
Emanuel Makes Strong Pitch for $10B in Pension Bonds.

Arguing that the window of opportunity may soon close, Mayor Rahm Emanuel urged the City Council on Wednesday to sign off on a $10 billion pension borrowing to save beleaguered Chicago taxpayers “as much as $200 million” in his successor’s first budget.

Standard & Poor’s has warned that pension obligation bonds “in environments of fiscal distress or as a mechanism for short-term budget relief” could threaten Chicago’s BBB+ bond rating.

Mayoral candidate Paul Vallas has portrayed the pension borrowing as a financial “straight-jacket” that will tie the next mayor’s hands.

Municipal finance experts have also raised concerns, 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.

But Emanuel argued Wednesday that not issuing pension obligation bonds was equally risky and, in fact, a missed opportunity to minimize the pain from another punishing round of post-election tax increases.

He’s so convinced of that argument, the mayor introduced an ordinance at Wednesday’s Council meeting setting up the structure for issuing up to $10 billion in pension obligation bonds in the event that aldermen decide to follow his lead.

“We can refinance a portion of that debt at lower rates, locking in savings of as much as 2.5 percent over 40 years. Now, that works out to between $6 billion and $7 billion in savings for Chicago taxpayers,” Emanuel said.

“It is not more debt. It is the same amount of debt, but at a much lower and cheaper cost to taxpayers and the city . . . We would decrease the amount of projected new revenue that will be required over the next 50 years just to fund pensions by almost $7 billion. We would save Chicago taxpayers as much as $200 million in the city’s next budget, without creating any more total debt than we have today.”

Although robust debate should follow introduction of the mayor’s ordinance setting up a borrowing structure for pension stabilization bonds, Emanuel argued that there is “not an endless amount of time.”

Interest rates are going up. The fed chairman “has indicated they will hold steady, but we do not know for how long,” Emanuel said.

“There is a window in the market today for this to work. At some point, that window will close,” the mayor said.

“I know this plan has risk. The truth is, there is risk in every choice and there is a risk if you do nothing. The question is, which calculated risk is worth taking for the benefit gained?”

Although the state issued pension bonds in 2003, billions of dollars of the proceeds were used to “plug operating holes” in the state budget, the mayor said. He called it a classic “bait-and-switch.”

His plan is different. It has safeguards.

“Under this structure, all proceeds must go directly, immediately into a lockbox for the city’s pension funds to be invested. Nowhere else,” the mayor said.

“Unlike the state’s pension bonds, this is part of a broader plan with specific dedicated revenue sources backing up the bonds. The state bonds were not backed up by any specific revenue for the pensions. [And] it is based on realistic projections. Through ups and downs in the market, there has never been a 30-year period when pensions have not earned at least an 8 percent return on their investments.”

Chicago taxpayers have already endured a $2 billion avalanche of tax increases just to begin to solve the city’s daunting pension crisis. But the boom will be lowered again shortly after the new mayor and City Council are sworn in.

After a five-year ramp 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 obligation will smack the next mayor and City Council in the face. In 2020, the city will need another $276 million in new revenue to pay for higher police and fire contributions.

In 2022, new revenue for the Municipal and Laborers pension funds is projected to increase by $310 million.

Arguing that the “mantle of progressivity must not just be more taxes on the wealthy,” Emanuel talked about a few alternative revenue sources already popular with the crowded field of mayoral candidates vying to replace him.

If the Illinois General Assembly legalizes recreational marijuana and ends Chicago’s elusive quest for a land-based casino, any revenue derived from both should be devoted exclusively to pensions, the mayor said.

But he also acknowledged that he is not 100 percent sold on recreational pot , which Gov.-elect J.B. Pritzker has vowed to lead the charge to legalize.

“I believe recreational marijuana has social costs that must be considered. And like a casino, revenue would take time to be realized,” the mayor said.

“But if the state goes down that path, those resources can and should be used to further solidify our pensions without asking more of Chicago taxpayers. If we take all of these steps — from a consideration model to amending the constitution to issuing bonds to a casino to recreational marijuana, we will dramatically reduce what is asked of our taxpayers.”

When Emanuel ended what will likely be his last major policy speech to the City Council, aldermen responded with mild applause. It was hardly a rousing endorsement.

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