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S&P: Chicago Budget Forecast Remains Grey - City Faces Continued Budget Gaps, Stressed Bottom Lines.

CHICAGO (Standard & Poor's) Aug. 6, 2015–Chicago's budgetary challenges for fiscal years 2016 to 2018 were highlighted in the release of its annual financial forecast — specifically the hurdles it faces in balancing its budget, even before approaching the issues of its rising debt burden and pension contributions.

We expect that during the next five months, as the mayor progresses with his proposed budget and then what is ultimately adopted by the city council, the city will demonstrate how serious it is about implementing both immediate and far-reaching plans to address the structural cracks in its budget. Given the uncertainty regarding the reform of its police, fire, municipal and laborers plans, we expect city management to consider contingency plans for addressing its pension liabilities, regardless of the outcome for all four of its plans.

In the base case scenario, the city's operating budget gap for 2016 is $232.6 million; add in its increased pension contributions and debt, and the number rises to $426 million. The corporate fund is not the only fund that contributes to the pensions; the enterprise funds and library fund also pay a share. The forecast factors in an incremental $328 million increase in police and fire pensions, based on the assumption that the city will gain state approval of a phased-in approach to the pension payments rather than the $550 million increase it currently faces, and that the Supreme Court will uphold the city's reformed municipal and laborers pension plans. In our view, it would be more conservative to assume the $550 million payment. Additionally, the forecast assumes that the city will pay $100 million more in debt service due to the phase out of its "scoop and toss" practice, in which the city made debt payments from refunding bond proceeds rather than from current revenues.

The forecast presents two scenarios in addition to the base case: positive and negative. Even in the positive outlook, with revenues more strongly recovering from the recession than in the base- case scenario, there is still an operating budget gap of $83.0 million in 2017, and it rises to $132.4 million in 2018. In the negative outlook, which assumes stagnant revenues and more accelerated operating expenditure growth, the city faces operating gaps of $577 million in 2017 and $801 million in 2018. The forecast approaches and discusses debt and pension contributions separately and those numbers are not included in the aforementioned figures.

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Primary Credit Analyst: Helen Samuelson, Chicago (1) 312-233-7011;
helen.samuelson@standardandpoors.com

Secondary Contact: Jane H Ridley, Chicago (1) 312-233-7012;
jane.ridley@standardandpoors.com