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## **Chicago Mayor's Debt Reforms to Sting Budget.**

CHICAGO — Chicago's clean up of its debt practices, including ending interest-rate swaps and phasing out bond restructurings, will cost more than \$275 million, the city's top financial officials said on Wednesday.

Mayor Rahm Emanuel unveiled several steps earlier on Wednesday that he said would restore "fiscal sanity" to Chicago's sagging budget.

Lois Scott, Chicago's chief financial officer, said the benefits from converting about \$800 million of variable-rate general obligation bonds into fixed-rate bonds and the elimination of related interest-rate swaps should offset the approximately \$200 million the city will have to pay banks to end the swaps, due largely to low interest rates.

But that move will lead to more debt as the city would raise the \$200 million initially through the sale of commercial paper that would eventually be replaced with long-term bonds.

Chicago is already paying a hefty interest-rate penalty in the U.S. municipal bond market as it struggles with a \$20 billion unfunded pension liability and a looming \$550 million increase in pension contributions that needs to be made from a budget with a \$300 million structural deficit.

"We have to get back to the basics - long-term fixed rate bonds, fund this year's costs with this year's revenues," Scott said.

A rating downgrade of Chicago to two notches above the junk level by Moody's Investors Service in February triggered the termination of four swaps and put the city closer to triggering another 11.

The mayor also called for phasing out over four years the so-called scoop and toss practice of restructuring the city's debt service on bonds to push payments into future years and free up money for operations.

Chicago Budget Director Alexandra Holt said that plan would impact the city's next operating budget by \$75 million.

"What that looks like and how we pay for it, don't know yet," she said, adding that the mayor will first look to savings and reforms before turning to taxpayers.

The budget for the fiscal year beginning Jan. 1 would also have to accommodate an increasing share of legal settlements and judgments that have been funded in part with bond proceeds, under the mayor's reforms.

Chicago's \$8.9 billion all-funds budget, which includes a \$3.54 billion operating fund, is already buckling under escalating pension costs at the same time Illinois Governor Bruce Rauner has proposed cutting about \$135 million in funding for the state's biggest city.

By REUTERS

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(Reporting By Karen Pierog; Editing by Cynthia Osterman)

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