Crain's Chicago Business
When will Illinois regain jobs lost to COVID?
Greg Hinz| March 03, 2021

Illinois' economy will recover along with the nation's as COVID-19 pressures lift, but it's going to be a slog for us, with the state unlikely to return to its previous employment level until at least 2023.

That's the bottom line of a new forecast prepared by Moody's Analytics for the Illinois Legislature's fiscal unit, a report that is pretty dour, projecting Illinois in the long run will continue to markedly lag the nation and even the rest of the Midwest until it gets its finances in order and reverses its population drain.

"The near-term outlook for Illinois closely resembles that for the U.S.," says the report for the Illinois Commission on Government Forecasting & Accountability. "The economy will begin recovering in earnest in mid-2021, and by the end of the year the unemployment rate will clock in at just under 6 percent," in line with the national average but a bit higher than our Midwest neighbors.

That would be a bit of an improvement over 2020, when Illinois' performance generally tracked that of the Midwest and other states, but fell behind by the end of the year. Illinois' unemployment peaked at 16 percent in June 2020, and averaged 8.4 percent in the fourth quarter.

Chicago is a relative bright spot, given that many workers were able to do their jobs remotely and thus keep their income steady. But Lake County is emerging from the recession a bit more slowly than its counterparts, with clear weakness in downstate communities such as Peoria and Rockford, the report said.

While the mid-term view is optimistic, "It will be at least 2023 before the (local) economy is back in full swing," Moody's says. "It will take at least that long for the Illinois labor market to recover the 400,000 jobs it is still down since the pandemic hit, get everyone who left the workforce during the pandemic back in and reduce the unemployment level to the pre-crisis level."

Illinois' unemployment rate in January 2020 was 3.6%. In December, the latest data available, it was 7.6%.

Chicago again should be a statewide leader in the long term, despite "muted" tourism and meetings that hit the hospitality and lodging industries hard. (Fourth-quarter hotel occupancy in the city averaged 32 percent, compared with 73 percent fourth-quarter 2019).

Among the pluses on the horizon: What Moody's suggests will be a continuing return of companies and headquarters to the urban core and a loosening of national restrictions on immigration, a key source of new residents here.

However, the report adds: “The success of the state’s economy, and particularly that of the Chicago metro area, will depend on the strength of its tech sector, including computer systems and design and biotechnology. Tech companies that can meet the needs of Illinois’ manufacturing base will also be successful.” Logistics is a strength, too

Ultimately, it says, “Illinois has what it needs to remain a top business center, as long as it can solve the fiscal problems that are eroding its edge in the competition for talent, jobs and capital.” The state has a high educational attainment level, superb transportation links and below-average costs.

But unless fiscal pressures—specifically, soaring pension costs—are solved, “The state will grow a step behind the Midwest average and a few steps behind the nation over the extended forecast horizon,” the report concludes. “Over the next five years, employment in Illinois is forecast to increase 6.7 percent, below the 7.7 percent increase for the Midwest and 8.8 percent rise nationally.”

Another report issued today by Moody’s Investors Service, a sister company to Moody’s Analytics, sets Illinois unfunded pension liability as of last June 30 at $317 billion, up 19 percent from previous year, driven largely by falling interest rates. That’s the highest in the country and amounts to 37 percent of Illinois' annual economic output, the bond-rating firm says.

Ouch! And is anybody in Springfield going to do anything about that? We’ll see if Gov. J.B. Pritzker or anyone else has an answer.

Crain's Chicago Business
Illinois is its own worst enemy
Crain's Editorial Board| February 26, 2021

It may be too soon to take the weather-related infrastructure catastrophes of recent weeks in Texas and elsewhere down South as a cue to tout this state's advantages as a place to do business. And yet, the comparisons can and should at some point be made.

After all, Chicago and Illinois have much to offer any company: A reliable electric delivery system fueled in part by nuclear power and connected to the wider grid beyond Illinois. A central location with highway and rail access to all points on the continent. Abundant fresh water via Lake Michigan. Two major airports: One, an international colossus touting direct connections throughout the globe; another close to downtown. Globally recognized universities, including the University of Chicago, Northwestern University and the University of Illinois. Five academic medical centers, plus the Shirley Ryan AbilityLab and Lurie Children's Hospital, drawing talent and patients from around the world. Two federal research laboratories. A public transit system that few U.S. cities can match. A diverse and well-educated workforce with deep roots in law, trading, consulting, consumer product creation, logistics, advertising, manufacturing and tech. A well-connected corporate leadership community with sincere interest in civic issues. A beautiful metro downtown and lakefront. Arts, culture, restaurants, museums, architecture, libraries. People who understand how to drive in snow.

Viewed through this lens, you have to ask why the story of Chicago and Illinois right now isn't one of tremendous growth and possibility. And yet, the drumbeat of drain-circling data continues. The numbers vary depending on who's doing the counting, but as Crain's columnist Greg Hinz recently reported, the Census Bureau estimates Illinois' population has declined by roughly 250,000 over the past decade, or about 2 percent, with much of that drop-off coming from economically challenged regions downstate. The demographers he interviewed for that report were quick to point out that other Rust Belt states haven't exactly set the world on fire over that same span of time, either, but that's cold comfort. Those states don't have nearly the same attractions and advantages that Illinois can boast.

And that brings us to the big cloud that hangs over Chicago and Illinois, obscuring each of the benefits listed above: our well-earned reputation for political dysfunction. The city and the state's appalling financial condition are well-known, and graft, cronyism and palm-greasing are such a tradition here that it's become a brand: the Chicago Way. Meanwhile, the public employee pension crisis is inescapably large, and yet we continue to elect people who seem unable or unwilling to do the work of fixing it.

A faint glimmer of hope emerged the other day, however, and Crain's columnist Joe Cahill shines a light on it in this week's issue. Illinois' new speaker of the House, Chris Welch, seems to realize government won't gain public confidence without addressing the pension funding crisis devouring state finances. Welch signaled as much when he acknowledged the need to link a renewed graduated income tax proposal to pension funding. It's a slim reed to hang hope on, to be sure, but it's something: a sign that new leadership in the Statehouse may finally appreciate the gravity of the pension situation.

Cahill is right to argue that the next step Welch and Gov. J.B. Pritzker should take is to allow Illinoisans to vote on a standalone amendment repealing the so-called pension protection clause in the Illinois Constitution. If that passed—and there's reason to think it would—the state could begin defusing the pension bomb by limiting the cost-of-living increases that are currently inflating our pension obligations like a parade balloon.

Similarly, Hinz correctly contends in this week's issue that Pritzker is pushing a $932 million tax hike on business at precisely the wrong time, as population and jobs have begun to drop not only downstate but in the metropolitan area. He quotes corporate-location consultants who warn that such a tax increase now will make companies think twice about moving to Illinois—and will add momentum to those who are already here but thinking of pulling up stakes.

According to the Tax Foundation, a Washington research group, the tax changes Pritzker advocates would reduce Illinois' business-tax-climate rating from a weak 36th of the 50 states to an even less inspiring 39th.

Illinois has little hope of leveraging—or even retaining—all of its inherent strengths if we continue to undermine ourselves with tax and public pension policies that drive away business investment.

The Bond Buyer
S&P seeking more clarity on Illinois before any rating action
Yvette Shields| February 25, 2021

The fate of Illinois' S&P bond rating will depend on its recovery from COVID-19, federal stimulus and the final form of its fiscal 2022 budget, the rating agency said Thursday.

In its first published review of Gov. J.B. Pritzker's proposed spending plan, S&P Global Ratings laid out the risks, uncertainties and potential positives of the budget proposal the governor unveiled last week.

The proposed budget could be a small step toward putting the state on firmer financial footing, S&P said.

The rating agency stopped short of indicating that the budget will draw any rating action. It rates Illinois general obligation bonds at the lowest investment grade level of BBB-minus with a negative outlook. Analysts moved the outlook to negative early in the course of the pandemic.

S&P “acknowledges that this is only a budget proposal and there is uncertainty about the pace of economic recovery and prospects for additional federal stimulus,” says the report titled “Fiscal Stabilization On The Horizon For Illinois?” from lead Illinois analyst Geoffrey Buswick and secondary analysts Blake Yocom and David Hitchcock.

“Future credit direction will be evaluated as greater clarity is available on these key issues,” they wrote. The comments signal that while the budget lacks any notable rating alarms, a return to a stable outlook hinges on factors not yet clear.

Pritzker's budget plan, which would be voted on in late spring, doesn’t rely on new federal dollars to make up for revenue lost to the pandemic and the final size and timing of passage of federal aid by Congress remains in question. The state would use funds to pay down its short-term federal borrowing that helped balance the fiscal 2020 and 2021 budgets and possibly its unpaid bill backlog.

The budget doesn’t include an income or any major tax hike but would have lawmakers sign off on eliminating more than $900 million of corporate tax breaks. “Legislative scrutiny of the tax-structure proposal could limit change and revenue projections,” the S&P report warned.

Voters rejected in November a constitutional amendment Pritzker spearheaded to move to a progressive income tax structure from the current flat one and to raise taxes on top earners by $3 billion annually.

Pritzker is a Democrat and enjoys a supermajorities in the House and Senate but some Democrats have voiced concerns over some of the corporate tax measures.

Other risks lay ahead. The state's fiscal recovery and improving revenue projections could suffer setbacks if permanent changes in business, travel, or consumer patterns in and around Chicago occur, S&P said.

The $41.7 billion general fund budget proposal is slightly smaller than the initial $42 billion budget proposed last year before the pandemic began and $1.8 billion or 4.2% less than the final fiscal 2021 plan when not counting an infusion of $2 billion of Municipal Liquidity Facility borrowing. A $77 million surplus is expected this year and then a $120 million surplus is projected at the end of fiscal 2022.

S&P considers the budget balanced on a fiscal 2022 cash basis but it's not structurally balanced due to its treatment of pension obligations. The state will pay $9.4 billion to fund pensions, $739 million more than this year, but that falls far short of an actuarial funding level.

"With just under a 40% average funded ratio, the state pension system plans are more dependent on favorable investment returns and are exposed to market volatility," S&P said. The other postemployment benefit liability adds to credit risk with an unfunded liability of $56.9 billion.

The state's bill backlog remains a drag on its rating but it's down to about $5 billion, a $2 billion improvement from this time last year. The pandemic continues to weigh on economic activity especially unemployment but the New Year has brought improved conditions, S&P said.

S&P said it views the state's $27 billion long-term GO debt burden positively with more than 75% of GO debt retired in 10 years. The fiscal 2022 plan includes $4.3 billion in new capital appropriations with additional borrowing plans through 2023 to fund the ongoing $45 billion Rebuild Illinois program. "We expect total debt outstanding will hold relatively steady at about $30 billion through fiscal 2023," S&P said.

The Chicago Tribune
Speaker Emanuel 'Chris' Welch wants a graduated income tax do-over — this time tied to pension funding
Dan Petrella| February 24, 2021

New Democratic House Speaker Emanuel "Chris" Welch suggested Wednesday that the state should again ask voters to approve a graduated-rate income tax, but this time target the new money toward paying down Illinois' massive pension debt.

The call for a do-over came after voters in November overwhelmingly rejected Democratic Gov. J.B. Pritzker's graduated income tax proposal. Opponents, including Republicans and business leaders, used distrust of Springfield to argue for keeping the state constitution's flat tax requirement.

"We have to tell the voters what we're going to do with that money," Welch said during a virtual event hosted by the Economic Club of Chicago. "I certainly think tying that new revenue to pensions would be a winner."

Whether there will be an appetite among other Democrats for another attempt at passing a graduated tax remains unclear. Pritzker did not immediately join Welch's push.

"The governor believes the fair tax was the best option for addressing the state's long-term structural challenges, but for this year he looks forward to working with the General Assembly to pass a balanced budget that lifts up working families who have suffered amid this pandemic and that continues to rebuild our economy," Pritzker spokeswoman Jordan Abudayyeh said in a statement.

Welch pointed to the November success of an Arizona ballot measure that increases taxes on high earners to help fund education as an example for Illinois. "That's a proven model that works," he said.

Earmarking increased taxes to pay for government worker retirement benefits could prove a tough sell to voters, however.

Illinois currently faces $141 billion in unfunded pension liabilities, and Pritzker's spending plan for the budget year that begins July 1 calls for devoting nearly $9.4 billion to making the state's required annual contribution. That's more than 20% of the $41.6 billion the governor proposes spending to cover day-to-day state operations.

If voters had approved the fall ballot question, Illinois would have seen an estimated $3.6 billion a year in additional tax money. Pritzker had called for dedicating $200 million of that money each year to increasing the state's pension contribution, but there was no guarantee on how any of the money would be spent.

That allowed opponents to characterize the proposal as a "blank check" for leaders in Springfield, most notably Welch's predecessor, longtime House Speaker Michael Madigan, who has been implicated but not charged in an ongoing federal corruption investigation. Madigan, who stepped down from the House last week, has denied any wrongdoing.

In a shot at Madigan last November, Pritzker blamed the failure of his graduated income tax plan on voters' concerns about corruption and their lack of trust in government.

On Wednesday, Welch, a Madigan ally, said another way for lawmakers to convince voters to support changing the tax system is to approve changes to the state's government ethics laws to improve trust in public officials. That includes looking at changes such as making economic interest disclosures more transparent and barring legislators from working as lobbyists at other levels of government, he said.

"In evidence by the failure of the progressive tax, folks don't trust us," Welch said. "If we can rebuild that trust, it'll be amazing what voters will help us do."

Adopting a graduated tax structure that allows the state to tax higher incomes at higher rates would help balance the budget without harming the most vulnerable residents and bring Illinois in line with most other states that have an income tax, Welch said.

Pritzker, a billionaire who made the graduated tax a cornerstone of his governor campaign and plans to stabilize state finances, gave $58 million for the referendum effort. Opponents were led by billionaire hedge fund founder Ken Griffin, and both sides raised more than $124 million for ads for and against the measure.

The next opportunity to put the question to voters would be in the November 2022 election, when Pritzker is expected to be on the ballot seeking a second term. That's also a nonpresidential year, and some supporters of the graduated tax thought it was a bad move to put the question on the ballot in a presidential year when turnout is higher.

Approving a constitutional amendment requires support from either 60% of those voting on the question or a majority of those who cast a ballot in the election. The latter would be an easier threshold to meet in lower-turnout midterm election years, when governor and other statewide offices are on the ballot in Illinois.

Placing a constitutional amendment referendum on the ballot requires a three-fifths majority in each chamber of the General Assembly, and the governor plays no formal role.

Crain's Chicago Business

Biz, civic groups push Pritzker to veto firefighter pension bill

Greg Hinz| February 24, 2021

A coalition of civic and business groups is stepping up its pressure on Gov. J.B. Pritzker to veto a controversial bill to expand pension benefits for Chicago firefighters, which would cost taxpayers tens of millions of dollars a year at a time of economic stress.

In a letter, the group complained that signing the bill "will prove very costly . . . by adding pension benefits without implementing any reform or addressing the city's ability to adequately fund" pensions and core government services.

"While we recognize the important work of Illinois first responders," it continues, "unilaterally burdening Chicago taxpayers during a time of significant budget stress in order to provide an isolated benefit is the wrong decision."

Signing the letter were the heads of the Chicagoland Chamber of Commerce, the Civic Committee of the Commercial Club, the Civic Federation, the Illinois Municipal League and BOMA Chicago, which represents large downtown office tower owners. The letter writers set the cost of the bill at a combined $850 million through 2055.

At issue in the legislation, sponsored by Sen. Robert Martwick, D-Chicago, is whether to extend 3 percent non-compounded annual cost-of-living hikes to all firefighters rather than to only those born before a certain date.

Martwick says the measure merely would formalize a practice in which the city has periodically granted full pension benefits to more and more firefighters. Foes, though, say the hike in reality boosts benefits well above inflation that has averaged 1.7 percent a year for the past

Leading the charge against the bill is Chicago Mayor Lori Lightfoot, who says the city just cannot afford to pay more now.

Pritzker, a Democrat who was elected with strong support from organized labor, has hinted he's inclined to sign the bill but has not announced a final decision. His office did not respond to a request for comment on the letter.

Chicago Sun Times
Buck must stop at mayor's desk when it comes to police and schools
The Editorial Board| February 22, 2021

The buck has to stop somewhere.

In Chicago, that would be the mayor's desk, as it should be. When it comes to the two most important responsibilities of municipal government — providing police protection and good schools — a single democratically elected chief executive, the mayor, ultimately should be in charge and held accountable.

That, to us, seems obvious. Focused responsibility brings focused accountability. It is the surest path, imperfect and frustrating as it may be, to an effective police force and successful school system. Diffused responsibility, through unwieldy elected boards, results in diffused accountability.

We are strong advocates of grassroots democracy, but we are not starry-eyed or naive. Efforts to strip the mayor of Chicago of ultimate responsibility for the police department and public schools, in the name of greater democracy, are unwise.

Police and accountability

Two community coalitions have put forth separate plans for the creation of an elected civilian police oversight board, and last week Mayor Lori Lightfoot — concerned that those proposals go too far in limiting the powers of her office — asked for a few weeks more time to put forth a plan of her own.

The need for greater civilian oversight of the police is painfully obvious. Whatever Chicago has been doing in the way of "reform" in the last decade just isn't working. CPD continues to fall short as a crime-fighting force and in its respect for civil rights. Just last week, the city's inspector general issued a report excoriating the poor performance of the police department's top brass during 10 days of looting and violence last spring.

We favor greater direct civilian oversight on everything from investigating police misconduct to negotiating police contracts to overseeing disciplinary hearings to nominating candidates for top positions. We favor companion budgeting reforms to direct more police dollars toward social services that address the underlying causes of crime.

But the mayor, not a commission, should retain responsibility for hiring the police superintendent, with the advice and consent of the City Council, and should have the final say in firing a superintendent. We also believe that when there is a disagreement between a civilian oversight board and the mayor — any mayor — on a matter of basic police policy, the final call should be the mayor's.

Chicagoans will always look to their mayor, not a board of semi-anonymous commissioners — where no one person is forced by the spotlight to step up and lead — to respond to problems with the police. Chicagoans will always hold the mayor responsible.

Chicago schools and accountability

In the same way, we oppose any form of an elected school board that would take ultimate responsibility for the Chicago Public Schools from the mayor. We favor a hybrid board that would include some elected members but retain a majority appointed by the mayor. There must be a tight focus of responsibility. There must be a short tether of accountability.

We also, with all respect to those who continue to push state legislation to create a fully elected 20-member Chicago school board, question just how responsive such a board would be to the needs and demands of CPS parents and children. We can well imagine a highly politicized board controlled by — and fought over — charter school supporters on the one side and the Chicago Teachers Union on the other.

This has been precisely the problem in Los Angeles, where charter school advocates and unions waged a war for control of the school board in 2017, spending $15 million in supposedly low-key, community-based elections. The charter advocates prevailed, winning a majority of seats, and the board has been locked in ideological warfare ever since while failing to grapple with deep problems such as budget deficits, enrollment declines and academic achievement gaps.

This month in Chicago, after protracted negotiations between Lightfoot's team and the Chicago Teachers Union, children finally began going back to school — to actual physical classrooms. They should have returned to their classrooms earlier, with the science of the pandemic clearly showing that they and their teachers would be safe to do so. But the teachers' union fought it.

"We would never have opened without mayoral control," Lightfoot told the New York Times. "It's quite clear."

We believe that is true.

Making a mockery of democracy

How long can a ballot be before it makes a mockery of democracy? Chicagoans on Election Day already must choose among hundreds of candidates for everything from president of the United States to water commissioner to member of the Cook County Board of Review. At what point is the ability of the voters to do their homework exhausted? How many of us know who we're voting for when we vote for all those judges?

We favor the establishment of an elected civilian police oversight board and a hybrid school board, but it would be foolish to ignore the limitations of both. The buck must stop somewhere and, as best we can see, that would be the mayor's desk.

Chicago Tribune
Op-ed: Federal rescue gives Illinois' leaders the choice to sink or swim
Adam Schuster|February 20, 2021

Leaders in Springfield just went, "Phew." Earlier this year, they faced a $4.8 billion deficit — they're now expecting to receive $7.55 billion in unrestricted cash from Washington, D.C.

Illinois, you got a lifeline. But you could still drown.

A rescue from Congress should be viewed as an opportunity to make structural reforms. If state leaders choose to keep doing what they've always been doing, the pension crisis, the unpaid bills, and the crisis levels of debt and deficits in this weakened state will inevitably drag Illinois under.

The latest public projections from the Governor's Office of Management and Budget put Illinois' deficit at $4.8 billion for the coming fiscal year and $4.7 billion for fiscal year 2023, the last year of Gov. J.B. Pritzker's current term. Federal aid can partially cover the hole for two years, at most.

Illinois' perpetual budget crisis is exhausting for taxpayers who face constant demands to pay more, for service providers who worry funding will be slashed or at best just late, and for the vulnerable people who depend on those services and are left anxious about their futures.

Here's the big one: We throw money after public pensions that should be going to the things people want and need.

The state's total pension spending — including direct contributions, pension bond debt service and contributions to Chicago teachers' pensions — will be $11.6 billion in the coming fiscal year 2022. That's worth nearly 29% of the state's general revenue collections for the year and $4 billion more than the federal bailout funds.

Pension spending has grown 533% in the past two decades. Compare that to pre-K-12 education spending, which has grown by 21%. Meanwhile, spending on other government services, including programs to support the vulnerable, is down 14%.

Take for example the Department of Children and Family Services, an agency tasked with protecting kids from abuse and neglect. Springfield cut the DCFS budget 15%, adjusting for inflation from 2010 to 2020, even as Illinois hiked income taxes twice and continued to spend more on pensions. In 2019, before COVID-19's impact on revenues, 123 children whose families were involved in child welfare services died, according to a report by the inspector general's office. That was the highest number since 2005. Agency staff largely blamed budget cuts and high worker caseloads.

It’s wrong to allow an unsustainable pension system to interfere with state government’s most important duties. It’s criminal when those costs fall on kids.

Even as spending on important programs such as child protective services fails to keep pace with inflation, Illinois is still spending a lot — $43 billion this year alone, to be precise. And about the same for the coming fiscal year, if Pritzker’s $41.6 billion budget proposal passes. But we’re not spending smart.

In addition to common-sense pension reform, Illinois also should embrace outcome-based budgeting and reforms to reduce bureaucratic waste in education. Those three solutions total approximately $4 billion in savings each of the first two years, and more than $5 billion annually in the long term. That’s enough to eliminate nearly the entire budget deficit the state faced before the feds swooped in and saved us for a day.

That means federal aid can be used for pandemic expenses, preserving critical programs and preventing any tax increase on businesses or individuals during tough economic times.

Constitutional pension reform, which preserves earned benefits but slows future benefit growth for existing workers and retirees, could allow for $2.4 billion in savings this fiscal year alone.

Committing to education reform via House Bill 7 would allow the state to infuse millions more education dollars into classrooms through a reduction in duplicative, wasteful layers of administrative bureaucracy. This would enable $172 million in savings this fiscal year and hundreds of millions more each year after.

And Springfield should make use of a program that’s been in place for over a decade: the “Budgeting for Results” initiative, which will ensure any spending cuts are made with a scalpel, not a hatchet. Outcome-based budgeting directs spending to the most effective and needed areas, rather than arbitrarily growing program baselines over the prior year.

Pritzker last year ordered state agencies to prepare for up to 10% reductions to their appropriations in case his “fair tax” proposal failed. Using data about program effectiveness, much of which has already been collected, to achieve 5% cuts — half of Pritzker’s reduction goal — could deliver nearly $1 billion in savings while preserving the most vital programs. That’s while holding harmless DCFS and higher education, which have already faced harmful cuts because public pensions have eaten their funds.

It’s time to realign our priorities so we’re investing in people, and the services they need and value most.

Doing nothing will amount to a declaration by state leaders that public pensions are more important than public services. But thanks to the feds, Illinois has a once-in-a-lifetime chance to save itself — and maybe a few children too.

The Bond Buyer
No rating red flags stand out in Illinois' proposed budget
Yvette Shields| February 19, 2021

The prospects for new federal aid and a proposed budget that avoids negative rating triggers should preserve Illinois' investment-grade status, but neither moves the needle on the structural and pension albatrosses.

Gov. J.B. Pritzker's proposed $95.5 billion fiscal 2022 budget, with a $41.7 billion general fund, clears what was estimated late last year as a $5.5 billion gap, using higher revenue projections and a combination of structural and one-time maneuvers.

In addition to higher tax collections and federal Medicaid matching dollars now expected, the budget holds spending level to fiscal 2021. It raises about $900 million in revenue by curbing corporate tax breaks, keeps some funds earmarked for local governments, the capital fund, and transit agencies and delays repayment of some inter-fund borrowing. It does not rely on an income tax or other general tax increases and it does rely on more federal funds as they are not yet approved.

Market participants are considering the proposed budget's impact on finances against a backdrop that state stands to receive more than $7 billion in direct aid from the Biden administration's America Rescue Plan. That's based on congressional estimates of the proposed formula to distribute $350 billion in state and local government aid. Pritzker said he federal relief would go first to pay down the $2.87 billion still outstanding from two Municipal Liquidity Facility borrowings and other short-term or overdue debt.

The budget makes the full statutory-required pension payment set for fiscal 2022, $9.36 billion, and doesn't rely on federal relief that is not yet approved. Both are factors rating agencies were watching for in Pritzker's plan, unveiled Wednesday.

"This is certainly a potential fiscal path through a year that will, with any luck, bring the coronavirus pandemic largely to an end," Moody's Investors Service lead Illinois analyst Ted Hampton said after an initial review. "Gov. Pritzker's proposal includes spending restraint and doesn't rely on cutting pension contributions below statutory levels or other short-term fixes that could dramatically magnify long-term pressure."

The state's unfunded liability stands at $141 billion and the system is just 40.4% funded. "The plan, at the same time, lacks a strategy to manage growth in the already very large pension liabilities that constitute the state's greatest challenge," Hampton said.

"If they were to have deferred pensions that would have been a negative. Revenues came in much stronger than expected, so there's a fair amount of positives, but on the flipside the budget has not passed and the federal stimulus is still in question," said Geoffrey Buswick, S&P

Global Ratings' lead analyst on Illinois. "There are some positives but there are also uncertainties."

"There's nothing here that inherently says they are in a meaningful worse situation but there's nothing that says the negative outlook" could come off tomorrow and the rating agency will be looking in rating assessments at the state's broader economic recovery which extends beyond the budget's impact, Buswick said.

Fitch Ratings, Moody's, and S&P all moved the state's outlook to negative last spring due to concerns over the pandemic's impact. Fitch additionally cut the rating by one notch, which brought it in line with Moody's and S&P at one level above speculative grade.

Analysts cautioned their comments were based on an initial review and that the final budget enacted ahead of the July 1 fiscal year start that will be most telling.

"In reviewing the executive budget, our focus remains the state's ability to make progress towards structural balance — lining up its recurring spending demands with recurring revenues. We do not expect the state will achieve structural balance with this budget, or in the near-term," said Fitch's lead Illinois analyst Eric Kim. "Even with the improvement in the revenue forecast, that is a difficult task for Illinois and that's reflected in the current rating and outlook."

While the lack of structural balance is factored into the current credit status, Kim said, the agency will be looking at whether the proposed budget includes any measures that could have negative long-term credit implications that make it more difficult for the state to rebuild some measure of fiscal resilience.

The lack of rating triggers in the proposed budget, rosier revenue projections and likelihood of some new relief have pushed market worries over a cut to junk to the backburner. Market jitters rose after the shifts to negative outlooks, and the state's May bond sale saw record spread penalties of more than 300 basis points to the Municipal Market Data's AAA benchmark.

The failed constitutional amendment on the November ballot to move to a graduated income tax rate structure further fueled market worries over the state' ratings, even as Biden's win was perceived as a plus for aid prospects. Pritzker championed the tax change as a means to generate $3 billion annually by raising the tax on top earners.

Rating pressures eased after the Georgia run-off handed control of the Senate to Democrats improving the prospects for federal relief. Illinois also revised revenue estimates last November.

The state's spreads have since shrunk dramatically and are currently at 125 bps seven years and out, but that's due to demand for higher yielding paper and federal aid prospects. The state is planning a spring new money issue with about $2.9 billion of capital borrowing planned in fiscal 2022 and $2.6 billion in fiscal 2023.

The federal funding in hand and prospects for more aid provide the state with "a short-term reprieve" and "an opportunity," said Howard Cure, director of municipal bond research at Evercore Wealth Management LLC.

"They have an opportunity to address their entrenched budget issues" led by pensions and the lack of actuarial funding, he said. "This initial proposal doesn't seem to make the hard decisions."

Larger economic issues loom, like the pandemic's impact on the property tax base and valuation and tourism and population trends once the federal spigot propping up governments and the economy ebbs, Cure said. That means state spreads will remain susceptible more than many governments to market appetites and supply issues.

The governor faced a tough balancing act given the pandemic's social and fiscal toll, said Laurence Msall, president of the Civic Federation Federal of Chicago, a local government watchdog organization.

While the group is still digging into budget details, Msall credits the administration with "artfully developing a one-year spending plan that doesn't rely on federal support and does not require heavy lifting" with the legislature's Democratic majority.

It makes the statutory required payment and, while relying on some one-shots, generally avoids red flags like a pension payment re-amortization. The decision to cut local government income tax sharing by 10% and withhold for a second year the $350 million in education aid faces pushback among the Democratic majority, but the administration counters that both stand to benefit from federal aid. Republicans calls the elimination of corporate tax breaks a tax hike, but they are in the minority.

"The governor deserves credit and is positioning himself to show he is managing the financial responsibilities of the state without" a tax hike, Msall said. "But on the other hand, it isn't a long-erm plan that will stabilize or improve Illinois' credit rating."

The budget will be considered under new House Speaker Chris Welch of Chicago, who Democrats chose last month to replace longtime Speaker Michael Madigan who is embroiled in a federal corruption probe although he has not been charged with wrongdoing. Madigan, who ruled the House with an iron fist, on Thursday announced plans to resign his seat. Senate President Don Harmon of Oak Park, also a Democrat, is entering his second year at the helm. Pritzker is a Democrat.

Given the legislative changing of the guard "there should be opportunity for more aggressive experimentation and modernization and a fresh approach," Msall said.

Crain's Chicago Business
When it comes to pensions, we have crises of leadership on more than one front
Greg Hinz| February 18, 2021

The governor, for one, is oddly silent about the biggest problem facing the state. Meanwhile, there's trouble of a different sort at the top of one of the biggest public pension funds.

You might call it the fiscal equivalent of a Chicago winter—unending bad news filled with bone-chilling figures that just won't stop arriving. I'm talking about state government worker pensions, the monster that continues to eat alive Illinois and our collective ambitions to fund education, spur economic growth, fight COVID-19 and keep our taxes down.

Two current examples from a saga I got sick and tired of writing about 10 years ago:

The first is what Gov. J.B. Pritzker talked about in his big fiscal 2022 budget speech the other day. Or, more precisely, what he didn't talk about.

The state continues to pony up more and more every year to pay retirement costs for its workers and public school teachers around Illinois. Pritzker's proposed 2022 budget would allot almost $9.4 billion to pensions just from its operating account, or general funds, up from $8.2 billion as recently as 2020. That's almost a quarter of all general funds spending.

Yet, despite that staggering cost, Illinois is further behind than ever, with total unfunded liability in the state's pension funds of $141 billion, up $3.8 billion, or 2.8 percent, since last year. The reason why is that the state still isn't contributing what is actuarially required just to tread water. In fact, it continues to sweeten some benefits, on top of the 3 percent compounded cost of living hike that most workers get annually.

So what's Pritzker going to do about it? Hey, he's only governor. After saving some relatively small change last year by consolidating the investment functions of downstate and suburban police and fire funds, he's gone silent. All Pritzker said about pensions in his budget speech was the spending plan includes "full required pension payments." Those would be the insufficient payments required by law, not the actuarial figure.

I'm not saying solving Illinois' pension mess will be easy. It won't. But dead silence surely won't solve it. Voters hired Pritzker to fix problems. On this huge problem, he's been a sad failure.

Which leads to pension story No. 2: That's the utter turmoil that seems to have overtaken one of the larger public retirement systems in the state, the $11 billion Chicago Teachers' Pension Fund, which receives a nice chunk of Chicago homeowners' property tax payments every six months.

When I last looked at the fund in October, its executive director and other key officials had just resigned, one commissioner had been censured by other board members, and board President Jeffery Blackwell was publicly complaining of an agency "culture of intimidation, intentional misinformation, discrimination, slander, misogyny, fear-mongering, blatant racism, sexism and retaliatory actions." But interim Executive Director Mary Cavallaro said in a statement there was no reason to worry, and that "the fund is committed to ensuring financial stability, operational efficiencies and seamless service to members."

Well, guess who now has resigned—with a blast? That would be Cavallaro. "I can no longer tolerate the chaos and toxicity of the boardroom, along with the vile disrespect and insults directed toward me, the leadership team and the hard-working staff of the fund by certain misinformed trustees," she said in a letter to the board. "I have grave concerns about the ability of fund operations to sustain the continued loss of key staff members because of bad trustee behavior and poor board governance."

So guess who the new interim executive director is, elected on a narrow 5-3 vote, according to insiders? That would be Blackwell, who in an unusual view of conflict of interest will be supervising himself, and who, according to some sources, is interested in getting the job permanently after a search firm makes its recommendation of who to hire, perhaps by June 30. But there's no reason for concern, says a spokeswoman. "The board's duty is to set policy, and the executive director is responsible for the day-to-day operations of the fund. There is nothing in statute or policy which prohibits this appointment."

So far, neither the Chicago Teachers Union nor Chicago Public Schools wants to say much about this situation. Pretty sad. And pretty revealing.

FEB. 19 UPDATE: The pension fund finally has replied to some questions: It confirms Blackwell indeed was elected interim executive director on a 5-3 vote, with one abstention. Blackwell declined a request for an interview, but through a spokeswoman said he is not interested in holding the new post permanently. And the fund is confirming yet another top-level departure, Chief Benefits Officer Rosemary Ihejirika, but is not commenting on why she left.

Chicago Tribune
Chicago's failing grade: Firefighter pension sweetener would cost taxpayers $850 million by 2055. Will the governor sign it?
The Editorial Board|February 04, 2021

Chicagoans can remember the days when we were dubbed "the Second City" because we had more people than any place but New York. Then we fell behind Los Angeles, and Houston is expected to surpass us in population in the next decade. But in one respect, Chicago is still the first runner-up. It ranks just behind Gotham for the worst municipal finances in the country.

That's the conclusion of the independent organization Truth in Accounting in its "Financial State of Cities 2021," the latest in an annual series. The report may sound like a total snooze fest, but the implications of its analysis are more likely to induce panic than slumber.

Cities are almost universally required to balance their budgets. The point of this mandate, according to the Governmental Accounting Standards Board,is "to require financing and spending practices that enable governmental entities to avoid financial difficulty and to live within their means." But municipal governments are good at getting around the rule. The most common method is by incurring future liabilities, such as employee pensions and other benefits, that don't show up as outlays until years later.

Of the 75 cities assessed in the report, 62 have managed to accumulate debt, with the total amounting to $333.5 billion. The average "taxpayer burden, as of 2019, is $7,355 — the amount each taxpayer would have to pay to cover all present and future commitments. In Chicago, however, the figure is $41,100, up $4,000 in just one year. Aside from New York ($68,200), the next worst is Honolulu at $29,600.

For years, our politicians have taken on big obligations at the expense of future taxpayers. Chicago, notes TIA, "has only set aside 23 cents for every dollar of promised pension benefits. Furthermore, the city has not set aside any money to fund $829 million in other post-employment benefits for municipal employees." This irresponsible habit has undermined the economic health of the city and state, driving residents to leave in search of better opportunities and lighter tax loads.

Compare Chicago with some big Sun Belt cities. In Orlando, Florida, the average taxpayer burden is just $1,300. In Las Vegas, it's $1,800; in Atlanta, $1,900. Some rapidly growing cities, such as Raleigh, North Carolina, and Plano, Texas, actually have taxpayer surpluses.

The report doesn't take into account the fiscal damage that occurred in 2020. "Chicago went into the coronavirus pandemic in dire fiscal health," says the group, "and it will most likely come out of the crisis worse."

Our leaders don't seem to be willing or able to confront the problem with the courage and discipline it demands. Mayor Lori Lightfoot's 2021 budget calls for borrowing money to pay off existing debts, a ploy known as "scoop and toss." It may be the least bad option, as she argues, but it only underlines the need for drastic reforms.

The General Assembly, meanwhile, along mostly party lines passed a bill to boost cost-of-living adjustments on the pensions of certain retired Chicago firefighters. That's right. Pension sweeteners for a pension system the city already can't properly fund.

Lightfoot denounced the bill as "a massive, unfunded mandate to the taxpayers of Chicago at a time when there are no extra funds to cover this new obligation." The bill's estimated cost? An additional $18 million to $30 million per year until at least 2055.

The Civic Federation, a nonpartisan watchdog group, urged Gov. J.B. Pritzker to veto it. "If enacted, House Bill 2451 will prove very costly for city of Chicago taxpayers by adding pension benefits without implementing reforms or addressing the city's ability to adequately fund its firefighters' and other pensions," the federation wrote to the governor.

But all it needs to become law is Pritzker's signature. He would keep the firefighter lobby happy, but he also would be sending the cost to rank-and-file taxpayers — with no pension reform.

Chicago is in a deep fiscal hole. You can see how we got here. When will our politicians stop digging?