

U.S.

Chicago Mayor Outlines Budget to Close \$838 Million Shortfall

Budget raises fees on rideshare, refinances debt, avoids property tax increase



Chicago Mayor Lori Lightfoot was sworn in in May. PHOTO: ASHLEE REZIN GARCIA/ASSOCIATED PRESS

By Shayndi Raice and Heather Gillers

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CHICAGO—Mayor Lori Lightfoot proposed a budget Wednesday to close an \$838 million budget gap through a series of revenue and tax increases as Chicago confronts the highest pension burden of any major U.S. city.

The mayor, facing a teacher strike, a budget crunch and soaring pension costs just five months into her first term, outlined an \$11.7 billion budget for 2020 that would rely on a mixture of \$538 million in savings and another \$352 million in new revenue while avoiding a property tax increase.

Ms. Lightfoot, sworn in in May as the city's first black woman and first openly gay mayor, said in a Wednesday speech that the budget "reflects the reality that sacrifices are needed in the work that lies ahead."

New revenue sources include an increased fee on ride-sharing trips to the downtown area, higher taxes on restaurant meals and increases to parking meter rates. She also aims to raise revenue through the sale of cannabis, which becomes legal in the state in January. The city aims to save \$200 million through debt refinancing.

The budget now requires approval by the City Council. It is implemented on January 1.

Some of Ms. Lightfoot's proposals will require help from state lawmakers, who face their own budget issues. The administration is depending on cooperation from Springfield to revamp the city's tax on real estate sales, a move Ms. Lightfoot's budget relies on for \$50 million in revenues. And Ms. Lightfoot said she is looking to the legislature for help landing a Chicago casino and developing "a statewide pension reform package."

Without that cooperation, Ms. Lightfoot said she will need to make "painful choices" to find other revenue sources. "We all know what those revenue sources are," she said, an apparent reference to a property tax increase she has said she is not ruling out.

Ms. Lightfoot's partial reliance on one-time revenue sources, such as the debt refinancing, as well as legislative action from the state, leaves the city open to having to make adjustments if plans don't go as expected, said Arlene Bohner of Fitch Ratings. The city's budget won't be structurally sound, Ms. Bohner said, until it tackles its pension liabilities.



Demonstrators in Chicago march in support of the city's striking teachers on Oct. 23. PHOTO: SCOTT HEINS/GETTY IMAGES

ut \$51 million in new spending for affordable housing, public safety and mental health programs, among other items.

Ms. Lightfoot said the city was also trying to cut its reliance on fines and fees that overly burden low-income residents.

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Ms. Lightfoot foreshadowed the budget rollout in August, addressing what she called a budget crisis and setting up a series of public meetings to discuss solutions in a “State of the City” speech. At the time, she said a third of the \$838 million deficit was due to higher pension payments, another third from increased labor cost. A nearly \$100 million jump in debt servicing, and \$90 million from lawsuit settlements contributed to the balance.

Her Wednesday address came as teachers, who have been on strike since Thursday, protested outside City Hall. They are seeking a pay increase of 16% over three years, smaller class sizes and added staff in each building. The mayor has proposed a five-year increase of 15%, saying the city can’t afford some of the requests from teachers.

Chicago’s school district, which is run by a mayor-appointed board, sets its own budget. It levies property taxes that are in addition to the taxes levied by the city on the same properties, and are subject to a state cap.

Ms. Lightfoot inherited a number of budget problems that have been building for years, including one of the nation’s worst pension shortfalls. Her predecessor, Rahm Emanuel, raised property taxes and helped attract new investment and construction to the city’s downtown.

But decades of paltry contributions to the city’s four pension funds have left Chicago \$30 billion short of what it needs, according to city estimates. Chicago, which has the largest pension liability of any major city, according to Moody’s, is scheduled to pay more into its pension fund every year: next year the city is scheduled to pay in \$1.7 billion.

Population loss has aggravated the city’s financial woes, and Ms. Lightfoot spoke of a long-term goal of restoring the city’s population, which has been shrinking for four years, “back to three million.”

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