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## **Emanuel to Push for Constitutional Amendment to Solve Pension Crisis.**

Mayor Rahm Emanuel on Wednesday will put his waning — but still formidable — political muscle behind a constitutional amendment to ease a \$1 billion spike in pension payments that will confront his successor.

Sources said Emanuel will also urge the City Council to start debate on his stalled plan to borrow \$10 billion to fund pensions — by setting up the legal structure that will allow bonds to be sold if aldermen decide the move could minimize the need for another punishing round of post-election tax increases.

Mayoral candidate Paul Vallas has portrayed the pension borrowing as a financial “straight jacket” that will expose taxpayers to even greater risk.

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.

“There’s a lot of volatility and uncertainty on investment returns. ... If you borrow at 5 percent and only earn 3, you’ve made the problem bigger,” a municipal finance expert, who asked to remain anonymous, said Tuesday.

“The massive number would also impact the city’s ability to borrow for routine infrastructure needs,” the expert said.

The Illinois Constitution’s pension protection clause states those benefits “shall not be diminished or impaired.” It’s why the Illinois Supreme Court overturned Emanuel’s plan to save two of four city employee pension funds.

Mayoral candidate Bill Daley has already argued that it’s high time to amend the state constitution.

On Wednesday, Emanuel will join him.

“What kind of progressive, sustainable system guarantees retirees 3 percent annual compounded pay increases when inflation has been at basically zero and current employees have, at times, been furloughed, laid off or received 1 percent raises?” Emanuel was prepared to ask, according to excerpts of his speech released by the mayor’s office.

“A 3 percent compounded COLA in an era of low inflation is not progressive and not sustainable. It made sense in 1970 when we had more workers than retirees and high inflation. But it does not make sense today.”

Arguing that the “mantle of progressivity must not just be more taxes on the wealthy,” sources said Emanuel will suggest a few alternative revenue sources already popular with the crowded field of 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 will say. Emanuel has supported a Chicago casino since 2011.

But, he will not "push" the General Assembly to legalize recreational pot, well aware that Gov.-elect J.B. Pritzker has vowed to lead the charge. The mayor will also argue that recreational pot and a Chicago casino are "not solutions in and unto themselves," sources said.

"Amending the state constitution to allow for both a progressive income tax and new agreements with labor is an important step towards fiscal stability and progressivity," the mayor was prepared to say.

"Coming at this challenge from both sides — reform and revenue — is the clearest path out of this challenge ... and the fairest. I said that when we started our discussions with labor almost eight years ago. I believed it then. And I believe it today."

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 after the election.

That's because, when 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.

"In 2020, just around the corner, 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. These contributions must be made," Emanuel is prepared to say.

"Whatever the results of the coming election, we cannot afford to return to the politics of the past ... where promises are made without the means to fulfill them. We cannot allow the boulder we pushed up the hill to roll back down."

Ald. Pat O'Connor (40th), the mayor's City Council floor leader, said it makes sense for Emanuel to frame the pension debate with a call for a constitutional amendment.

"That was an idea that both the city and many of our partners in labor had embraced during the course of the negotiations previously," O'Connor said Tuesday.

"Many unions saw that as a necessary evil to preserve the pension structure. ... It was acceptable then, and, if there's a chance that those pensions could go away if these things aren't corrected, it would probably be a route forward-thinking people would accept."

To get on the ballot, a constitutional amendment needs a three-fifths vote from the Illinois General Assembly. A constitutional convention "shall be called if approved by three-fifths of those voting on the question or a majority of those voting in the election," the constitution states.

Civic Federation President Laurence Msall said he can only hope the mayor's plan is "comprehensive and sustainable" and "does not simply push payments into the future."

"The city should identify specific revenues and avoid gimmicks or on-paper savings," Msall wrote in an email to the Sun-Times.

“It needs to be a plan that city officials revisit on a regular basis. It should not be a ‘one-and-done’ plan. The city should also publicly release an actuarial analysis of any plan, with stress testing. The Civic Federation remains concerned that pension obligation bonds could be a part of the forthcoming plan.”

**The Chicago Sun-Times**

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