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Moody's: Chicago's Possible Pension Funding Paths Examined in New Scenario Analysis.

New York, November 10, 2015 — Today, Moody's Investors Service released a scenario analysis of the City of Chicago's (Ba1 negative) possible pension funding paths. The scenarios incorporate the city's recently adopted property tax increase as well as the outcomes of two key decisions pending with the State of Illinois (Baa1 negative) and the Illinois Supreme Court. The analysis indicates that, despite significantly increasing its contributions to its pension plans, Chicago's unfunded pension liabilities could grow, at a minimum, for another ten years.

"Chicago's statutory pension contributions will remain insufficient to arrest growth in unfunded pension liabilities for many years under each scenario," Moody's AVP-Analyst Matthew Butler says in the new report, "Chicago's Pension Roadmap: A Scenario Analysis."

The scenario that Moody's views as having the most positive credit impact for Chicago consists of a favorable Illinois Supreme Court decision, as the city's budget assumes, but state legislative action that does not conform to the city's adopted plan. Senate Bill 777 has been passed by the Illinois General Assembly, but requires the governor's approval to become law. The bill lowers Chicago's current statutory public safety pension contributions relative to existing statute, granting the city more time to meet statutory funding targets. Without Senate Bill 777, the city's 2016 statutory pension contribution will be much higher than the city has budgeted.

"This scenario is the most credit positive over the long term. Although it would require larger pension contributions than currently budgeted, the higher payments would achieve the slowest and least extensive growth in unfunded liabilities among the four scenarios," Butler says.

The city's adopted budget assumes the governor signs Senate Bill 777 and the Illinois Supreme Court reinstates PA 98-0641, the latter of which would preserve benefit reform of Municipal and Laborer pensions and reduce the plans' risk of insolvency. While the adopted budget notably increases the city's pension contributions relative to prior years, the amounts contributed under these assumptions could enable unfunded pension liabilities to grow for up to 20 years.

Two other scenarios assume an unfavorable ruling from the Illinois Supreme Court, which would raise the possibility of substantial cost growth for the city over the next decade, with or without Senate Bill 777.

"This would exert additional negative credit pressure on Chicago's credit quality because it would likely remove all flexibility to reduce unfunded liabilities through benefit reform and raise the probability of plan insolvency," Butler says.

The report is available to Moody's subscribers [here](#).