

# City of Chicago

## A Tale of Two Credits

Carole Brown, Chief Financial Officer



Presentation to:

Northeast Women in Public Finance

December 7, 2016

---



# City Financial Condition – Past

The City was in a difficult financial position in 2011

Issues	Description
Prolonged inability to cover current year's expenditures with current year's revenues	\$654.7 million deficit
Overdependence on one-time sources, such as proceeds of lease concessions and reduction of financial reserves	Long-term reserves reduced by over \$500 million from 2009 – 2011
Political difficulties of increasing revenues	No significant property tax increase since 2007
Overdependence on long-term debt for operating expenses and high debt burden and slow amortization of existing debt	Scoop and toss practiced since 2006
Trend of weak pension funding levels worsening	37.9% aggregate funded ratio, contribution of only 31.5% of ARC, no approved plan for reaching ARC
Variable rate debt and swap exposure	\$1.2 billion in outstanding variable rate debt and related swaps
Sluggish economic recovery	11% unemployment, 0.5% GDP growth

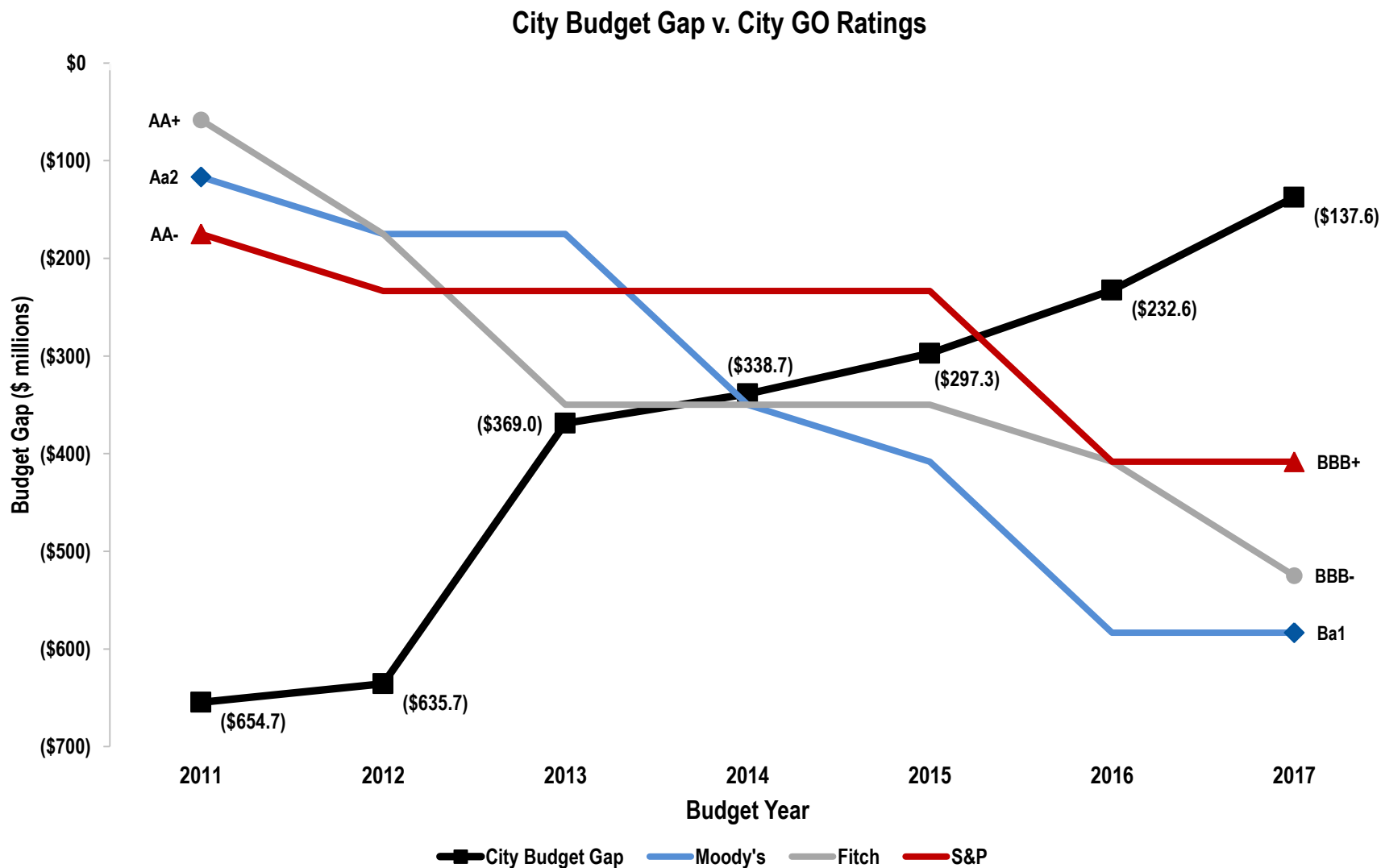
## City Ratings – 2011

Fitch	Moody's	S&P
AA-	Aa3	A+



# City Actions Versus City Ratings

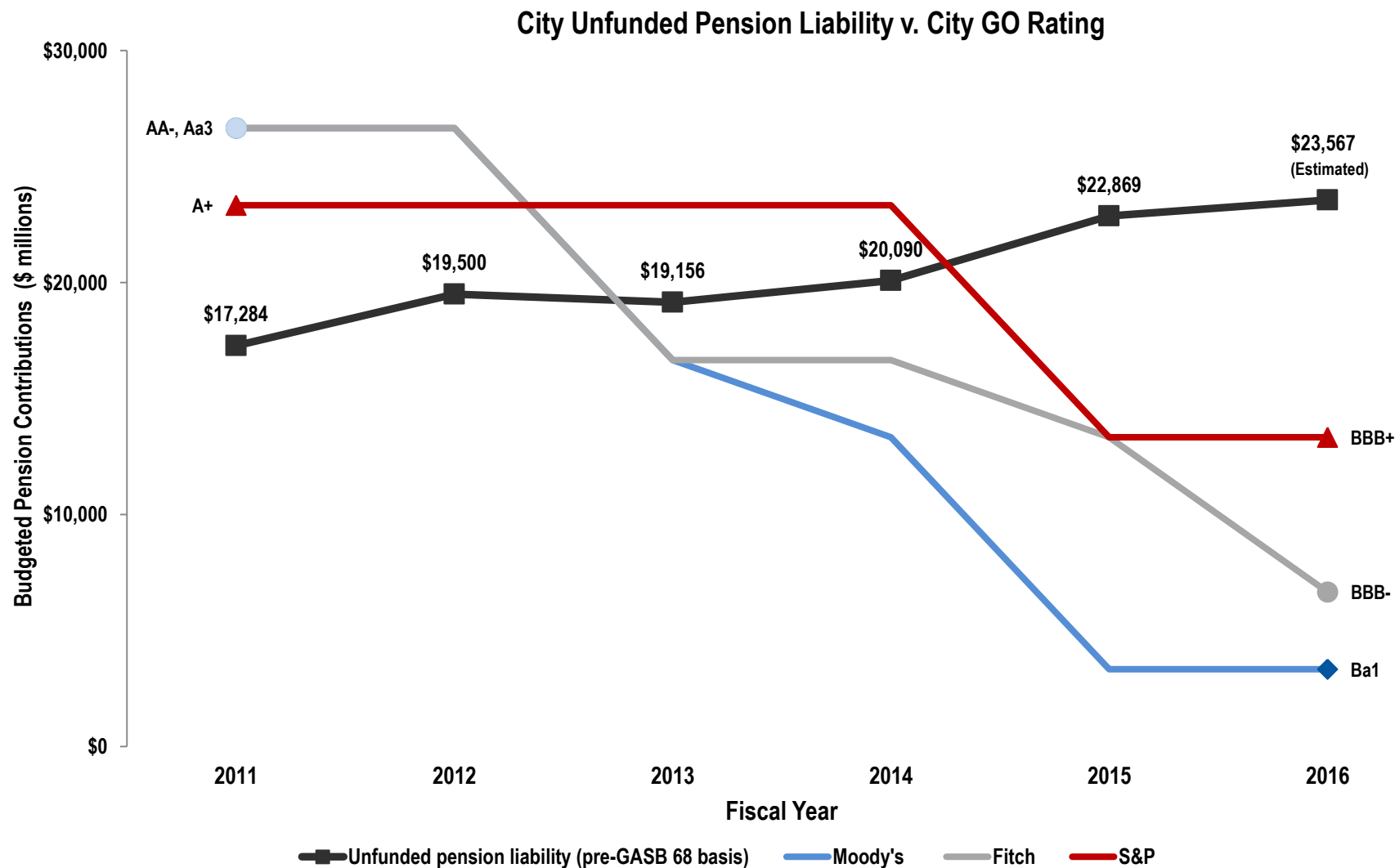
The City's budget gap reduced by nearly 80% since 2011, while its average credit rating has moved from AA to BBB





# City Actions Versus City Ratings

The City has dedicated and recurring funding sources for all four pension funds with a roadmap to the ARC for each fund

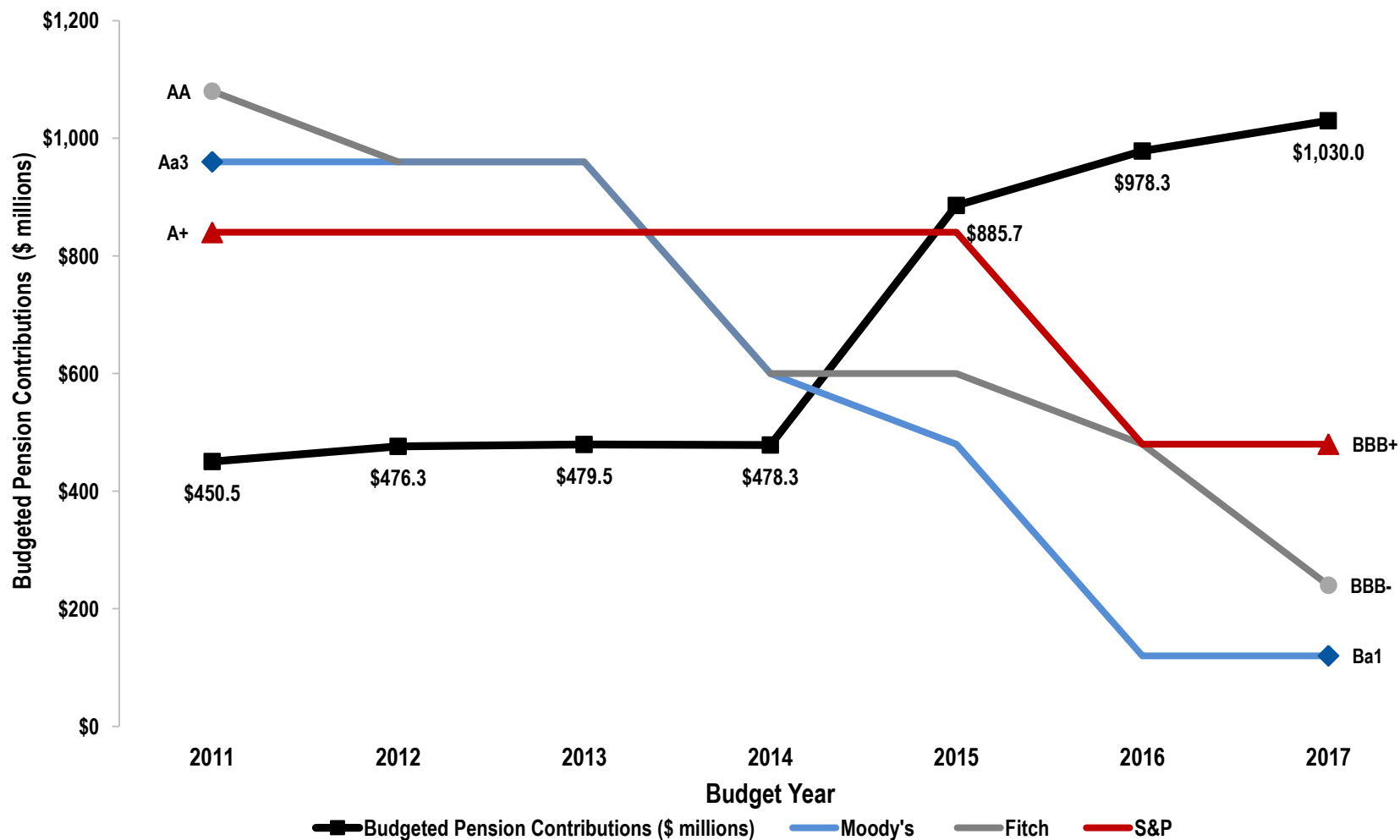




# City Actions Versus City Ratings

The City has more than doubled its budgeted pension contributions in the last 3 years, but has seen multiple downgrades from each rating agency in that time

### City Budgeted Pension Contributions v. GO Rating





# City Financial Condition – Present

The City has taken extensive steps to address its weaknesses since 2011

Issues	Actions
Prolonged inability to cover current year's expenditures with current year's revenues	<ul style="list-style-type: none"> <li>80% reduction in budget gap (\$654 million to \$138 million) since 2011</li> <li>Plan to reach structural balance by 2019</li> </ul>
Overdependence on one-time sources, such as proceeds of lease concessions and reduction of financial reserves	<ul style="list-style-type: none"> <li>Demonstrated willingness to raise new revenues: property tax and water/sewer tax to fund pensions; \$0.07 plastic bag tax for operating</li> <li>Implementation of zero-based budgeting and other efficiencies to control costs</li> <li>\$50 million deposit into asset lease &amp; concession fund and operating liquidity fund since 2012</li> <li>Implementation of fund stabilization policies</li> </ul>
Political difficulties of increasing revenues	<ul style="list-style-type: none"> <li>Four-year, \$543 million property tax increase enacted in 2015</li> <li>Four-year phase-in Water-Sewer Utility tax enacted in 2016</li> </ul>
Overdependence on long-term debt for operating expenses and high debt burden and slow amortization of existing debt	<ul style="list-style-type: none"> <li>Plan to eliminate borrowing for routine settlements and judgments</li> <li>Plan to phase out Scoop and toss by 2019</li> </ul>
Trend of weak pension funding levels worsening	<ul style="list-style-type: none"> <li>Budgeted pension contributions increased from \$450 million in 2011 to \$1,030 million in 2017</li> <li>Dedicated recurring funding sources for all 4 pension funds with roadmap to ARC</li> </ul>
Variable rate debt and swap exposure	<ul style="list-style-type: none"> <li>Converted outstanding property tax-backed variable rate debt to fixed and terminated interest rate swaps</li> </ul>
Sluggish economic recovery	<ul style="list-style-type: none"> <li>45% decrease in unemployment since 2011. City GDP growth exceeded the national average in 2015</li> </ul>

## City Ratings – 2016

Fitch	Kroll	Moody's	S&P
BBB-	BBB+	Ba1	BBB+



## A Tale of Two Credits

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.”



# Next Steps for the City of Chicago

The City will consider ratings needs on a deal-by-deal basis going forward

- Ratings requirement
- Number of ratings required
- Investor views
- Rating Agency relationships over the life of the issue
- Objectivity of Rating Agencies



# City of Chicago

## A Tale of Two Credits

Carole Brown, Chief Financial Officer



Presentation to:

Northeast Women in Public Finance

December 7, 2016

---