# Title: Is Chicago headed for bankruptcy? Why 'nuclear option' should be last resort

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Many cities in Illinois, overwhelmed by pension debt and faced with unprecedented cuts in state aid, soon might be lobbying the General Assembly to amend the Illinois Municipal Code to allow local governments to go bankrupt, a remedy Gov. Bruce Rauner supports.

If a pending bill of Rep. Ron Sandack, R-Downers Grove, becomes law, some commentators predict that Chicago might be the nation's first big city to follow Detroit's unenviable example and seek protection under the Federal Bankruptcy Code.

Mayor Rahm Emanuel dismisses that possibility, insisting that he'll bring down the long-term costs of the city's four public pensions, reeling from $20 billion in unfunded debt, and limit the city's annual expenditures to the revenue it takes in each year.

Many are less optimistic. In addition to the daunting pension challenge, the city's taxpayer-backed bond debt amounts to a staggering $8.3 billion, partly the result of short-term management decisions that deferred principal payments and relied on debt to close budget gaps. Making matters even worse, Moody's Investors Service downgraded Chicago's bond rating to junk status after the Illinois Supreme Court held that the state's controversial pension overhaul unconstitutionally "diminished and impaired" retirement benefits for public-sector workers, a fate that Mr. Emanuel's benefit-cutting plan to ease Chicago's crippling pension problems almost certainly will face.

**IN SOME CASES, A GOOD IDEA**

The arguments for municipal bankruptcy have merit. Sandack's legislation empowers debt-ridden municipalities to restructure their obligations and reclaim greater control over their financial futures. Without the ability to recast their debts, some city pension funds actually might go belly-up, leaving their beneficiaries without retirement income; and taxpayers might find themselves taxed more, but served less, by cash-strapped local governments.

When a city files for bankruptcy, the horrors one might imagine don't come into play. Its assets aren't seized or sold off to pay back debts, and its creditors don't become owners or managers of its assets.

But unfettered access to the bankruptcy courts presents unique risks. With bankruptcy protection, municipalities might reprioritize their agendas to address immediate political goals at the expense of more sustainable policies. Moreover, local police and fire unions would be unfairly disadvantaged when negotiating with city officials who would have the upper hand.

Let's make bankruptcy available to struggling municipalities, but only as a last resort. Sandack's bill should be tweaked, as the Civic Federation and the Illinois Municipal League have argued persuasively, to require that a quasi-judicial state authority first see that an insolvent municipal debtor and its creditors collaborate in a good-faith effort to avoid federal intervention while solutions short of bankruptcy may still be within their reach. Bankruptcy never should be an easy answer or a substitute for political will.

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