THE BOND BUYER

# Chicago GOs raised to BBB by Fitch

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Fitch Ratings said it raised Chicago's general obligation bonds and issuer default rating to BBB from BBB-minus and the raised the rating on the Sales Tax Securitization Corp.'s sales tax securitization bonds to AA from AA-minus.

At the same time, Fitch assigned BBB ratings to the city's $638.2 million of Series 2022A GOs for Chicago Works, $76.9 million of Series 2022B GOs for the Chicago Recovery Plan and $42.3 million of Series 2022C taxable GOs for the Chicago Recovery Plan, which are all expected to be priced the week of Nov. 28.

Chicago Mayor Lori Lightfoot unveils proposed 2023 budget, which includes a supplemental pension contribution.

**Bloomberg News**

Proceeds are expected to fund various capital improvement projects around the city. Fitch said the outlook on the bonds is positive. The GOs will be payable from the city's full faith and credit and its ad valorem tax.

Fitch also affirmed the AA-minus rating on the STSC's second lien sales tax securitization bonds with a stable outlook.

The upgrade of the GO's and IDR "reflects Chicago's improving pension funding practices, its commitment to maintaining a sound reserve position, and ability to institute structural budget measures that improve its capacity to respond to future cyclical challenges," Fitch said.

Earlier this month, Mayor Lori Lightfoot's proposed 2023 budget launched a pension funding policy aimed at holding its net pension liabilities in check and proposed a supplemental $242 million payment next year.

"Three years ago, we came into office with the largest budget gap in the city's history. As a result of the financial plan that we put in place at the time, the city has done the hard work of smart financial decisions to achieve this upgrade and demonstrate financial stability, all in the midst of a pandemic," Lightfoot said in a statement Friday.

The city noted this was the first GO rating upgrade ever by Fitch due to improved financial performance. A 2010 Fitch upgrade was caused by a methodology change to all credits nationally.  The city's rating has been BBB-minus since Fitch's last downgrade in 2016.

Due to the upgrade, the city estimates it will save it about $100 million per $1 billion of bonds sold. The city borrows roughly $1 billion to $2 billion each year.

"The city has cleared major deferred liabilities, including pensions, debt and capital maintenance; created $3 billion of new financial value for the city through new water supply contracts and a new casino; and made $6 billion in investments," said Chief Financial Officer Jennie Huang Bennett.

A good proportion of the fiscal 2023 budget is dedicated to public safety and associated pension obligations, John Hallacy, founder of John Hallacy Consulting LLC, told The Bond Buyer.

"It is a positive that an increased level of contributions are being made to the pension funds. Greater funding ratios should serve to reduce some of the financial burdens over time," Hallacy said. "While several corporate headquarters have announced plans to relocate from the city it will still retain its status as the business hub of the Midwest. The airport contributes a lot of economic activity to the city and environs and the operation is a positive that should be cited."

In its rating action, Fitch said the BBB rating incorporates several risks, including the city's constrained expenditure profile, given the heavily unionized nature of its workforce, and exceptionally high carrying costs for debt and pensions, a history of sizable budget gaps and dependence on one-time gap closing measures, and a revenue base highly sensitive to economic setbacks.

Still, Fitch said, "rating strengths center on the city's role as the economic hub for the Midwestern region of the U.S. and its broad revenue raising authority, which underpins a midrange level of inherent budget flexibility."

Chicago's GOs are rated A by Kroll Bond Rating Agency, Ba1 by Moody's Investors Service and BBB-plus by S&P Global Ratings.

Fitch said the upgrade on the STSC senior lien sales tax securitization bonds was based on the rating action taken on the city's GOs and IDR.

"The bankruptcy-remote, statutorily defined nature of the STSC and a bond structure involving a true sale of the pledged sales tax revenues lead Fitch to assign a bond rating at the maximum permitted by criteria of six notches above the city's IDR," the rating agency said.

"The sales tax securitization bonds have a lien on the state-collected portion of the city's home rule sales and use taxes and the local share of the state-wide sales and use taxes; the second lien bonds are secured by a lien that is subject to and subordinate to the first priority lien securing the first lien bonds issued and to be issued by the corporation," Fitch said.