# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Emanuel's Short-Term Budget Solutions Will Cost $1 Billion In Interest.

For years, Chicago has patched up budget deficits with long-term borrowing — an expensive habit that Mayor Rahm Emanuel inherited, perpetuated and has vowed to break.

But a Tribune analysis of the city's latest bond sale, a $1.2 billion offering earlier this year, shows that the mayor will continue to run the city with borrowed money, at great long-term expense, through the rest of his term in 2019.

Among the findings of that analysis:

•The majority of the money will be used for budget relief and come at a very high cost. Almost all of the additional costs, however, do not kick in until after the end of Emanuel's current four-year term. By paying only interest for the first several years of the loan, Emanuel can use the funds borrowed this year to smooth out budgets through 2019 at minimal expense.

•Some of the money will be used to refinance previous borrowing but at a higher interest rate. The main advantage for the city is that it kicks the costs further into the future. In all, taxpayers are on the hook for $1.1 billion in interest on the loan, which will cost $2.3 billion to repay over 20 years.

•The city will continue to rely on borrowed money to pay legal settlements, turning to a new stockpiling strategy rather than trying to pay these costs out of its regular operating revenues as many municipalities do. Borrowing this way adds $120 million in interest costs to the $225 million set aside for settlements.

The city portrays the new $1.2 billion in borrowing as a turning point, saying it will no longer restructure old debt to push costs into the future at greater expense. That tactic, known as "scoop and toss," has been widely criticized as a desperation move during the terms of Emanuel and his predecessor, Mayor Richard M. Daley.

City Budget Director Alexandra Holt told the Tribune: "It is the last time we are borrowing for scoop and toss. It is the last time we are borrowing for routine settlements and judgments."

The Tribune detailed Daley's reliance on debt in its 2013 investigative series "Broken Bonds," which showed how the mayor built his political legacy through spending then left taxpayers with a huge debt to pay. The city's massive liabilities, which also include unpaid pension obligations, have driven down the city's credit rating and made it much more expensive to borrow money. Chicago's general obligation bond ratings fell below investment grade in 2015 and remain at junk status.

Carole Brown, the city's chief financial officer, said January's bond sale is intended to show investors and municipal market analysts action on Emanuel's financial reform agenda. The mayor recently urged Moody's Investors Service to reconsider its low opinion of Chicago's creditworthiness or withdraw its public ratings of the city, arguing in a December letter that the city is on a path to financial stability.

But experts say that, given Chicago’s history of borrowing, pension burden and continued struggles to balance its budgets, there can be no certainty the city can make good on promises to end its bad habits.

Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics, said he is not convinced that the city has its budget problems solved and that it won’t need to scoop and toss old bonds or borrow for judgments and settlements in the future to make ends meet.

“That is the promise from the mayor, and you can’t fully dismiss that promise, but as an investor you have to assume they will do this again.” Fabian said.

“We all know that the city does not have any extra money, so it makes sense that they would finance what they are going to do,” Fabian added, “but this is a cost of the city not having liquid resources elsewhere. This is an example of in America why poor people fall farther behind, because they are forced to finance things that other people would just pay for.”

By using bond funds to close its budget gaps, the city can spare residents from further tax increases and avoid more painful cuts to city services in the short term, said Jason Horwitz, the Chicago-based director of public policy and economic analysis for Anderson Economic Group.

But Horwitz said the tactic comes at a high price and essentially guarantees future budget deficits or tax increases, as debt payments pile up for years to come.

“Borrowing more and accumulating more debt has been an expensive choice,” he said. “I think the fact the city has drawn out its fiscal problems has made it much more difficult to find remedies.”

Of the $1.2 billion the city borrowed, $687 million will go to help close its budget gaps through 2019, including debt payments that are coming due and anticipated legal claims. Just $365 million will go to municipal bonds’ more traditional uses — city maintenance, construction and equipment.

Payments on the massive deal are limited to just over $130 million through the next mayoral election. In a particularly complicated move known as “capitalized interest,” the city is using $77 million of the borrowed money to pay interest costs on the loan through 2019. That strategy lowers debt costs for several years but increases the amount that must be repaid, adding more than $87 million in interest.

Since Emanuel took office in 2011, the city’s general obligation bond liabilities have increased dramatically. The city now owes $18.1 billion in payments on $9.8 billion in debt, up from $13.2 billion on $7.2 billion in 2011.

Debt service on all of Chicago’s outstanding general obligation bonds totals $500 million this year, but in 2020 — after the mayoral election — it will grow to more than $900 million. Payments then do not decline significantly until after 2036.

Asked how the city will balance its budgets in those years, budget office spokeswoman Molly Poppe said officials will continue to cut costs through spending reforms and find other available revenues.

Holt said the size and structure of the borrowing was necessary because the city would not be returning to the bond market for several years and needed to be prepared for a variety of costs.

“We need to be prepared to pay for expenses, whether they are fixing bridges or repairing the lakefront or fixing the roofs on buildings or paying judgments and settlements or buying a new fire engine — all of that stuff needs to be paid for, and we do our planning ahead of time,” she said.

In a 2015 speech to civic leaders, Emanuel promised that Chicago would begin to pay for more of the city's routine judgments and settlements with operating funds, preserving its long-term debt for the other more common uses of municipal bonds mentioned by Holt.

Indeed, the city plans to use operating funds to pay for all of its 2016 judgments and settlements, which are expected to total roughly $110 million, according to the budget director. That would be the first time since Emanuel took office that no debt would be issued to pay for legal liabilities. According to the city's online financial records, since 2006 the city borrowed to pay a portion of its legal claims every year through 2015.

But this year's bond deal also includes $225 million set aside for future liabilities. In other words, although this could be the last time Chicago borrows money to make these payments, it expects to use borrowed money for that purpose for some years to come — a strategy that adds huge interest costs to each legal claim.

For instance, if the city uses the stockpiled funds to pay $1.8 million in new legal settlements that the City Council approved last month, interest costs would boost the total outlay to $2.8 million, according to the Tribune's analysis.

Including the new bonds, the city has borrowed just under $1 billion for legal costs since 2006, of which $664 million came under Emanuel's watch.

According to Fabian, using some of the borrowed money to stockpile funds to pay for unidentified future liabilities was an expensive and risky budget gimmick that may suggest city leaders fear they may have trouble selling more debt in the future. Brown told the Tribune that the city is not concerned about losing access to the municipal bond market.

Richard Ciccarone, president of the municipal bond research company Merritt Research Services, said the city was being closely watched for progress on the mayor's debt reform agenda, and he was surprised that plan had evolved to borrowing in advance for legal liabilities.

"I think we assumed they would pay off legal liabilities known to them at this time and begin to pay them off going forward with current funds as a pay-as-you-go," Ciccarone said. "The stockpiling for the future might not be the spirit of the way this was understood by many analysts or investors.

"On the positive side, it does provide a contingency for unexpected difficulties that may occur, especially some very highly visible and contentious situations in Chicago both on the law enforcement side as well as the issues involving labor," he said.

The size and scope of Chicago's repeated borrowing to pay for legal claims is extraordinary, according to Ciccarone, who said most cities borrow only occasionally for that purpose — such as when the cost comes unexpectedly or is too large to be paid from available resources.

Ald. Scott Waguespack, 32nd, who sits on the City Council's Finance Committee, said paying more than $100 million in interest to borrow for the city's future judgments and settlements was more than he expected. But specifics about the deal — why the city was borrowing for legal claims, how much it would cost — were hard to obtain from the mayor's finance team, he said.

"They kind of argue that this is what we are going to do, and that is all there is to it," Waguespack said. The bond sale was approved without opposition by the City Council in October.

Brown and Holt said that they spent extensive time briefing the council on the bond issuance and that aldermen were aware of the high cost of the borrowing and how the funds would be used.

Another pledge Emanuel made in his 2015 speech was that the city would end “scoop and toss” refunding by 2019. However, the Tribune found that the latest deal includes refinancing of bonds that would have come due between 2020 and 2022, for a total of just under $50 million in old debt. All of the restructured bonds have higher interest rates and the majority have longer maturities — the hallmarks of scoop-and-toss deals.

Most of that debt — $33 million — would have been paid in 2020. Poppe said the restructuring of those bonds meets the mayor’s 2019 deadline because these bonds would have been accounted for in the 2019 budget, despite maturing in 2020.

As for the remaining bonds, she said the debt coming due in 2021 and 2022 is being refinanced using new bonds that will be repaid in the same year as the old bonds, so it is not a scoop and toss. However, the new bonds have a higher interest rate, 7.0 percent compared with 5.6 percent, leading to a small increase in cost.

**The Chicago Tribune**

by Peter Matuszak

March 21, 2017

pmatuszak@chicagotribune.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com