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S&P: Chicago Finishes the Year Without Pension Relief and Without a Definite Plan to Fund its 2016 Pension Payment.

CHICAGO (Standard & Poor's) Dec. 29, 2015 — Time ticks on for Chicago toward the last day it can amend its property tax levy for the 2016 budget– Dec. 29, 2015. When the city adopted its 2016 budget in October, it increased its property taxes as an important first step toward fiscal balance, but as we noted on Oct. 28, 2015, in our article "Chicago's Ratings Unaffected By City Council's Budget Approval," it was perhaps not a complete step in its efforts to address its growing police and fire pension contribution obligations. The deadline to amend property taxes will pass before the city will hear whether the governor will approve Senate Bill (SB) 777. SB 777 passed through both houses of the Illinois General Assembly by May 2015, and calls for a five-year step up of the actuarially required contributions to the police and fire pensions, which will provide the city partial relief from a spike in police and fire pension contributions that it would otherwise be obligated to make in 2016. The bill has not been forwarded to the governor at this time.

We noted on Oct. 28, 2015, that the final 2016 budget assumes the passage of SB777, and the city's accompanying tax increase covers about $328 million of the $550 million increase in police and fire pension plan contributions that the city will owe under the statutes as they are currently written. Should the state ultimately fail to approve SB777, the city will have to address the approximately $200 million expenditure gap in its budget. City officials currently do not plan to amend the property tax levy beyond what is set in the 2016 budget. And while the city will not be able to amend the property tax levy after Dec. 29 in time to affect spring 2016 tax bills, officials indicate the city has contingency plans to fully accommodate the larger pension contribution amount, if needed, in the form of various revenue sources it can
implement during 2016, and it has short-term financing in place that it can use until those revenues become available.

Our future view of the city's ability to meet its obligations will depend on how the city addresses its continued budget gap in the event SB 777 does not pass. Should the governor not approve SB 777, Chicago's failure to successfully implement contingency plans in a timely manner to fully meet its pension obligations with an identifiable and reliable revenue source would likely strain the rating on the city, potentially by multiple notches.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

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