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S&P Warns Chicago About Potential Rating Cut Over Pensions.

Chicago remains vulnerable to bond rating downgrades unless the city makes comprehensive changes to its municipal and laborers' retirement systems, Standard & Poor's said on Thursday.

"The city's credit quality could weaken unless it gains both union and legislative support for any changes to its municipal and laborers' plans, and identifies a solid funding mechanism to address the unfunded liabilities and prevent further destabilization of its budget," the credit rating agency said in a report.

The Illinois Supreme Court in March threw out a 2014 Illinois law aimed at saving the two systems from insolvency by reducing retirement benefits and increasing pension contributions by the city and affected workers.

Chicago Mayor Rahm Emanuel last month announced an agreement in principal with unions to increase funding for the laborers' system, the smallest of the city's retirement funds. The municipal fund, the city's largest system, is projected to run out of money within 10 years. New accounting changes and other factors doubled its unfunded liability to $18.6 billion at the end of 2015 from $7.13 billion in 2014.

S&P, which rates Chicago's general obligation bonds BBB-plus with a negative outlook, said any deal for the municipal fund would require an identified revenue source.

The report also noted that Chicago has already raised property taxes to boost funding for its police and fire pension funds. Illinois lawmakers this week overrode Governor Bruce Rauner's veto of a bill spreading out the city's payments to those two funds.

Reuters

(Reporting by Karen Pierog; Editing by Matthew Lewis)

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