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Chicago Cuts 1,400 Jobs as Pension Fight Drags On.

CHICAGO—Mayor Rahm Emanuel on Wednesday said the nation's third-biggest school district is cutting 1,400 jobs and boosting borrowing in response to the growing fiscal crisis facing Illinois and its largest city.

The job cuts at the Chicago Public Schools, which largely shield teachers and include positions that are vacant, are part of a plan to cut annual spending by \$200 million, or roughly 3.5%.

That followed a decision by city officials to make a \$634 million payment due to the teachers' retirement system before a Tuesday night deadline.

"These payments do not come without a cost," Mr. Emanuel said. "There is a series of political compromises and patchwork over the years that can no longer continue."

State and city pensions systems have long been underfunded, leaving the funds well short of the assets needed to pay promised benefits. Chicago schools have sought help from state lawmakers, who have considerable control over education spending and the pension systems. However, they so far have taken no steps to assist the city school system.

"Your stalemate is having consequences," Mr. Emanuel said.

In the short term to ensure schools open on time and keep class sizes from rising, the district drew down on two credit lines to make the pension system payment due this week and is asking to put off for a year \$500 million in pension payments due in the new fiscal year.

Mr. Emanuel has proposed that teachers' pension contributions and local property taxes would be increased if the state would make increased payments into Chicago's teacher retirement system.

Parts of such a proposal are being discussed at the Illinois capitol. But the Illinois government remains mired in a battle over the next state budget, which had yet to be approved as a new fiscal year began Wednesday, an impasse that threatens to force a partial state government shutdown.

The Democratic-controlled legislature and Republican Gov. Bruce Rauner, who took over in January promising to overhaul state government, remain divided over spending and tax policies. They face an estimated shortfall of more than \$6 billion for fiscal 2016 that must be closed.

Mr. Rauner has pushed for deep cuts and changes he says will promote business growth, including curbs on unions and overhauling the medical malpractice system. Democrats oppose many of Mr. Rauner's proposals and are looking to blunt the cuts, but haven't provided details on how they would pay to preserve services. "We got a mess. It is going to take a little while to fix," Mr. Rauner said this week.

Nationally, Illinois and Chicago remain outliers among state and municipal governments. Illinois has the lowest credit rating among U.S. states, while Moody's Investors Service has lowered the debt rating of Chicago and its school district to below investment grade in recent months.

The budget impasse will likely immediately hurt private, nonprofit agencies that rely in some cases exclusively on state funds, like health-care clinics, mental health treatment centers and housing for victims of domestic violence.

State workers aren't likely to be affected initially, since paychecks for the last two weeks of June are typically paid by July 15. But if the impasse carries on, they could end up in court to ensure pay continues without a budget in place. On Wednesday, a one-month stopgap budget that would continue funding state services passed in the Senate, but failed in the House.

The job cuts in Chicago have reignited a strained relationship between the district and the Chicago Teachers Union, which are in the midst of negotiating a contract that ended this week. Teachers here went on strike in 2012, and while the relationship between the mayor and the union have shown signs of improving, labor leaders described the latest round of reductions as deceptive and retaliatory.

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