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Chicago Approves Emanuel's City Budget, Property Tax Increase.

CHICAGO — Chicago Mayor Rahm Emanuel's \$7.8 billion fiscal 2016 budget and a historic property tax increase to pay for public safety worker pensions easily cleared the city council on Wednesday.

But the spending plan for the fiscal year that begins on Jan. 1 still faces uncertainties in the Illinois Legislature and supreme court that could impair the mayor's plan to address the city's \$20 billion unfunded pension liability.

Emanuel last month proposed a \$543 million property tax hike phased in over four years, as well as fee increases and spending cuts in an attempt to fix the city's financial crisis linked largely to pensions.

"The city council today took a big step forward in providing more stability and more certainty and a strong financial footing for the city going forward," Emanuel told reporters after the 35-15 vote.

Some aldermen said there were no other viable options.

"This is the equivalent of a municipal illness," said Alderman Patrick O'Connor. "We don't have the option of saying no. We have the option of picking our choices for staying alive."

Alderman Carrie Austin, who heads the council's budget committee, said there was no place left to scour for savings or revenue.

"If there was a dollar to be found, we would've found it," she said.

Ahead of the vote, Emanuel offered a stark choice – either slash vital public safety and other services or enact Chicago's biggest-ever property tax increase.

If Chicago cannot get its finances under control, the third- largest U.S. city faces further downgrades by credit rating agencies, making it more expensive to raise funds through bond sales. The city's rating was already dropped to "junk" by Moody's Investors Service earlier this year.

Both Moody's and Fitch Ratings said the use of higher property taxes to pay pensions is a positive step for the city. But the credit rating agencies noted parts of the mayor's pension strategy are dependent on actions by the Illinois Legislature and the state supreme court, which will take up the constitutionality of a 2014 city pension reform law next month.

"Should these decisions not match the city's assumptions, new operating pressures could materialize in the immediate- and longer-term," Moody's said in a statement.

Standard & Poor's said Chicago's financial problems remain "substantial," and that given the pension uncertainties, it expects the city to have contingency plans.

"In our view, the extent of the city's structural imbalance, when factoring in required pension

contributions, will take multiple years to rectify,” S&P said in a statement.

Property taxes will be boosted between now and 2018 to cover state-mandated contribution increases to police and firefighter pensions. But the tax increase will fall short if Illinois’ governor does not enact a state law that would spread out annual contributions. The mayor is also pushing the state legislature for a bill to shield residential properties valued at \$250,000 or less from the tax hike, although the city could consider a rebate program if that measure is not enacted.

The spending plan, which includes a \$3.63 billion operating budget for fiscal 2016, creates Chicago’s first-ever garbage collection fee and generates new revenue from taxis and ride-sharing businesses. It also reduces the city’s dependence on so-called scoop and toss bond restructurings to \$125 million from \$225 million this fiscal year.

The budget includes an additional \$45 million property tax increase to pay for Chicago Public Schools’ capital projects.

By REUTERS

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(Editing by Matthew Lewis)