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Chicago Okays \$2.7 Billion in Bond Sales Amid Credit Rating Warnings.

CHICAGO — Chicago is poised to issue more than \$2.7 billion of debt amid warnings that its core credit ratings could be downgraded depending on the outcome of the city's fiscal 2016 budget.

Both Standard & Poor's and Fitch Ratings said this week they could downgrade Chicago's BBB-plus general obligation ratings if the city does not adequately address escalating pension payments.

"If the final budget that is adopted by the end of the calendar year fails to cover the larger pension payments with an identifiable and reliable revenue source, it would likely strain the rating, potentially resulting in the rating being lowered by multiple notches," S&P said in a report.

Fitch Ratings said Chicago risks a downgrade if it fails to put pension payments on a solid funding path or raids budget reserves. Moody's Investors Service, which dropped Chicago's rating to junk in May, withheld comment until a final budget is enacted.

Mayor Rahm Emanuel proposed a budget on Tuesday that includes the biggest-ever city property tax hike to cover increased contributions to public safety worker pensions.

To make the \$543 million tax hike, phased in through 2018, palatable to city aldermen, Emanuel is seeking an expanded tax exemption in the Illinois Legislature to shield homes valued at \$250,000 or less from the increase. His budget also counts on enactment of a bill that spreads out the city's police and fire pension payments.

Additionally, Chicago is betting the Illinois Supreme Court will uphold the constitutionality of a state law aimed at shoring up the sagging finances of its municipal and laborers' retirement systems, partly through benefit cuts.

S&P said that given these "uncertainties," it expects city officials to consider contingency plans for addressing a \$20 billion unfunded pension liability.

At a press conference on Thursday, Emanuel said the city is "on strong ground" with its legislative efforts.

Earlier, the city council gave final approval to the sale of up to \$500 million of general obligation bonds in a deal that will push out payments on \$225 million of outstanding debt and refund the rest for possible savings.

Aldermen also approved up to \$2 billion of new and refunding O'Hare Airport revenue bonds and up to \$225 million of sewer bonds, including \$125 million to end interest-rate swap agreements. The airport and sewer bonds are expected to price in October, with the GO bonds selling in the coming months, a city spokeswoman said.

By REUTERS

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(Reporting By Karen Pierog; Editing by David Gregorio)

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