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## **Chicago Sees Fiscal Doomsday if Court Suspends Pension Changes.**

CHICAGO — A temporary suspension of cost-saving changes to two of Chicago public pensions funds risks credit rating downgrades that could cost millions of dollars, the city's chief financial officer said on Thursday.

Chief Financial Officer Lois Scott testified in Cook County Circuit Court that all three major credit ratings agencies have negative outlooks on Chicago's ratings, largely due to a big unfunded pension liability that a 2014 Illinois law aims to ease for the city's municipal and laborers' funds.

Labor unions and retirees who are challenging the law, which took effect Jan. 1, have asked Associate Judge Rita Novak to temporarily stop it.

"I think that anything that arrests progress significantly increases our risk of downgrades," Scott testified.

Scott said Chicago's ratings are already lower than most big U.S. cities and that further downgrades would pump up interest rates on new fixed-rate bonds and thin the ranks of potential bond buyers and credit providers. She added the termination of interest-rate hedges and letters of credit on existing variable-rate bonds could be triggered, costing Chicago hundreds of millions of dollars.

However, the city has successfully eliminated hundreds of millions of dollars in risk by terminating or renegotiating 18 interest rate swap or swaption contracts, according to a city spokeswoman, who added such efforts were continuing. Also, the city could refund existing fixed-rate bonds should its ratings improve in the future.

The contested law requires higher pension contributions from both the city and workers and eliminates an annual 3 percent cost-of-living bump, instead tying increases in retiree payments to inflation and skipping those hikes in certain years.

As for finding revenue to make higher pension payments to the two funds without the law's cost-savings, Scott testified Chicago is already financially stretched with a \$300 million structural budget deficit and a looming \$550 million jump in contributions to the city's police and fire pension funds.

The unions' lawyers have contended pausing the law would allow time for the Illinois Supreme Court to rule this spring on a separate 2013 law that cut pension benefits for state workers. Plaintiffs in both cases contend the laws violate an Illinois constitutional provision prohibiting the diminishment of public worker retirement benefits.

Chicago's attorney has argued the city's law does not violate the constitution because it will save the two pension funds from insolvency.

By REUTERS

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(Reporting by Karen Pierog; Editing by Lisa Shumaker)

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