Ratings & Outlook Changes For Chicago GO Bonds

Council Office of Financial Analysis (COFA)

COFA

City of Chicago
Council Office of Financial Analysis
Janice Oda-Gray, Acting Director

121 N. LaSalle St, Ste 200
Chicago, IL 60602
cofa@cityofchicago.org

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Bond Rating Analysis

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The City Council of Financial Analysis (COFA) has prepared the following summary and analysis regarding recent ratings and outlook adjustments made to the General Obligation (GO) bonds of the City of Chicago. COFA evaluated the actions of the four major rating agencies for the City's General Obligation Bonds: Moody's, Standard & Poor's, Fitch Ratings, and Kroll.

Summary of Rating and Outlook Changes

	Fitch	Moody's	S&P	Kroll
Rating	BBB+	Baa3	BBB+*	A*
Outlook	Positive	Stable*	Positive	Positive

As of 10/19/2023

* No change from last update

Fitch Ratings

On October 19, 2023, Fitch Ratings upgraded Chicago's outstanding general obligation (GO) bond rating to 'BBB+" from 'BBB'.[1] The last rating assigned by Fitch was on October 21, 2022, when the agency upgraded the City's GO bonds ratings from BBB- to BBB.

The upgrade of Chicago's GO rating to BBB+ was driven by a decline in Chicago's long-term liability burden stemming from steady growth in the economic resources base and improved debt management.[2]

[1] Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+', Outlook stable. https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-chicago-il-idr-go-to-bbb-outlook-stable-19-10-2023

[2] Fitch Upgrades Chicago, IL's IDR and GO's to 'BBB+', Outlook stable. https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-chicago-il-idr-go-to-bbb-outlook-stable-19-10-2023

Fitch identified several risks for the City of Chicago: including its workforce and exceptionally high carrying cost for debt and pensions, a history of large budget gaps, and dependence on one-time gap-closing measures.

The ratings bump centered on Chicago's strong gap-closing capacity, financial resilience, and its role as the economic hub for the Midwestern region of the U.S.[3] Fitch anticipates continued solid revenue growth driven by the resilience of the city's economy.[4]

Moody's

Moody's Investors Service upgraded Chicago general obligation unlimited tax bonds one notch, from Ba1 to Baa3, in November 2022, a rating that has remained unchanged. The upgrade in November 2022 was based on the City's increase in pension funding, improved budgetary management, and pension cost deferrals.[5]

In November 2022, Moody's issued the first rating update for the City since May 2015. At that time, the City's GO bond rating was downgraded from Baa2 to Ba1. This upgrade was the City's first from Moody's in 13 years. The rating upgrade and "Stable" outlook affirmation by Moody's, like Fitch's assessment, is due to the City's significant increase in pension contributions and improved budgetary management.

Standard & Poor's (S&P)

On November 10, 2022, S&P affirmed the City of Chicago's GO bond rating of BBB+, which has remained unchanged since July 2015. Additionally, S&P revised the City's rating outlook from 'Stable' to 'Positive'.

S&P recognized the significant progress that Chicago has made toward achieving financial stability and implementing transformative changes. The agency views the City's commitment to honoring its revised debt and pension policy, revealed in the 2023 budget, as a positive sign.

S&P explained that Chicago's rating is currently below the single A-ratings due to the ongoing "structural imbalance on pension contributions". S&P places a cap on ratings when the borrower lacks a plan to address long-standing structural imbalances. Therefore, if Chicago can address its pension funding ratios, S&P believes the City ratings may improve.

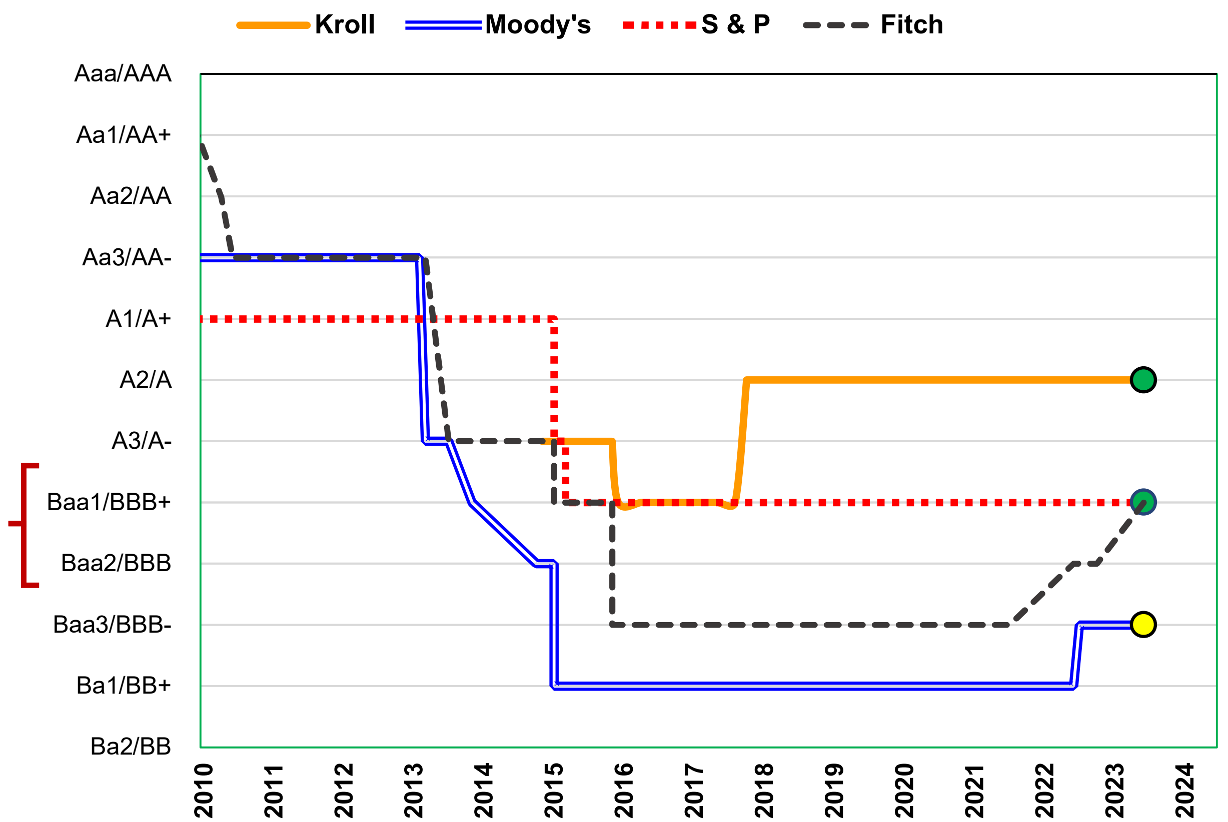
[3] Chicago's Recent Rating Upgrades. https://www.civicfed.org/civic-federation/blog/chicagos-recent-rating-upgrades
[4] Fitch Upgrades Chicago. https://www.fitchratings.com/research/us-public-finance/fitch-upgrades-chicago-il-idr-go-to-bbb-outlook-stable-19-10-2023
[5] Chicago's Recent Rating Upgrades. https://www.civicfed.org/civic-federation/blog/chicagos-recent-rating-upgrades

Kroll Bond Rating Agency

On November 10, 2022, Kroll affirmed their A rating for the City of Chicago's GO bonds, a rating that has not changed since February 2018.[6] Furthermore, Kroll affirmed the City's rating outlook as Positive. Kroll views the City's need to "identify significant long-term funding sources" to fund pension obligations and a reliance on economically sensitive revenue sources to fund operations" as credit challenges for Chicago.

Below is a COFA chart displaying how the ratings have changed over time.

City of Chicago - General Obligation Bond Rating History



SOURCE: Fitch Ratings; Kroll Bond Rating Agency; Moody's Corporation; S&P Global Ratings
NOTES: S&P and Kroll gave Chicago's GO Bonds an outlook of ***Positive*** in their latest issued reports. Fitch also gave Chicago's GO Bonds an outlook of *Positve* in their latest report, while Moody's gave an outlook of S*table*.
Ratings as of October 19, 2023

[6] Kroll Bond Rating Agency. (2022, November 10). KBRA Assigns Long-Term Rating of A to the City of Chicago General Obligation Bonds Series 2023A; Outlook Positive [Press release]. www.kbra.co

Implications

The recent rating actions of the Fitch upgrade and the other three agencies remaining unchanged had a positive impact on the City of Chicago. A common thread in the recent ratings and outlook adjustments is the continued advanced payments toward future pension obligations. The agencies view the City's decision to address future pension obligations as critical to the City's long-term financial health and rating upgrades.

The ratings given to the GO bonds for the City of Chicago directly impact the interest rates, pricing of bonds, and the future demand from investors. Ultimately, these ratings have an impact on taxpayers as lower interest rates help free up funds for other programs and initiatives of the city. Therefore, COFA suggests that the city should continue to explore different revenue sources to stabilize the long-term structural budget imbalance and fulfill its pension obligations.

By maintaining a proactive stance on pension funding and exploring diverse revenue streams, the City of Chicago can further enhance its financial health, attract investor confidence and ensure the well-being of its residents.

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