Ratings & Outlook Changes for Chicago GO Bonds – March 10, 2025

Council Office of Financial Analysis (COFA)

COFA

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Bond Rating Analysis

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Bond Rating Analysis

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	A-	Baa3	BBB	A-
Outlook	Positive	Stable	Stable	Negative

Fitch Ratings

On July 26, 2024, Fitch Ratings upgraded Chicago's outstanding general obligation (GO) bond rating to 'A-" from 'BBB+'.[1] Fitch also upgraded Chicago, IL's Issuer Default Rating (IDR and outstanding general obligation (GO) bond rating to 'A-'from 'BBB+'.[2]

The IDR and GO rating upgrade reflect the implementation of Fitch's new U.S. Public Finance Local Government Rating Criteria.[3] Key drivers of the upgrade include an assessment of Chicago's budget control and the expectation for general fund available reserves to be maintained at 10% of spending or

[1] Fitch Rates Chicago, IL's GOs 'A-'; Upgrades IDR and GOs on Criteria Change; Removed from UCO. https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-il-gos-a-upgrades-idr-gos-on-criteria-change-removed-from-uco-26-07-2024

[2] Fitch Rates Chicago, IL's GOs 'A-'; Upgrades IDR and GOs on Criteria Change; Removed from UCO. https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-il-gos-a-upgrades-idr-gos-on-criteria-change-removed-from-uco-26-07-2024

[3] Fitch Rates Chicago, IL's GOs 'A-'; Upgrades IDR and GOs on Criteria Change; Removed from UCO. https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-il-gos-a-upgrades-idr-gos-on-criteria-change-removed-from-uco-26-07-2024

higher.[4] The upgrade and stable outlook assume the city will continue to practice sound fiscal practices with a commitment to solve budget gaps through recurring measures, limiting reliance one-shots and drawing from existing fund balances. The ratings view the city's mixed demographic, educational attainment, and economic strength offset by unemployment and weaker population trends.

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 January 14, 2025, S&P Global Ratings announced the downgrade of Chicago's general obligation bond rating from BBB+ to BBB. S&P removed the city's ratings from CreditWatch, where it was placed November 19, 2024, and the outlook is stable.

The downgrade was due to the view that the 2025 budget leaves a sizeable structural budgetary imbalance that will negatively impact outyears. The downgrade was also due to the city's options for raising new revenue appear less certain as does city leadership willingness to reduce spending. The stable outlook is based on the expectation that the city's overall reserves and liquidity will remain strong enough to support the BBB ratings.

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[4] Fitch Rates Chicago, IL's GOs 'A-'; Upgrades IDR and GOs on Criteria Change; Removed from UCO. https://www.fitchratings.com/research/us-public-finance/fitch-rates-chicago-il-gos-a-upgrades-idr-gos-on-criteria-change-removed-from-uco-26-07-2024
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[5] Chicago's Recent Rating Upgrades. https://www.civicfed.org/civic-federation/blog/chicagos-recent-rating-upgrades

Kroll Bond Rating Agency

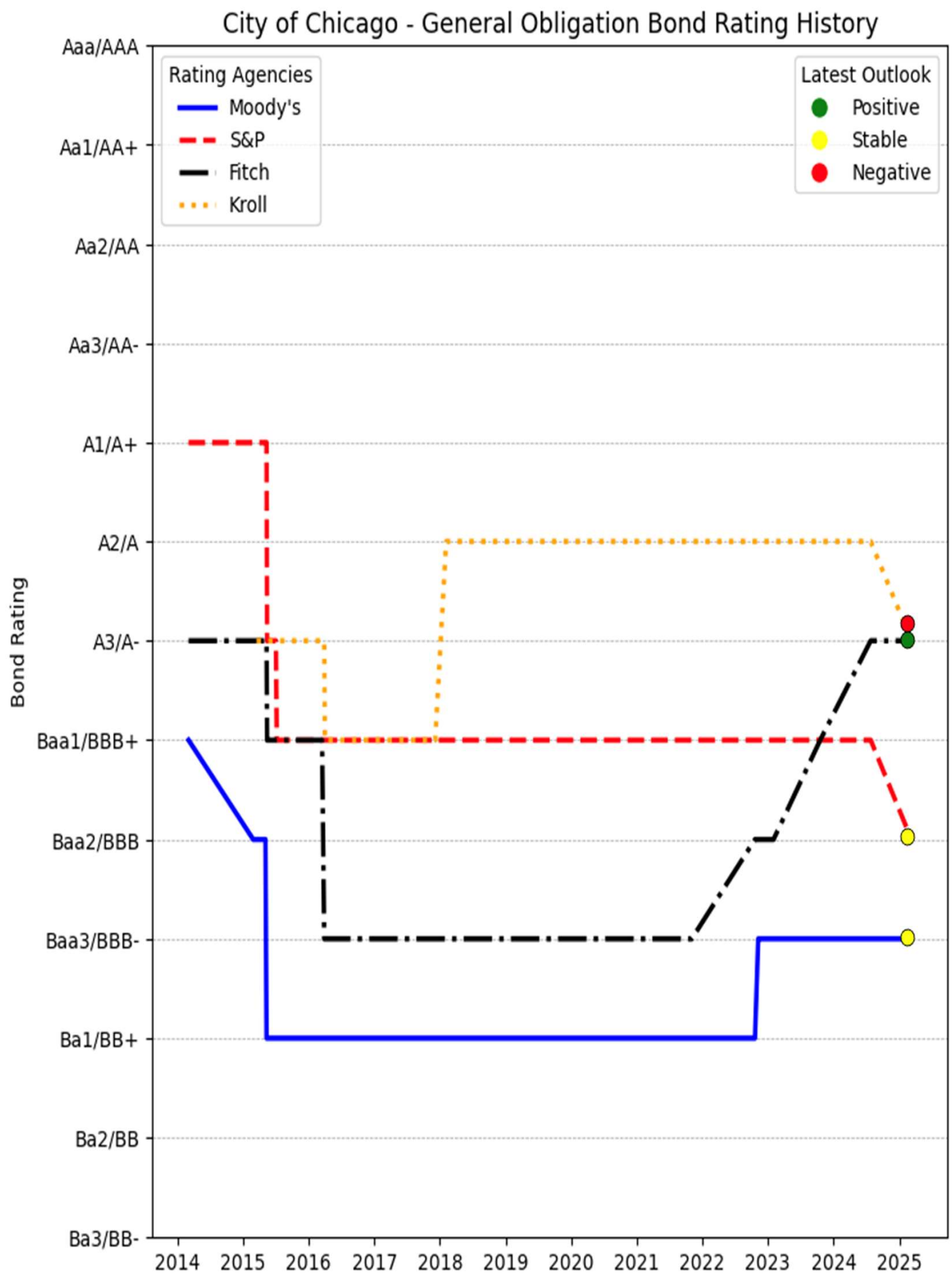
On January 24, 2025, KBRA downgraded the long-term ratings on the City of Chicago, IL General Obligation Bonds to A- from A.[6] The outlook is negative, the negative ratings action resolves KBRA's November 12, 2024, watch. The watch reflected the opinion that the City's options for raising new, recurring revenues or reducing operating expenditure are limited, necessitating continued reliance on one-time budgetary fixes.[7] KRBA believes this practice perpetuates an imbalance in the corporate fund and risks compounding future shortfalls.

The KBRA rating reflects the City's substantial tax base, prominence as a regional economic hub for the Midwest, and ample liquidity and reserve position. However, these strengths are offset by the projected outyear budget gaps exacerbated by the end of COVID-era federal recovery funds, coupled with growing pensions and service cost debt.

For upgrade considerations according to KRBA: long term revenue enhancements, improved debt ratios, and dedication of specific revenues to achieve pension funding requirements. For downgrade considerations: use of Chicago skyway and parking meter leases to offset gaps, failure to adhere to established debt policies, and borrowing by the City for other than capital purposes.

[6] KBRA. 2025. KBRA Downgrades the City of Chicago, IL G.O. Rating to A-; Outlook is Negative. https://www.kbra.com/publications/KxSPjngZ/kbra-downgrades-the-city-of-chicago-il-g-o-rating-to-a-outlook-is-negative
[7] KBRA. 2025. KBRA Downgrades the City of Chicago, IL G.O. Rating to A-; Outlook is Negative. https://www.kbra.com/publications/KxSPjngZ/kbra-downgrades-the-city-of-chicago-il-g-o-rating-to-a-outlook-is-negative

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



Implications

The recent rating actions of the S&P and KRBA downgrade reflected the fiscal challenges. A common thread in the recent ratings is the structural imbalance and the possible challenge of balancing the budget in outyears. Fitch and Moody's most recent ratings were an upgrade reflecting the confidence of Chicago to address challenges and the economic strength of the city. 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 have a direct impact on 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. 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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