

# **Bond Case Briefs**

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## **Chicago Poised for Painful Choices to Close Record Budget Gap.**

- **Junk-rated city's deficit expands to \$1.2 billion in 2021**
- **Mayor Lightfoot to unveil budget proposal on Wednesday**

Mayor Lori Lightfoot on Wednesday will lay out how she plans to close the largest budget gap in Chicago's history as Covid-19's resurgence threatens to hobble the junk-rated city's recovery in the years ahead.

Spending cuts, increases to property taxes, pension obligation bonds and debt refinancings have all been under consideration to close the record \$1.2 billion deficit for fiscal 2021 in the corporate fund, the main vehicle used to pay for services the city provides and other operating expenses. That comes after a nearly \$800 million gap this year.

"We are facing a stark reality," said Christopher Mier, a managing director for Loop Capital Markets, whose investment-banking clients include Chicago. "I expect the mayor will confront that reality head on and seek the best solutions in difficult circumstances."

While cities across the country are confronting revenue declines and deficits, Chicago's pain is more acute because its finances were strained even before the pandemic exacerbated its budget shortfall. Pension costs have weighed on the city's credit rating for years, which partly spurred Moody's Investors Service to downgrade the city to junk in 2015. And those bills are climbing. Chicago's four retirement funds are short about \$30 billion, and the city's projected pension contribution climbs to about \$1.8 billion for the coming year.

### **'Unprecedented' Pressure**

S&P Global Ratings, which rates Chicago three levels above junk, lowered the city's outlook in April to negative because of the "unprecedented" pressure from the pandemic and recession. The credit rater is focused on the balance between one-time versus ongoing fixes, funding levels of pensions and any potential use of reserves, said Jane Ridley, an S&P credit analyst.

"What we are looking for is how they set themselves up in 2021 to handle 2022, particularly from a structural standpoint," Ridley said in an interview. "How many of the budget solutions are one-time versus structural?"

Lightfoot will present the second budget of her administration during a Chicago City Council meeting that starts at 10 a.m. local time. The city has been weighing a variety of options, including earlier this month targeting up to \$200 million in labor cuts, according to a source familiar with the talks who asked not to be named. City officials this week declined to confirm speculation about property tax hikes and other measures.

"During this unprecedented time when we're facing the largest deficit in the City's history, we plan to present a fiscally responsible budget that is fair, inclusive and rooted in our values," according to

a statement from the Office of Budget and Management on Monday.

## **Virus Resurgence**

Despite the shortfall, Chicago doesn't expect to tap the nearly \$900 million in its reserves to close its budget holes this year and next, Chief Financial Officer Jennie Huang Bennett said last month. The city was not looking for additional lines of credit and consideration of pension-obligation bonds would need to include reforms to the liability, according to Bennett.

The city is also seeking help from the cash-strapped state, which is facing its own budget shortfall of more than \$4 billion. Chicago wants Illinois to increase the amount the city receives from the local government distributive fund, which provides a designated portion of state income tax revenues.

Chicago's budget presentation comes as the city is seeing an increase in coronavirus cases, adding uncertainty to the economic outlook. On Monday, Lightfoot outlined how Chicago is seeing a "second surge" with cases rising more than 50% over the past two weeks to about 500 daily, according to the city's health department. It's the highest daily case count since late May.

Given the uncertainties around the pandemic and federal help, the city's management has taken a "conservative" approach to revenue, said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Chicago bonds among \$40 billion in municipal assets. It should not rely too heavily on federal or state aid as it faces various unknowns, Derby said.

"The trajectory of a recovery is fairly unknown at this time," Derby said in an interview. "It's up in the air. We don't know how long this is going to go on for. We don't know the long-term effects."

## **Bloomberg Politics**

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October 21, 2020, 3:00 AM PDT