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Illinois Supreme Court Deals Another Blow to Rahm Emanuel.

CHICAGO — The Illinois Supreme Court on Thursday dealt another setback to Mayor Rahm Emanuel, ruling that a 2014 law that required Chicago city workers to pay more toward their retirements while also scaling back their future benefits was unconstitutional.

The court said the plan was a violation of the rights of employees, who are protected by the Illinois Constitution under a clause that states pension benefits “shall not be diminished or impaired.”

“The pension protection clause does not guarantee any particular method of funding, but, rather, guarantees the right to be paid,” the ruling said.

The decision is likely to make it more difficult for city leaders to resolve a developing financial crisis exacerbated by their obligation to pay into pension funds, which have been underfunded for years and are under increasing pressure as more workers retire and then live longer.

It comes amid other financial pressures — the leadership of the Chicago Teachers Union voted on Wednesday to approve a one-day walkout on April 1 in protest of budget cuts and forced furlough days — and at a time when the state is in its second year without a budget because its Democratic legislators and Republican governor cannot agree.

Other states and localities are also facing the need to solve underfunded pensions, after officials for years shortchanged the funds into which they were obligated to pay.

Mr. Emanuel had negotiated with unions for city employees and laborers to shore up two of the city’s four pension funds. According to the agreement, the city would increase its annual contributions to the funds, while workers would increase their retirement contributions by 2.5 percentage points over five years.

But not all union members were in favor of the agreement, and a group filed a challenge in court. Judge Rita Novak of Cook County ruled last summer that the 2014 law overhauling the two pension funds was unconstitutional. The decision on Thursday denied the city’s appeal.

In a statement, Mr. Emanuel said the city would continue to work with labor unions “on a shared path forward that preserves and protects the municipal and laborers’ pension funds, while continuing to be fair to Chicago taxpayers and ensuring the city’s long-term financial health.”

“Though disappointing, this ruling does not change my commitment to ensuring employees and retirees have a secure retirement without placing the full burden on Chicago taxpayers,” Mr. Emanuel said.

The unions and city employees who filed the lawsuit said they were pleased with the result, which “strengthens the promise of dignity in retirement.”

“Like last year’s decision that prevented pension cuts to teachers, state employees and university employees in state pension systems, this ruling makes clear again that the politicians who ran up the debt cannot run out on the bill or dump the burden on public-service workers and retirees instead,” the unions said in a statement.

The decision in the unions’ favor could actually help Chicago’s finances in the short term: By throwing out the law, the Illinois Supreme Court also removed the requirement that the city pay more into the pension funds.

But in the long term, Mr. Emanuel or his eventual successor will have to look for revenue elsewhere, such as with another property tax increase for city residents. The City Council passed a \$589 million increase in property taxes last year to fund police and firefighter pensions.

The Chicago Teachers Union went on strike for more than a week in 2012 and eventually won concessions from the city over pay and teacher evaluations. Union leaders claim it is now inadequate. “The labor conditions have gotten to the point where they are not bearable,” Karen Lewis, the union president who has previously clashed with Mr. Emanuel, said Wednesday.

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