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Six Years After Daley, Emanuel Still Using High-Cost Borrowing Practices.

Mayor Rahm Emanuel is pitching Wall Street investors on the latest city borrowing plan, a $1.2 billion package that, like previous versions, pushes hundreds of millions of dollars of debt into the future at higher costs to taxpayers.

The mayor is continuing scoop-and-toss borrowing, which involves paying off old bonds with the proceeds from new ones — a practice akin to taking out another mortgage on a house to pay off the old mortgage, kicking payments down the road. An Emanuel budget spokeswoman said this year marks the last scoop-and-toss bond issue.

The administration also said it'll be the last time the city will borrow money to pay for a portion of routine legal settlements and judgments, adding millions in interest to what are short-term expenses. Some of that debt will take the form of taxable bonds, which carry higher interest rates. That's because the federal government doesn't allow the issuance of tax-free bonds for what are considered yearly operating expenses.

Beyond that, the mayor plans to borrow a to-be-determined amount to cover some of the initial interest payments on the new debt the city is taking out, which adds to the overall cost. It's the equivalent of taking out a loan to pay the initial interest on a mortgage.

Emanuel inherited the costly borrowing practices, detailed by the Chicago Tribune in its 2013 "Broken Bonds" investigation, from predecessor Richard M. Daley. Emanuel, now on his sixth spending plan, has used the techniques to prop up a sagging City Hall budget. In 2015, the mayor promised to end the costly financial moves by the end of his second term in 2019.

The administration's plans call for pricing the bonds on Jan. 18-19, when the market will determine the interest rates, and closing on the deal Feb. 1, Emanuel's Chief Financial Officer, Carole Brown, said in a web-based "roadshow" used to pitch the bonds. City finance officials also plan to meet with investors in Chicago, Boston and New York before the bonds are sold to make further pitches, a common tactic Chicago and other major cities have begun to use in recent years.

The city is likely to pay relatively high interest rates because municipal bond market rates recently increased, and continuing financial problems at Chicago Public Schools and the state of Illinois has investors concerned, said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics.

Fabian also said buyers would look more favorably on city debt if it stopped using "budget gimmicks" like scoop-and-toss and borrowing to pay initial interest payments "instead of just talking about how they're going to stop."

But he added that "the municipal market has come to see and talk about Chicago as a bit of a success story" after Emanuel set in motion plans to contribute hundreds of millions of additional dollars a year to its pension plans for police officers, firefighters, city workers and laborers.

At Emanuel’s urging, the City Council in recent years increased telephone fees for emergency service, dramatically increased property taxes and enacted a new tax on city water and sewer service to help fund higher contributions to the four pension funds.

But there’s uncertainty about how the city will come up with hundreds of millions of additional dollars in the early- to mid-2020s that will be needed to make even higher contributions to those funds in an effort to prevent them from running out of money. And the plans for the municipal workers’ and laborers’ funds have yet to be approved by a state government mired in partisan gridlock.

Nevertheless, Wall Street bond rating agencies have changed the city’s debt outlook from negative to stable based on the efforts underway to stabilize the pension funds, all of which were at risk of going broke in the 2020s even if the city’s general bond ratings remain low. That could result in the city paying lower interest rates than they otherwise would have when the bonds go to market this month.

Richard Ciccarone, president and CEO of Merritt Research Services, said interest rates also could go higher because of “intangible” factors not directly related to city finances, like a recent “60 Minutes” segment on Chicago’s spiking violent crime rate. “Those kind of things don’t help, even though they are very indirectly related to finance,” he said.

But Ciccarone praised the mayor’s efforts to fix the pension systems, reduce the city’s annual budget funding gaps, rely less on short-term borrowing and beef up city budget reserves. “The city moved forward in 2016 on making real incremental progress,” he said.

The City Council signed off last year on the latest round of borrowing, but the scoop-and-toss total is about $100 million higher than Emanuel finance aides told aldermen was in the works. The dollar amount went up because plans to refinance about $100 million in debt to save money were no longer possible after a recent rise in municipal bond interest rates, budget spokeswoman Molly Poppe said. The city still plans to refinance about $25 million.

Some specifics about the $1.2 billion borrowing plan:

•$440 million in scoop-and-toss borrowing, a long-term delay tactic that adds millions of dollars in interest costs to be paid by taxpayers over the next 20 years.

•About $225 million to pay legal settlements and court judgments. Other cities with sounder finances pay such costs without borrowing that adds millions of dollars to the taxpayer tab.

•About $405 million for construction projects and equipment, including new police vehicles.

Poppe defended the city’s plans to borrow money to cover some of the initial interest costs, saying that’s “common practice” in cases where cities don’t anticipate the construction projects financed by the borrowing to be completed for a while. That way, “debt service expense does not begin until the project is operational and benefiting communities,” she said.

Laurence Msall, president of the nonpartisan Civic Federation budget watchdog group, lauded Emanuel’s pledge to end borrowing for scoop-and-toss and legal settlements and judgments, but expressed some skepticism as to whether the mayor could keep the promise.

“Even if the city is able to end most borrowing for operations by 2019, it faces significant financial challenges that could make it difficult to maintain its commitments in the future,” said Msall, who called on Emanuel to “present a plan” for covering future debt service payments and paying off legal settlements and judgments.

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