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Chicago Eyes Refinancing, Pension Bonds With Rebound Elusive.

- **City is looking at ways to cut debt service to ease budget gap**
- **Chief financial officer says refinancing may save \$100 million**

Chicago is looking to the \$3.9 trillion municipal-bond market for options to close its ballooning budget deficits, Chief Financial Officer Jennie Huang Bennett said.

Options on the table include selling pension obligation bonds, as well as refinancing general obligation and sales tax-backed bonds, Bennett said in a telephone interview on Wednesday. The refinancing of a yet-to-be-determined amount of debt is targeted for the fourth quarter, she said, adding it could save as much as \$100 million in the 2020 budget.

Mayor Lori Lightfoot on Monday projected that the 2020 deficit in the corporate fund, which accounts for most services the city offers, would expand to almost \$800 million from a June projection of \$700 million. The gap would reach \$1.2 billion in 2021 with revenue losses connected to the Covid-19 pandemic making up 65% of the hole. A complete budget proposal will be released in October.

The city has mulled pension obligation bonds in past years. Former Mayor Rahm Emanuel had considered issuing \$10 billion of them to cover rising costs of public employee retirement funds. The pension costs have weighed on the city's credit rating for years with Moody's Investors Service giving the city a junk rating in 2015. The city's unfunded retirement liability stands at about \$30 billion.

"Everything is on the table," Bennett said. "We've spent time analyzing a pension obligation bond, what the pros and cons are and have had a number of conversations about what that could mean for the city."

Risky Bet

Pension obligation bonds come with risk, especially for Chicago. Proceeds from the sale would need to be invested in such a way that returns exceed the bonds' fixed interest rate, a tough target given how much the city pays in yield penalty because of its fiscal troubles. Pension bonds contributed to municipal bankruptcies in Detroit as well as Stockton and San Bernardino in California. The Government Finance Officers Association has advised against them.

It's premature to discuss the size of any potential pension bond deal because the city still hasn't decided whether these bonds will be used, Bennett said. Any discussion about pension obligation bonds should be paired with potential reforms for how the city pays for retirement costs and what benefits are provided, she said. Bennett declined to comment on specifics for reforms but said the city plans to have conversations with groups including beneficiaries.

"We ought to work on the solution together as it relates to how we make sure that the pension funds

remain healthy financially,” Bennett said. “That conversation is really important with the rating agencies in demonstrating that we have a credible path forward” for financial sustainability for pensions, she said.

Hiring slowdowns, changes to procurement and contracts and new revenue sources are also under consideration to fill the budget shortfall, she said. Raising property taxes is toward the end of the list, she added.

Washington Help

Meanwhile, the city doesn’t expect revenue to begin recovering to pre-pandemic levels until early 2022, according to its baseline scenario. Before the virus hit, the city had planned on reaching a so-called structural balance in 2022 but now that target appears to be later.

States and municipalities across the country are pushing Congress to come to an agreement that includes aid for governments trying to make up for revenue losses. Illinois is counting on additional federal aid and loans from the Federal Reserve’s Municipal Liquidity Facility of up to \$5 billion to balance its budget. The Chicago Board of Education last month approved a budget that assumes \$343 million in additional federal funding.

Chicago has not yet determined how much additional federal aid it will incorporate into its spending plan because the final agreement may or may not pass before the city’s budget proposal is released in October, Bennett said. The city is actively looking at contingency plans in case more federal stimulus doesn’t come through, she said.

“Ultimately, we are going to have to make some hard choices,” Bennett said. “What’s really important is federal stimulus.”

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