

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Chicago Budget Passage Positive, Faces Significant Tests.

Fitch Ratings-New York-30 October 2015: The Chicago City Council's passage of the 2016 budget, including a significant property tax increase, is positive as it would create a recurring revenue stream to address the city's rising pension expenses, Fitch Ratings says. However, it faces funding challenges in the near term. If an Illinois Senate bill is not signed by the governor this year, the city would be required to fund a much larger amount for public safety pensions in 2016. The state's Supreme Court is hearing a case that could push reforms for the city's other two pension plans back to their starting points.

The property-tax increase would raise \$543 million and it would be phased in over four years. The forecast shows the average property tax bill would rise by 12%-13%. The budget also created new garbage and rideshare and taxi service fees.

However, significant challenges remain. The property tax increases are matched to the general government portion of the phased-in increases for police and fire pensions that would be required under Senate Bill 777. It was passed by the House and Senate in the spring of this year but has not been sent to the governor for his signature. Prospects for passage grow dimmer as time goes by. If it does not become an Illinois law in 2015, the city would be required to fund the entire incremental payment amount of approximately \$543 million in 2016 from additional property taxes or other potentially nonrecurring means.

The sizable increase in the city's pension obligations is largely due to a state law passed in 2010 requiring Illinois municipalities to shift to actuarially based annual contributions for policemen's and firemen's pension funds next year. A smaller portion is due to increased contributions for the city's other two pension plans that are required under pension reform that is under legal challenge.

Efforts to shore up those non-public safety pension plans could be put into disarray if the Illinois Supreme Court rules against the city's reforms to the Municipal and Laborers' pension plans. That decision could cause the city to revert to an actuarially inadequate funding structure which would leave those two plans on a path toward depletion, or identify other sources to make even larger actuarially based deposits into the funds. Fitch maintains a Negative Rating Outlook on the city's 'BBB+' rating. The ability of the city to meet all of its obligations, including actuarially based funding of its pension obligations, in a structurally balanced manner is paramount to the rating. The city's reserves, including those in the general fund as well as the long-term reserve funds are an important aspect of the city's overall credit quality. Drawing on them could trigger a rating downgrade.