chicago debt ratings for the upcoming city bond issue, but Moody's move could raise interest rates if it reduces investor confidence in the city's ability to make the required repayments.

The rating "reflects the city's massive and growing unfunded pension liabilities, which threaten the city's fiscal solvency absent major revenue and other budgetary adjustments adopted in the near term and sustained for years to come," the new rating report stated. "The size of Chicago's unfunded pension liabilities makes it an extreme outlier."

Moody's concluded Chicago has the highest level of unfunded pension debt "of any rated U.S. local government." Even if Emanuel secures changes to pension obligations that he seeks from the General Assembly, the city may still not contribute enough money to pension systems to restore their health because of practical and political considerations, the report concluded.

"As such, the city's financial operations will remain structurally imbalanced," the report stated. It also noted the city's high levels of debt, as documented in the Tribune's "Broken Bonds" series.

The Emanuel administration said the move underscored the need for pension changes during the General Assembly's spring session.

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