

# Rating agencies downgrade Chicago debt after Supreme Court ruling blocks state pension cuts

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In the wake of the May 8 decision by the Illinois Supreme Court that found a state law cutting pensions for state workers to be unconstitutional, three major debt-rating agencies have downgraded the city's credit rating.

The downgrade is intended to put additional pressure on the city to slash municipal workers' pensions. Mayor Rahm Emanuel responded to the downgrade by reaffirming his commitment to cutting pensions, declaring, "It is irresponsible to play politics with Chicago's financial future by pushing the city to increase taxes on residents without [pension] reform."

Emanuel continues to maintain, entirely without legal justification, that the law cutting city pensions is constitutional because it was negotiated with union leaders and not imposed unilaterally as with the law affecting state workers.

On the Tuesday following the court's decision, Moody's Investors Service announced it would reduce Chicago's bond credit rating—the likelihood it attaches to the city being able to pay back its debt—to Ba1, a level it considers to be below investment grade, or "junk" status.

The only other major city with such a low rating is Detroit, which was recently forced into bankruptcy in order to shed its own pension obligations. Moody's also attached a negative outlook to its rating, expressing a likelihood that future downgrades would be forthcoming. The following day, Moody's downgraded the credit ratings of both the Chicago Board of Education and Chicago Park District, both of which issue their own debt and maintain budgets separate from that of the city.

Following the Moody's downgrade, Standard and

Poor's (S&P) and Fitch Ratings, the other two major ratings agencies, announced over the next several days that they too would be downgrading Chicago's debt. However, both S&P and Fitch stopped short of placing Chicago's debt at junk status, keeping it within the range of investment-grade debt, while acknowledging that further downgrades would be likely, particularly if laws cutting pensions for Chicago workers were also struck down.

As part of Moody's justification for its negative outlook, it even cynically cited the fact that as a result of the credit rating downgrade, Chicago would be forced to pay \$2.2 billion in accelerated payments as a result of various agreements with its creditors.

Additionally, by increasing the interest rate that the city must pay to its creditors, the downgrades imperil Chicago Mayor Rahm Emanuel's plan to refinance \$900 million in city debt and to pay off \$200 million in interest rate swaps through short-term borrowing.

Over the past few years, Moody's has repeatedly downgraded the credit ratings for the state of Illinois, the city of Chicago, and other government entities throughout the state. Each time, it has cited "unfunded pension liabilities" as a way of providing cover for the Democratic Party's efforts to slash pensions and enact devastating cuts to social programs. This action is no different.

The extent to which the entire situation has been highly orchestrated by politicians at all levels of the government is indicated by reports that the Obama administration has been closely monitoring Chicago's financial situation and was briefed on the recent downgrade. Just recently, newly elected Illinois Governor Bruce Rauner, a wealthy investor and close

friend of Emanuel, visited the Chicago City Council to state that no aid to the city would be forthcoming.

The criminality of this conspiracy against working people is underscored by the central role in this process played by the ratings agencies, which speak for the largest banks and financial interests. The credit ratings agencies played a crucial role in the massive edifice of financial speculation and fraud that fueled the growth and eventual collapse of the housing bubble in 2007, and now demand the dismantling of pensions and social programs to shift the burden of the 2008 crisis onto the backs of working people.



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