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Chicago Faces Lowest Budget Gap Since 2007 in Coming Fiscal Year.

- **Pension bills will more than double over next 20 years**
- **Pension debt shrank to \$28 billion after stepped up payments**

Chicago next year will see its smallest budget deficit since 2007, a boost for the nation's third-largest city as it prepares to confront escalating pension bills.

The city is projecting a 2019 shortfall of \$97.9 million, according to an annual financial analysis released Tuesday. That marks the eighth straight year of narrowing deficits. Chicago will pay \$1.18 billion to its four retirement funds in fiscal year 2019, which is up from \$1 billion last year, according to the report. Those payments will more than double over the next 20 years, reaching an estimated \$2.9 billion in 2039, the report shows.

"The City of Chicago is on firmer financial footing today because of the progress we have made together to eliminate the risky financial practices of the past, address our pension challenges, and reduce our structural budget deficit," Mayor Rahm Emanuel said in a letter at the start of the report. "This low structural budget deficit is expected and manageable in a government with a nearly \$4 billion operating budget."

Chicago's progress comes as municipal-credit quality overall seems to be improving. State and local governments are reaping the benefits of the second-longest economic expansion on record. Minnesota and Michigan recently won rating upgrades, and Illinois and Chicago had their outlooks lifted to stable from negative this month.

Emanuel has made progress, pushing through higher property taxes and utility levies to shore up the city's retirement funds that were on track to run out of money. His plan has the public safety pensions on track to be 90 percent funded by the end of fiscal year 2055, and the municipal and laborers pensions at that level by the end of 2058. As of Dec. 31, the four funds were only about 27 percent funded, after years of inadequate contributions.

Moody's Investors Service, which still considers Chicago junk, cited the city's tax hikes in its revised outlook. Given the levies, Chicago won't face "significant budgetary obstacles" in the next two to three years to cover its rising pension payments, according to Moody's.

The four pension funds were short \$28 billion as of Dec. 31, according to the city's 2017 comprehensive annual financial report. That shortfall eased from the previous year when they were short more than \$35 billion. The city's move to require higher contributions to the funds led to an increase in the discount rate. That change and other assumptions helped lower the net pension liability, the report noted.

"All in all, the city of Chicago is in a better structural position than prior years," said Laurence Msall, president of the Civic Federation, which monitors state and local finances, "but it will continue to face revenue and expenditure pressures resulting in projected growth in future deficits."

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