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S&P: Runoff Election Could Delay Chicago's $600 Mil. Pension Funding.

CHICAGO (Standard & Poor's) Feb. 25, 2015–The surprise runoff election for mayor of Chicago could delay a crucial $600 million pension contribution plan for the police and fire departments in the city's upcoming 2016 budget. This temporary speed bump puts into question a plan the city has been working on for the past four years and will mean the next administration will need to determine how to fit this cost into its budget in less than a year, in the opinion of Standard & Poor's Ratings Services.

We will be monitoring how this short-term pension obligation will affect the city's A+/Negative general obligation rating as well as how the next administration will address long-term pension issues that have been weighing on the city's credit standing.

In the short term, whichever candidate is elected will need to devise a method to fund the additional annual contributions required for the city's police and fire plans in time for budget year 2016, and future budgets thereafter. The city will have less than a year to determine how to fit this cost into its budget, even if the amount is lowered to some extent through statutory amendments or identifying a revenue stream and implementing it. The uncertainty of how this issue will be addressed prevents the city's credit outlook from being stable at this point.

Under the current administration, the city has tried to address its longer term pension liabilities by restructuring two of its four existing pension plans for non-police and fire employees. These reforms are being challenged by some of the affected employee unions in court. Whether these challenges are successful or not, at this point the amount of increase that could occur from the municipal employees and laborers' plans has a place in the city's budgets, with an identified revenue stream. These costs will increase gradually over time and a credit factor will be whether the identified revenue stream can keep up with the costs.

In terms of magnitude, the city currently only contributes 26% of its annual required pension contribution (ARC) for its four plans. Not paying the full ARC leads to increases in the unfunded liability. The current payment represents 7% of its total governmental funds expenditures. If the city were paying down these liabilities with the full ARC payment today, the contributions would represent 27% of total governmental funds expenditures.

The four defined benefit plans had an overall unfunded liability of $20.1 billion as of 2013, and the plans altogether are 34% funded. Funding levels for each of the plans are as follows:

- The municipal employees plan: 37% funded, with an $8.7 billion unfunded liability;
- The laborers' plan: 57% funded, with a $1.03 billion unfunded liability;
- The police officers' plan: 30% funded, with a $7.2 billion unfunded liability; and
- The fire fighters' plan: 24% funded, with a $3.14 billion unfunded

liability.

While pensions cloud the city's financial and debt profiles, the city offers a strong base from which revenues can be supported. It has a vibrant economy which supports the city's credit quality.

As the city awaits voters' final say on who will be the mayor, the city's credit awaits a longer term resolution to its pension troubles. One answer will be found in six weeks, the latter may take some more time.

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