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Emanuel's Final Budget Won't Include $10B Pension Borrowing, But It's Not Dead.

Mayor Rahm Emanuel's final budget will not include a controversial $10 billion pension borrowing, but that doesn't mean he has shelved the massive borrowing tailor-made to minimize the need for another punishing round of post-election tax increases.

Chief Financial Officer Carole Brown said it was never the mayor's intention to tie the pension borrowing and the budget together.

The plan was to do them separately, with the borrowing coming first.

That timetable was dramatically altered on Sept. 4. That's when Emanuel touched off the political equivalent of an earthquake by choosing political retirement over the uphill battle for a third-term.

"When that changed, the conversation internally and externally changed because we start making sure that we're all focused on the right priorities because we know we have a finite amount of time," Brown said.

"It's never just about the math because the math works. It's about timing. … It's about having other things that we have to get done like the budget and what Council and others want to be focused on."

Now a final decision on the pension borrowing has been put off until after the City Council approves what Brown described as a "pretty vanilla" budget with no new taxes and fees.

Meanwhile, interest rates have started to rise, cutting into the potential savings.

Brown still believes the $10 billion borrowing "makes financial sense if we can achieve the right rate."

"Whether or not we do this, the next administration will be faced with how to pay more than $277 million in pension payments next year. It's what they're gonna be looking at when they do their 2020 budget," she said.

"If we can come up with a financially sound way to stabilize our pension funds while we still make contributions, but make those contributions more manageable over time and lower the cost of funding our pensions, I don't know why we wouldn't consider it."

Emanuel's lame-duck status has emboldened aldermen who have taken a series of tough votes just to begin to solve Chicago's $28 billion pension crisis.

It's not at all clear whether he still has the juice to push the pension borrowing through the City Council.

Brown acknowledged that "your political capital changes when you're not running for re-election."

But she also said that “a lot” of incumbent aldermen seeking re-election “understand the difficult choices they’re gonna have to make” next year and “the benefits” of the $10 billion borrowing “and would be supportive of it.”

Ald. Joe Moore (49th), an Emanuel ally, said he’d like nothing more than to minimize the post-election pain for Chicago taxpayers.

They have already endured a parade of property tax increases for police, fire and teacher pensions, two increases in the monthly tax tacked on to telephone bills and a 29.5 percent surcharge on water and sewer bills.

“Most of my colleagues are expecting to come back next year. If at all possible, they’d like to avoid what will be a very difficult choice in how we close that pension gap and avoid going off the cliff. But you don’t want to repeat the mistakes of the past,” Moore added.

“If it doesn’t cost us money in the long run, we should do whatever we can that’s fiscally responsible to avoid the big hit. … But, with interest rates rising, I don’t know how feasible it will be.”

After a five-year ramp-up to actuarial funding ends, Chicago taxpayers will be on the hook to keep city employee pension funds on the road to 90 percent funding.

By 2023, the city’s contribution to all four funds will nearly double — from $1.2 billion this year to $2.1 billion, according to the city’s annual financial analysis.

The $10 billion pension borrowing is tailor-made to minimize the need for another punishing round of post-election tax increases.

Days before pulling the plug on his re-election bid, Emanuel offered a spirited defense of the pension borrowing plan. Mayoral candidate Paul Vallas, meanwhile, has warned it would put Chicago taxpayers in a “financial straitjacket.”

Municipal finance experts also have raised concerns about Emanuel’s plan, pointing to pension-bond defaults in Detroit, California and Puerto Rico.

They wonder what would happen if the market tanks and what specific city revenue would be used to back the bonds, now that Emanuel has isolated sales tax revenue in a special fund and used that “securitization” structure to refinance $3 billion in city debt.

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By Fran Spielman

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