

Bond Case Briefs

Municipal Finance Law Since 1971

Five Reasons Chicago Is in Worse Shape Than Detroit.

Forget all the nicknames attached to Chicago for generations — Windy City, City of Big Shoulders, the City that Works. This gleaming metropolis of 2.7 million people is now, along with Detroit, junk city.

When Moody's Investors Service downgraded Chicago's debt on Tuesday to junk status, it deepened the city's financial crisis and elevated comparisons to the industrial ruin 280 miles to the east.

Chicago partisans, starting with Mayor Rahm Emanuel, argue vehemently that their city isn't Detroit. They cite population growth, a diverse economy bolstered by an abundance of Fortune 500 companies, vibrant neighborhoods and a booming tourist trade.

Yet here are five reasons, now more than ever, that suggest Chicago is akin to Detroit — or, by some measures, even worse. Or, as Illinois Republican Governor Bruce Rauner put it last month: "Chicago is in deep, deep yogurt."

BIG, SCARY NUMBERS: Chicago's unfunded liability from four pension funds is \$20 billion and growing, hitting every city resident with an obligation of about \$7,400. Detroit's, whose population of about 689,000 is roughly a quarter of Chicago's, had a retirement funding gap of \$3.5 billion, meaning each resident was liable for \$5,100. A January 2014 report from Morningstar Municipal Credit Research showed that among the 25 largest cities and Puerto Rico, Chicago had the highest per-capita pension liability.

HOSTILE COURT: When Detroit filed for Chapter 9 in July 2013, a federal bankruptcy judge exerted his considerable powers and decreed that everyone — taxpayers, employees, bondholders and creditors alike — would get a haircut to settle the crisis. When the Illinois Supreme Court ruled on May 8, it said the state couldn't cut pension benefits as part of a solution to restructure the state retirement system.

That decision sent a clear signal to Chicago, which was trying to follow the state's benefit-cutting lead. Where the Detroit judge acted, the Illinois justices told elected officials to clean up the mess of their own making.

POLITICAL PARALYSIS: Just as Detroit slid into bankruptcy after decades of economic and actuarial warnings, Chicago politicians have watched the train wreck rumble toward them for more than a decade. During that time, they skipped pension payments and paid scant attention to the financial damage being done. In 10 years starting in 2002, the city increased its bonded debt by 84 percent, according to the Civic Federation, which tracks city finances. That added more than \$1,300 to the tab of every Chicago resident.

In Michigan, Governor Rick Snyder acted when the crisis in Detroit couldn't be avoided. He invoked a state law giving an emergency manager what amounts to fiscal martial-law power. In Chicago's case, there's no political pressure to invoke a similar law. And a proposal supported by Rauner that would allow municipalities to seek bankruptcy protection without state approval is languishing in the

Illinois legislature.

NO BAILOUT: Detroit's bankruptcy filing allowed it to restructure its debt, officially snuffing out \$7 billion of it by cutting pensions and payments to creditors. In Illinois, the nation's lowest-rated state with unfunded pension obligations of \$111 billion, Rauner had a blunt message last week in an unprecedented address to Chicago's City Council: The city will get no state bailout.

DENIAL: After years of denial, Detroit officials finally, if grudgingly, agreed to major surgery. At least for now, Chicago's Emanuel is sticking to his view that the Illinois Supreme Court's rejection of a state pension reform law doesn't apply to the city. "That reform is not affected by today's ruling, as we believe our plan fully complies with the State constitution because it fundamentally preserves and protects worker pensions," he said in a statement on Friday.

Four days later, Moody's begged to differ. "In our opinion," it wrote, "the Illinois Supreme Court's May 8 ruling raises the risk that the statute governing Chicago's Municipal and Laborer pension plans will eventually be overturned."

Bloomberg

by Tim Jones

May 13, 2015