

Bond Case Briefs

Municipal Finance Law Since 1971

Chicago Projects \$2 Billion Deficit Through 2021 on Pandemic.

- **2021 gap seen at \$1.2 billion and nearly \$800 million in 2020**
- **Mayor Lightfoot warns of layoffs, calls for more federal aid**

Chicago faces a 2021 budget deficit of \$1.2 billion as the coronavirus pandemic decimates the city's revenue with businesses shut down due to social distancing while recent unrest hurt reopening efforts.

Next year's projected gap comes on top of a 2020 deficit of nearly \$800 million for its corporate fund, which accounts for many of the services the city provides, Chicago Mayor Lori Lightfoot said on Monday. That's up from a June forecast of \$700 million because rising virus cases have hampered the city's recovery. Lightfoot called for additional federal stimulus for states and cities and stressed in prepared remarks that Chicago is struggling with "a catastrophic collapse of our local and national economy."

Revenue losses spurred by the pandemic are the biggest factor hobbling city finances in 2020 and 2021, she said. To make up for the gaps this year and next, Lightfoot's administration will likely need to cut headcount, control spending, refinance debt, borrow and ask for more federal aid. The city has not ruled out raising property taxes and is also looking at a personal property levy on computer leases, which may help raise money as telework expands.

"This is the reality of a budget deeply impacted by this horrible virus," Lightfoot said in prepared remarks.

The pandemic is exacerbating the challenges for the city that's seen retirement costs climb and financial stress build up for years, factors which led Moody's Investors Service to give Chicago a junk rating in 2015. The corporate fund contributions to pensions will increase \$91.4 million to \$426.9 million next year. Chicago's total 2021 contributions to its four pension funds will reach \$1.8 billion from \$1.7 billion this year, according to budget documents.

Purely Covid

"Astounding and quite staggering as those numbers are, they are kind of in line with what we've been expecting," said Ty Schoback, senior analyst for Columbia Threadneedle Investments, which owns Chicago debt as part of its \$16 billion in muni assets under management. "As a bondholder what we look for is budget solutions that are longer-term in nature."

The city has identified \$550 million, including up to \$350 million in funding from the CARES Act and at least \$200 million from debt refinancing, to help close the 2020 shortfall.

Chicago's confirmed virus cases, which have disproportionately hit black and brown communities, are above 71,000 and climbing back to concerning levels. Deaths stand at more than 2,800. Business activity is still limited to curb the spread of the virus, and protests since May have led to looting and

violence in key commercial corridors and impoverished neighborhoods.

About 65% of next year's budget gap is "purely" due to Covid-19-related revenue loss, and the city continues to work toward structural balance, according to Chicago Chief Financial Officer Jennie Huang Bennett.

No Bankruptcy

Among the financial solutions to close the gap could be pension obligation bonds, which are a vehicle to spread out and defer payments in future years, along with reforms, Bennett said in response to reporters' questions on Monday. She quashed the notion of Chicago filing for bankruptcy because she said it doesn't solve the city's problems. Bennett also said the city currently isn't looking at the Federal Reserve's Municipal Liquidity Facility because it could access the bond markets at better rates if needed.

"This disease has forced a seismic disruption of our economy, and — as a consequence — our city's finances," Lightfoot said during her remarks. "Also affecting the recovery was looting and damage to our businesses that occurred three months ago and again more recently."

Meanwhile, the costs of Chicago's health and social services are growing as Lightfoot's administration works to curb the spread of Covid-19, reassure businesses that it's safe to operate in Chicago and rejuvenate communities with scant investment for decades.

More than 900,000 Chicago-area residents have filed for unemployment since the pandemic began and the region's unemployment rate has risen to 12.6% from 3.6% in February. Sectors such as hospitality, convention and tourism and personal services are among the hardest hit by shutdowns.

'Exceptionally Large'

"Many are still seeing a fraction of their typical revenues and some businesses have sadly closed with no hope of coming back," Lightfoot said. "While we are fortunate to have a diverse economy, nonetheless, the significant loss of revenues in these areas continues to be felt now and likely deep into 2021," she said referring to tourism, hospitality and transportation.

In early July, the city pegged the economic cost of canceled conventions and similar events at \$900 million, according to Moody's. Lightfoot reiterated her call for more federal stimulus for municipalities like Chicago. Lightfoot said even amid a campaign season leading up the November election she's advocating for a bipartisan solution.

"The fiscal gap that Mayor Lightfoot announced is exceptionally large and absent new federal help there are no easy solutions for Chicago," said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about \$50 billion in municipal securities under management. "The weight of the city's debt and unfunded pension liabilities severely limit the mayor's flexibility to cope with budgetary impact of the pandemic and the recession. The mayor didn't create any of those problems but they are now hers to manage."

Bloomberg Politics

By Shruti Singh

August 31, 2020, 12:42 PM PDT Updated on August 31, 2020, 4:17 PM PDT

