The Civic Federation

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CITY OF CHICAGO FY2011 PROPOSED BUDGET:

Analysis and Recommendations

November 3, 2010

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the proposed FY2011 City of Chicago budget of nearly $6.2 billion because it does not effectively address the structural deficit and relies too heavily on asset lease reserve funds and debt restructuring to close the $654.8 million budget deficit. The proposed budget would defer costs and postpone changes needed to align current year expenditures with recurring revenues. The City cannot afford to ignore FY2012 and FY2013 when crafting its FY2011 budget because the City's revenues are not expected to rebound enough in the next 12 months to replace the reserves or keep up with annual expenditure increases.

The Civic Federation offers the following **key findings** on the City of Chicago FY2011 budget:

- The City proposes a total FY2011 budget of nearly $6.2 billion for all local funds; this is a 0.8% or $49 million increase over the FY2010 adopted budget appropriation of $6.1 billion;
- The Corporate Fund budget proposal is $3.3 billion, a 2.5% or $80.5 million increase over the FY2010 adopted budget appropriation of nearly $3.2 billion;
- Corporate Fund personnel service appropriations are projected to increase by 3.4%, from the FY2010 adopted appropriations of $2.6 billion to $2.7 billion in FY2011;
- The property tax levy for City purposes will be held flat in FY2011; and
- The $654.8 million FY2011 budget deficit was closed using the following measures: $142 million from refinancing existing city debt service payments, $120 million in funds restricted as long-term reserves from the lease of the parking meters, $98.0 million from maximizing reimbursements from other funds and governments, $96.9 million in expenditure reductions, $91.3 million of revenue growth, $68.2 million of "strategic financial options," and $38.5 million in Tax Increment Financing district surplus.
- A total of $244.4 million in parking meter funds are budgeted for FY2011, leaving a projected balance of only $76.0 million from an asset lease that yielded $1.15 billion in 2009.
- Unfunded liabilities for the City's four pension funds rose from $2.4 billion in FY2000 to $12.4 billion in FY2009, an increase from $827 to $4,348 per resident of Chicago.

The Civic Federation **supports** the following elements of the City of Chicago's FY2011 budget:

- Reducing $96.9 million of expenses in FY2011, including savings realized from the elimination of vacant positions and consolidating departments;
- Holding the City's property tax levy flat; and
- Utilizing its robust performance measurement system and publishing the results of this system in its annual budget documents.
- Although no immediate savings are projected in this year's budget, the Civic Federation also supports the Mayor's proposals to privatize festivals, blue cart recycling, and animal care as important initiatives that should significantly reduce costs in the future.

The Civic Federation has **concerns** about the following elements of the City of Chicago's FY2011 budget:

- The City has a persistent structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time. The structural deficit persists because the City has failed to enact measures that make deep enough spending cuts and/or utilize new or increased recurring revenues. In recent years, the City has attempted to address its structural imbalance with insufficient spending reductions and non-recurring revenues;

- Nearly 40% of this year's projected $654.8 million budget deficit is balanced with $120 million in reserve funds and $142 million in debt service restructuring savings;
- The FY2011 budget proposal does not identify any specific changes to address the City's pension fund crisis, yet the Fire and Police pension funds are at risk of depleting all of their assets within ten years and unfunded actuarial accrued liabilities for the four funds reached $12.4 billion in FY2009, or $4,348 per resident of Chicago;
- Bonded debt levels are relatively high and debt service will rise to 21.0% of all local funds appropriations, representing $1.3 billion out of $6.2 billion in FY2011; and
- Undesignated reserves in the Corporate Fund have declined from $80.7 million in FY2000 to $2.7 million in FY2009.

The Civic Federation offers the following specific **recommendations** as a guide to improving the City of Chicago's financial management:

- Implement greater expenditure reductions. The Civic Federation supports immediately making at least $85.4 million in additional reductions quantified by the City of Chicago Inspector General's Office. The longer major structural cuts are delayed, the larger they will have to be in the future when asset lease reserves are depleted and the City can no longer turn to major non-recurring revenue sources to close the structural budget gap. The Inspector General's report also included many longer-term options supported by the Civic Federation, but they will not necessarily be available to close the FY2011 deficit.
- Create a formal asset lease reserves withdrawal policy that protects the proceeds earned from the long-term leases of City assets;
- Implement pension reform, including a reduced benefit tier for new police and fire employees, employer and employee contributions that relate to funded status of the plans, reduced benefits for current employees if the City is unable to secure adequate funding for its pension promises, consideration of pension fund consolidation, and reform of pension board governance;
- Build up Corporate Fund undesignated reserves and implement a reserve policy consonant with standards recommended by the Government Finance Officers Association;
- Develop and implement a formal multi-year financial planning process that is both reviewed publicly and endorsed by the City Council and other key policy stakeholders;
- Continue to improve transparency of Tax Increment Financing reporting; and
- Improve the budget document format by reporting the following items in the Budget Overview and Revenue Estimates book: prior years' actual expenditure and personnel data, all reserve fund revenues and expenditures, all revenues by source, and all property tax levies including those levied by the City on behalf of the City Colleges of Chicago and Chicago Public Schools.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the proposed FY2011 City of Chicago budget of nearly $6.2 billion because it does not effectively address the structural deficit and relies too heavily on asset lease reserve funds and debt restructuring to close the $654.8 million budget deficit. The proposed budget would defer costs and postpone changes needed to align current year expenditures with recurring revenues. The City cannot afford to ignore FY2012 and FY2013 when crafting its FY2011 budget because the City's revenues are not expected to rebound enough in the next 12 months to replace the reserves or keep up with annual expenditure increases.

The City's most significant challenges are its structural deficit, enormous unfunded pension liabilities, and growing bonded debt burden. Repeated use of non-recurring revenue sources, especially the use of over 80% of the proceeds from the Skyway and parking meter long-term asset leases, has exacerbated the City's financial crisis and demonstrated a persistent structural deficit in the annual operating budget.

Issues the Civic Federations Supports

The Civic Federation supports the following elements of the proposed FY2011 City of Chicago budget.

Expenditure Reductions and Consolidations

The City of Chicago is proposing to make $96.9 million in expense reductions for FY2011. This is in addition to the continuation of personnel cost reductions negotiated in 2009, which are expected to save $52 million.[1] Those reductions take the form of unpaid holidays, reduced work weeks, and the use of compensatory time instead of payment. The City also expects to make an estimated $57 million in expenditure savings by the end of FY2010, thus reducing its use of reserves in the current fiscal year.[2]

The FY2011 proposed payroll for all local funds is $3.3 billion for 32,922 positions.[3] The City proposes to lay off 42 employees and eliminate a total of 277 positions in the Corporate Fund, although 43 positions will be added in other funds, for a net all local funds reduction of 234 positions.[4] The City also proposes $22 million in savings from health care cost reductions.[5]

Non-personnel expense reductions totaling $12.2 million are proposed by reducing materials, supplies, property rent, fuel, natural gas, and contractual expenses such as custodial services.[6]

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[1] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 2.
[2] City of Chicago, FY2011 Preliminary Budget Estimates, July 30, 2010, pp. 2, 3.
[3] City of Chicago, FY2011 Budget Recommendations, p. 11 and FY2011 Budget Overview and Revenue Estimates, p. 6.
[4] "All local funds" is the Corporate Fund, special revenue funds, pension funds, debt service funds, and enterprise funds. It excludes grant funds.
[5] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 2.
[6] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 2, and briefing to the Civic Federation, October 11, 2010, p. 8.

The Civic Federation supports the City's efforts to reduce operating expenses and urges further reductions. Roughly 80% of the Corporate Fund budget is spent on personnel costs, which consistently rise faster than revenues due to labor agreements and health care cost increases. Personnel reductions will continue to be a key factor in closing the City's ongoing structural deficit, which will require matching annual expenditures to recurring revenues.

Developing a Performance Measurement System

The City of Chicago has made great strides in developing a performance measurement system and making the results of this system available to the public in its annual budget documents. In the *Program and Budget Summary* budget document, the reader has access to performance data for most City departments that is tailored specifically to measure the outputs of the department. Service delivery targets and goals for the upcoming year are provided alongside historical achievement and target data for immediate years preceding. The data affords the reader an opportunity to evaluate some of the work done by the City. In the future, the performance measurement system could be strengthened by including more efficiency, effectiveness, and quality measures that assess outcomes or results.

Utilizing a variety of performance measures can be a useful tool that the City could use to avoid across-the-board cuts and instead target cost-cutting measures to under-utilized, underperforming, or inefficient services.

Holding the Property Tax Levy Flat

The City of Chicago's proposed 2011 property tax levy for City government purposes is $796.8 million and held flat from the FY2010 levy. The levy for City government purposes was $713.5 million between FY2003 and FY2007. In FY2008, the levy was increased by 11.7% or $83.4 million to $796.8 million, a tax increase that City residents first began paying in their fall 2009 tax bills.

The Civic Federation commends the City for holding the line on its levy this year and not turning to the property tax to close the budget deficit. Raising taxes before spending has been stabilized and all possible cost cutting efficiencies have been implemented would be counterproductive as City residents struggle to deal with the aftermath of the recession and the housing foreclosure crisis.

In the near future, however, solving the City's pension crisis will likely require both major benefit reforms and increased funding that may necessitate a property tax increase. The City's Commission to Strengthen Chicago's Pension Funds estimated that it will cost roughly $710 million additional dollars annually to fix the pension crisis.[7] That sum is more than double the

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[7] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 4. Available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/perf_mang/news/2010/apr/commission_to_strengthenchicagospensionfundsreleasesreportonfisc.html.

$348.7 million in property tax dollars the City proposes to levy for its four employee pension funds in FY2011.[8]

Pursuing Privatization of City Festivals, Blue Cart Recycling, and Animal Care

The City is taking steps to privatize the Taste of Chicago and six other festivals. If the City is not able to obtain satisfactory proposals then it may make reductions to the events.[9] Savings from this initiative are not included in the budget proposal. However, the Civic Federation supports efforts to find alternative revenue sources to support City festivals. The lakefront festivals draw more than 10 million people annually.[10] Although these festivals serve as positive economic development tools they come at a cost to the City. Policing expenses alone were reportedly more than $2 million last year.[11]

Mayor Daley has also announced plans to issue Requests for Proposals for "Blue Cart" recycling as well as animal care in the Animal Care and Control department.[12] The City should not delay in seeking proposals from businesses and organizations that can provide these services. During these difficult budget times the City must pursue every possible avenue to reduce costs.

Civic Federation Concerns

The Civic Federation has **concerns** regarding several critical financial issues facing the City of Chicago.

Persistent Structural Deficit

The City has a structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time. As described beginning on page 27 of this report, the City has had significant and growing budget deficits to close during the past five fiscal years. The City began with a $94.8 million budget gap in FY2007 and a $217.6 million budget gap in FY2008. In FY2009 the budget deficit totaled $469.6 million and in FY2010 the deficit totaled $520.0 million. The FY2011 budget deficit of $654.8 million equals 10.6% of the total budget for the City across all local funds and 20.1% of the Corporate Fund appropriation. The increase in the City's annual budget deficit over time is a leading indicator that the City's expenses are outpacing its revenues. The deficits continue to grow because the City has failed to enact measures that make deep enough spending cuts and/or utilize new or increased recurring revenues. Rather, the City has attempted to address its structural imbalance with insufficient spending reductions and non-recurring revenues

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[8]The total budgeted FY2011 employer contribution to the four pension funds is $456.1 million because the City also uses Personal Property Replacement Tax revenues for its pension contributions. City of Chicago FY2011 Budget Overview and Estimates, p. 112.
[9] Fran Spielman, "Major cuts to Taste, other fests a possibility, city says," *Chicago Sun-Times*, October 27, 2010.
[10] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 79.
[11] Fran Spielman, "Major cuts to Taste, other fests a possibility, city says," *Chicago Sun-Times*, October 27, 2010.
[12] City of Chicago, "Mayor Daley Says City Will Look Into Privatizing Management of Recycling Program, Lakefront Festivals, Other Functions," August 26, 2010.
http://mayor.cityofchicago.org/mayor/en/press_room/press_releases/2010/august_2010/0826_management_initiatives.html

The City has experienced deep revenue declines in recent years due in part to the economic recession that officially ended in June 2009 and its lingering after effects.[13] By the end of 2010, the City reports that it will have lost a cumulative total of $734.3 million in economically-sensitive revenues since the 2007 revenue peak, and projects an additional $297.2 million loss for 2011.[14] The decline in economically-sensitive revenues has added roughly $300 million in pressure on the City's annual budget in each of the last three years.

However, the City's growing deficit problem is not due solely to the recent recession. Spending has continued to rise. Between FY2007 and FY2011, net appropriations for all local funds will have increased by 8.6%, rising from $5.7 billion to $6.1 billion.[15] Appropriations for personnel, the single biggest expenditure in the local funds budget, will have increased by 9.2%, rising from $3.0 billion to $3.3 billion.[16] The personnel cost increases come despite a reduction in the City's local funds workforce of 2,945 positions, or 8.2%, over the same time period.[17]

Accrual-basis figures from the City's audited financial statements also show expenses outpacing tax revenues between FY2005 and FY2009. Expenses grew from $6.7 billion in FY2005 to $7.8 billion in FY2009. This 17.3% growth in expenses was over twice the 8.1% rate of inflation over the same period. Meanwhile the City's tax revenues grew by $178.9 million, from $2.7 billion in FY2005 to $2.9 billion in FY2009. The 6.5% growth in tax revenue over the five-year period is less than the rate of inflation over the same period.

Again Closing Majority of Budget Deficit with Non-Recurring Revenues

The City of Chicago's projected budget deficit for FY2011 totals $654.8 million. Only $96.9 million or 14.8% of the gap will be closed through expenditure reductions. The City is proposing to close the majority of the deficit using a variety of one-time revenue sources, some of which will create greater costs in the future and all of which will guarantee an enormous deficit again next year.

The Civic Federation estimates that at least 17.6% of the proposed FY2011 Corporate Fund revenues are non-recurring sources. This is an increase from 5.6% in FY2007.[18] The accelerating use of non-recurring revenues is a major concern as these sources are being exhausted. The FY2011 budget proposal includes at least $272.7 million from asset lease reserves.[19] **By the end of Fiscal Year 2011, the City is projecting that only $576.0 million[20] of the $2.98 billion**

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[13] The National Bureau of Economic Research announced on September 20, 2010 that the recession that began in December of 2007 ended in June 2009. National Bureau of Economic Research, http://www.nber.org/cycles/sept2010.html (last visited on October 25, 2010).
[14] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 63.
[15] City of Chicago, FY2007 Appropriations Ordinance, p. IX, and FY2011 Budget Recommendations, p. 11.
[16] City of Chicago, FY2007 Appropriations Ordinance, p. IX, and FY2011 Budget Recommendations, p. 11.
[17] See the Personnel section of this report.
[18] See the Structural Deficit section of this report.
[19] This includes $50.0 million from the Skyway Mid-Term Reserve Fund, $139.9 million from the Parking Meter Long-Term Reserve Fund (interest and principal), and $82.8 million from the Parking Meter Mid-Term Teserve Fund. Not included is the Skyway Long-Term Reserve interest as this is recurring as long as the principal is intact and the Human Infrastructure Fund as these are theoretically for specific programs that can be discontinued as funds are depleted.
[20] City of Chicago, FY2011 Overview and Revenue Estimates, p. 62.

generated from asset lease proceeds will remain. Nearly 80.7% of the proceeds will have been spent in just six years.

Especially troubling is the rapid rate at which the parking meter lease proceeds have been used. In just three years 93.4% of the funds will have been used including $100.0 million of mid-term reserve funds which were supposed to be available in FY2012 and at least $310.0 million in funds intended to serve as long-term reserves.[21] The City has given up a valuable asset for 75 years and it has used the vast majority of the proceeds in just three years.[22] These actions also bring up issues of intergenerational equity as current taxpayers are benefiting at the expense of past and future taxpayers.

The City has repeatedly used one-time revenue sources to close its budget gaps in recent years, and those gaps have grown larger as a result. This approach is short-sighted. It fails to plan for the future. It also fails to acknowledge that a structural imbalance exists between the City's ongoing expenditures and recurring revenue sources. The result is that each budget is patched with one-time revenues that leave budget gaps in subsequent years. The structural deficit will eventually have to be closed with even larger major service cuts and tax or fee increases in the future. The depletion of the asset lease long-term reserves creates additional challenges such as replenishing principal on the proceeds restricted as long-term reserves, less revenue from interest earnings, addressing programs funded through Human Infrastructure funds, and possibly increased borrowing costs as the City's bond ratings are downgraded.

These structural challenges are not simply the result of current economic conditions. According to the City, 2007 was the peak year in economically sensitive revenues.[23] The City began using Skyway Mid-Term Reserve funds to balance its budget in 2005. Between FY2000 and the peak year of FY2007 the City drew down its Corporate Fund fund balance by $76.0 million or 94.3%. This was a boom time, sales and use taxes were growing an average of 7.8% per year,[24] real estate transfer taxes reached record levels,[25] and the City had a significant new revenue stream in the form of interest earnings from the Skyway Long-Term Reserve Fund. At a time when the City should have been preserving and adding to reserves it was already beginning to deplete them.

There have been costly consequences to the City's repeated use of asset lease reserves. In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds from AA+ to AA and a negative outlook. Moody's downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2. Moody's also based their decision in part on Chicago's excessive dependence on asset lease reserves that are being rapidly depleted.[26] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds from AA to AA-, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating

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[21] Exact amount is unknown because principal will be utilized if interest earnings do not reach $20 million per year.
[22] The principal amounts that have been transferred from the Parking Meter Long-Term Reserve fund have been "borrowed" and are designated to be repaid to the fund in the future.
[23] City of Chicago, FY2011 Overview and Revenue Estimates, p. 63.
[24] City of Chicago, FY2011 Overview and Revenue Estimates, p. 55.
[25] City of Chicago, FY2011 Overview and Revenue Estimates, p. 45.
[26] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.

purposes as a key factor in assigning the downgrade.[27] These downgrades will increase the cost of future debt obligations at a time when the City can least afford it.

Lack of Action Taken on Pension Fund Fiscal Crisis

The actuarial value funded ratios of all four City pension funds declined again in FY2009. The Fire Fund fell to 36.5% and the Police Fund fell to 43.6%. These are far below levels considered financially sustainable. The funded ratio for the Municipal Fund was 57.0% and the Laborers Fund was 79.4%. In April 2010 the City's Commission to Strengthen Chicago's Pension Funds released a report showing that the Police and Fire pension funds are likely to deplete their assets within ten years if nothing is done.[28]

Over the past ten years, the unfunded actuarial accrued liabilities of the four funds combined have grown by $10.0 billion, from $2.4 billion in FY2000 to $12.4 billion in FY2009. This amounts to an increase from $827 per resident of Chicago to $4,348 per resident.

The gap between the actuarially calculated annual required contribution (ARC) and the City's employer contributions to its pension funds has grown at an alarming rate over the past ten years.[29] In FY2000 the City's employer contribution to its four pension funds was equivalent to 14.1% of payroll, or slightly more than the ARC. By FY2009 the City's employer contribution was only 13.4% of payroll while the ARC had grown to 31.2% of payroll. In other words, a reasonable pension funding policy would have required the City to contribute an additional 17.9% of payroll, or $566.5 million, to its pension funds in FY2009. The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $2.4 billion shortfall.

The worsening financial condition of the City's pension funds was a major factor cited by both Fitch and Moody's in their recent downgrades of Chicago's General Obligation Bonds in August and October 2010.[30]

Although Public Act 96-0889, enacted in April 2010, creates a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the Chicago Municipal and Laborers' pension funds, the legislation did not change benefits for any police or fire pension funds in the state. Over time these benefit changes for new hires will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. However, this change will not affect City pension contributions

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[27] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.

[28] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 21. Available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/perf_mang/news/2010/apr/commission_to_strengthenchicagospensionfundsreleasesreportonfisc.html.

[29] See the Pension section of this report for an explanation of ARC and employer contributions.

[30] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010. Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.

under the current state statutes requiring City contributions to be a fixed multiple of employee contributions made two years prior.[31]

The Commission to Strengthen Chicago's Pension Funds calculated that restoring the health of the City's pension funds would require an additional $710 million each year, growing with inflation, beginning in FY2012 if the City adopted a 50-year funding plan to achieve 90% funded ratios for its funds.[32] This amount exceeds but is not included in the City's preliminary $654.8 million FY2011 budget deficit. The City's own Commission stated the urgency of the situation clearly:

> "The problem worsens with each passing year, as the deficit grows and becomes more expensive to fix. It is important to address this problem effectively and quickly. If we fail to act, the pension funds will begin to run out of assets in a decade or less."[33]

The Civic Federation is deeply concerned that the FY2011 budget proposal does not propose any action on the pension fund crisis. Instead, the budget is balanced primarily with non-recurring revenue sources—an action that will leave gaps in future budgets and make it even more difficult to find room in the budget to shore up the pension funds.

High Bonded Debt Burden

The City of Chicago continues to have a relatively high debt burden according to three key commonly-used indicators:

- Between FY2000 and FY2009 Chicago net direct debt rose by 121.9% or $3.7 billion. This represents an increase from $3.1 billion to approximately $6.8 billion.
- Between FY2000 and FY2009 overlapping debt from other local governments combined increased by 50.3% at the same time as the City of Chicago's debt rose by approximately 121.9%. Total debt from all eight major governments rose by 75.6%.
- Debt service appropriations in FY2011 are projected to rise to 21.0% of all local funds appropriations, or $1.3 billion out of $6.2 billion. Rating agencies consider a debt burden high if this ratio is between 15% and 20%.

The rate of increase and the level of the City's debt burden are of great concern to the Civic Federation. More than one-fifth of the City's $6.2 billion all local funds budget is now spent on

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[31] See Civic Federation, "Status of Local Pension Funding Fiscal Year 2008," March 8, 2010, p. 41ff. for an explanation of employer contributions. http://www.civicfed.org/civic-federation/publications/fy2008statuslocalpensions

[32] The report noted that the new tier created by P.A. 96-0889 may reduce this figure to roughly $660 million. The Commission's estimates were made assuming a schedule to reach 90% funded by December 31, 2061 and the original $710 million figure is the total additional amount needed for that schedule without designating whether the employer or the employee makes the additional contribution. Page 55 of the Commission report shows that if the additional contribution were split such that the employer paid 60% and the employee paid 40%, the additional City contribution would be $427 million and the additional employee contribution would be 7.94% of pay. City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, pp. 4, 55.

[33] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 4.

debt service. Fitch Ratings cited the City's above average debt levels and slow debt amortization as a key factor in its October 28, 2010 downgrade.[34]

Inadequate Corporate Fund Reserves

Between FY2000 and FY2009, the City of Chicago Corporate Fund unreserved fund balance dropped from $80.7 million to just $2.7 million. The fund balance ratio fell from 3.39% to 0.09% of Corporate Fund appropriations. There was slight growth from FY2008 to FY2009 with the balance rising by $2.4 million. This increase is not the result of any structural improvement as there was $444.8 million in transfers to the Corporate Fund in non-recurring asset lease proceeds in FY2009.

It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association recommends that governments maintain general fund reserves equivalent to two months of expenditures or revenues (roughly 17%). In FY2011 this amount would total approximately $500 million. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio maybe appropriate for the largest governments.[35]

The City plans to maintain its $500 million long-term reserve from the lease of the Skyway, but it should still have a Corporate Fund contingency reserve to deal with the pressures of year-to-year spending and revenue challenges. The Skyway lease transaction requires the long-term reserve principal to be restricted[36] and therefore cannot properly be used to address the short-term revenue shortfalls and unanticipated expenditures that a general fund balance is intended to address. Furthermore, the GFOA standard refers specifically to unrestricted balances. The City of Chicago's Corporate Fund balance is at a level far below an amount that is fiscally prudent for a government of its size. The Civic Federation is concerned that the City has failed to establish a Corporate Fund reserve policy or build up Corporate Fund reserves through annual budgetary discipline of spending less than it receives in revenues and applying the balance to a reserve.

Restructuring Debt Again to Achieve Immediate Savings

The City has included $142.0 million of savings from debt restructuring and refinancing in its deficit closing revenues. While the deal has not yet been finalized, the City proposes to restructure and refinance a significant amount of General Obligation debt, extending it by approximately 4.5 years and reaping net present value savings due to the current low interest rate environment.[37] The City asserts that no debt will be extended beyond the useful life of the asset it was used to purchase.[38]

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[34] Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[35] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[36] City of Chicago, FY2009 Comprehensive Annual Financial Report p. 51.
[37] Information provided by the City of Chicago Department of Finance, October 23, 2010.
[38] Information provided by the City of Chicago Chief Financial Officer, October 11, 2010.

It is prudent to restructure debt if it achieves net present value savings and does not extend the debt service beyond the useful life of the asset. However, it is not prudent to use the entire restructuring savings in the first year because it is a one-time revenue source that will leave a budget gap in the following year.

Civic Federation Recommendations

The Civic Federation has several recommendations regarding ways to improve the City of Chicago's financial management practices in both the short- and long-term.

Implement Greater Expenditure Reductions

The Civic Federation estimates that at least 17.6% of the proposed FY2011 Corporate Fund revenues are non-recurring sources.[39] The FY2011 budget proposal includes at least $272.7 million from asset lease reserves.[40] By the end of FY2011, the City is projecting that only $576.0 million[41] of the $2.98 billion generated from asset leases will remain. Nearly 80.7% of the proceeds will have been spent.

The Civic Federation has opposed the use of asset lease proceeds for operating purposes and has warned for several years that the City's reliance on non-recurring revenue sources to close budget deficits is unsustainable.

The Civic Federation recommends that instead of relying heavily on asset lease reserves to close its deficit again this year, the City begin to address its structural deficit by significantly cutting expenditures. The longer these cuts are delayed, the deeper they will have to be when the City runs out of asset lease proceeds and other non-recurring sources to patch its budget deficits.

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[39] See the Structural Deficit section of this report.
[40] This includes $50.0 million from the Skyway Mid-Term Reserve Fund, $139.9 million from the Parking Meter Long-Term Reserve Fund (interest and principal), and $82.8 million from the Parking Meter Mid-Term Reserve Fund. Not included is Skyway Long-Term Reserve interest as this is recurring as long as the principal is intact and the Human Infrastructure proceeds as these are theoretically for specific programs that can be discontinued as funds are depleted.
[41] City of Chicago, FY2011 Overview and Revenue Estimates, p. 62.

The City of Chicago Inspector General's Office recently released a report quantifying potential savings and revenue increases from a variety of actions the City could take. Many of these were recommendations that the Civic Federation has made previously. The following table lists options that were identified in the Inspector General's report as suitable for immediate implementation and that the Civic Federation recommends the City undertake in FY2011. Some of the options that the Civic Federation has long recommended, such as ending water subsidies for non-profits, will not necessarily be available for closing the Corporate Fund deficit so they are shown separately. Other options endorsed by the Civic Federation have already been incorporated into the FY2011 budget proposal. The options endorsed by the Civic Federation total over $85.4 million in Corporate Fund revenues or savings and $21.0 million in other funds.

City of Chicago Office of Inspector General Budget Options Report: Options Recommended by the Civic Federation for FY2011

Budget Option	Estimated Savings or Increased Revenues Corporate Fund	Other Fund Savings
Eliminate the Regular Use of Traffic Control Aides in the Loop	$4,350,000	$0
Move Sworn Officers to Nonadministrative Positions	$1,900,000	$0
Eliminate the Condo Refuse Rebate Program	$6,000,000	$0
Eliminate Subsidized Water and Sewer Usage for Non-profit organizations	$0	$15,200,000
Switch to a Regional, Grid-based system of Garbage Collection	$29,600,000	$0
Reduce the Number of Laborers on a Garbage Truck to 1	$10,300,000	$0
Charge a Fee for Blue Cart Recycling	$14,100,000	$0
Charge a Fee to Non-profits that Receive City Garbage Collection	$317,000	$0
Eliminate Free Sewer Service for Seniors	$0	$5,250,000
Eliminate Subscription Fees to Water Research Foundation	$0	$515,000
Eliminate Chicago Career Tech	$8,400,000	$0
Eliminate Supportive Services for Commercial Area Development*	$1,900,000	$0
Eliminate Technical Assistance- Citywide Program*	$0	$0
Eliminate the Subsidy to World Business Chicago	$1,400,000	$0
Eliminate Home Buying Assistance for Police Officers, Firefighters, and Teachers*	$0	$0
Eliminate Jumping Jack Program	$500,000	$0
Eliminate Tier IV of the City Arts Program	$108,000	$0
Eliminate City Funding for Tuberculosis Clinics	$1,560,000	$0
Reduce Spending on Janitorial Contracts	$5,000,000	$0
Eliminate Property Tax Relief Grants*	$0	$0
Total Short-Term Budget Options	**$85,435,000**	**$20,965,000**

*Already included in the City's FY2011 Budget Proposal. The Inspector General's report (p. 36) notes that the Supportive Services for Commercial Area Development (e.g., local chambers of commerce) and Technical Assistance--Citywide Program (low-income housing services) are funded from the same budget line, which has been reduced from $5.6 million to $1.9 million in the FY2011 budget. The $1.9 million is shown above in the Commercial Area line.

Source: City of Chicago Inspector General's Office, Budget Options for the City of Chicago, October 2010.

The Inspector General's report also included longer-term options supported by the Civic Federation, including reducing fire truck staffing from five persons to four persons (a practice that meets national standards), eliminating police supervisor quarterly pay, privatizing City garbage and recycling collection, and eliminating additional pay for certain Water Department workers who work on weekends as part of their normal schedule. The Civic Federation urges the City to begin work on these actions now in order to reduce future budget deficits.

The Civic Federation recommends that at a minimum, the City seek to make the $85.4 million in additional cuts shown above in FY2011 in addition to the $96.9 million in cuts already proposed in the budget. This action will begin to rectify the City's structural deficit by slowly closing the gap between annual expenditure increases and recurring revenue growth. It will also decrease the City's use of non-recurring revenues to close the FY2011 budget gap, thus reducing budget gaps in future years.

Create a Formal Asset Lease Reserves Withdrawal Policy

The Civic Federation again urges the City of Chicago to adopt a formal asset lease reserves withdrawal policy. This should be done as soon as possible in order to protect the remaining reserves even when economically-sensitive revenues eventually begin to recover.

The City had originally set aside $900.0 million in long-term reserve accounts using proceeds from both the Skyway and parking meter leases. The City has designated approximately $1.3 billion of proceeds from the Skyway and parking meter leases to fund operating expenses between FY2005 and FY2012. These operating funds were allocated in various ways including mid-term reserves, budget stabilization funds, and human infrastructure funds.

The Civic Federation believes that these short-term operating appropriations are an improper use of asset lease proceeds. *These funds should not be used for operating expenses.* Instead, they should be dedicated to retiring debt, reducing unfunded pension liabilities, making long-term capital investments, and creating substantial long-term reserve accounts. Only the interest earned on asset lease proceeds should be used for operating expenses as a replacement for the revenues that were originally generated by the assets before they were leased.

However, given the severity of the City's fiscal crisis, the Civic Federation recommended last year that the City create a policy to determine the extraordinary circumstances under which it may use the principal of asset lease reserve funds for operating purposes. The Federation repeats that recommendation here. The policy should articulate both the situations under which the principal may be drawn down and how much may be withdrawn from the reserve fund.

The Civic Federation recommended last year that the City Council adopt and adhere to the following proposed policy on the use of asset lease reserve fund principal:

1) The City shall be authorized to use principal from asset lease reserve funds for operating expenses if the following three conditions exist:
    a. A combined decrease in sales, use, income, real estate transfer, hotel, amusement, and personal property replacement tax revenues, designated for Corporate Fund

use, that exceeds 5.0% between prior-year-end estimates and the City's annual preliminary budget revenue forecasts;[42]

   b. A budget deficit that exceeds 10.0% of the projected Corporate Fund appropriations in the City's annual preliminary budget estimates; and
   c. A declaration of a nationwide economic recession by the National Bureau of Economic Research within the previous nine months from July 31.

2) If the City Council approves by a simple majority vote a certification by the Mayor of Chicago that all three elements exist, then:
   a. The City may use asset lease proceeds and reserves to reduce only the amount of Corporate Fund revenue projected to decline between year-end estimates and proposed budget forecasts for the upcoming fiscal year.

The Federation still recommends that the City adopt this or a similar policy to guide its use of asset lease reserve funds. All three of the conditions were met last year and the policy would have permitted use of $93.1 million in Parking Meter Mid-Term reserves.[43] This was less than the $370 million in reserve funds that the City had proposed to spend.

Only one of the above conditions is met in FY2011. In its FY2011 Preliminary Budget Estimate released on July 30, 2010, the City projected that FY2011 sales, use, income, real estate transfer, hotel, amusement, and personal property replacement tax revenues in the Corporate Fund would increase by 1.0% over FY2010 year-end estimates, thus the first condition is not met.[44] In the FY2011 Preliminary Budget Estimates, the City predicted that its budget deficit would total 19.3% of its projected FY2011 Corporate Fund expenditures, thereby meeting the second condition. Finally, the National Bureau of Economic Research announced on September 20, 2010 that the recession that began in December of 2007 ended in June 2009.[45]

A review of these conditions also reveals that although economically sensitive revenues were projected to perform better in the FY2011 Preliminary Budget Estimate than in the FY2010 Preliminary Budget Estimate, the deficit still grew from 15.7% to 19.3% of projected Corporate Fund expenditures.

Given the above policy statement, the Federation opposes the City's use of a portion of the asset lease reserves to help close its FY2011 budget deficit.

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[42] Income, personal property replacement, real estate transfer, and sales taxes are economically sensitive or "elastic" revenues. Elastic revenues will rise as the economic base expands or inflation rises. Conversely, elastic revenues will contract when the economic base shrinks or inflation declines. The City of Chicago and other local governments that rely in part on elastic revenues such as sales and income taxes are currently experiencing serious reductions in these revenues because of the recent recession. See John L. Mikesell, *Fiscal Administration: Analysis and Administration for the Public Sector* (Belmont, CA: Thomson Wadsworth, 2003), p. 300. The City of Chicago includes hotel and amusement taxes as part of its definition of economically sensitive revenues.

[43] Civic Federation, "City of Chicago FY2010 Proposed Budget: Analysis and Recommendations," November 18, 2009, pp. 11-16.

[44] City of Chicago, FY2011 Preliminary Budget Estimates, p. 13.

[45] National Bureau of Economic Research, http://www.nber.org/cycles/sept2010.html (last visited on October 25, 2010).

Implement Pension Reform

As discussed on page 10 above, the City is facing a severe pension crisis. The City's Commission to Strengthen Chicago's Pension Funds report estimated that the Police and Fire pension funds are likely to deplete their assets within ten years if no action is taken.[46] The longer action is delayed, the more residents of Chicago will have to bear service cuts, tax increases, or both in order to save the pensions of City workers.

The Civic Federation makes the following recommendations regarding the City's four pension funds:

Extend Public Act 96-0889 to Police and Fire Pension Funds

The Civic Federation supports the new tier of benefits for many public employees hired on or after January 1, 2011 pursuant to Public Act 96-0889. The Act made several changes long advocated by the Federation, but unfortunately did not include members of any police or fire pension funds in the state. We urge the City to seek extension of the new benefit tier to its police and fire pensions and commend Mayor Daley for stating his intention to do so.[47] Over time these benefit changes for new hires will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. The Commission to Strengthen Chicago's Pension Funds calculated that the annual cost of restoring the City's pension funds to 90% funded by the year 2062 would fall from $710 million to $660 million (growing annually with inflation) as a result of the P.A. 96-0889 changes for new hires in the Municipal and Laborers' funds. Extending the Act to police and fire new hires will not solve the crisis, but it is an important first step.

Reduce Benefits for Current Employees if Adequate Funding for Pension Promises Is Not Secured

The City's pension liabilities have grown so large and the contributions needed to rescue the funds are so substantial that the City will have great difficulty funding the pension promises it has made to its employees. As noted previously, it will cost at least $660 million annually to fix the pension funding crisis.[48] That sum is double the $348.7 million in property tax dollars the City proposes to levy for its four employee pension funds in FY2011.[49] *Raising taxes high enough to deal with the problem may not be a viable option. Therefore, the City may have to seriously consider supporting reductions in non-vested pension benefits for current employees in future pension reform legislation as proposed by the Commercial Club.* Scenario "2-all" in the

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[46] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 21. Available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/perf_mang/news/2010/apr/commission_to_strengthenchicagospensionfundsreleasesreportonfisc.html.
[47] Fran Spielman, "City Council calls pension crisis a 'ticking time bomb,'" *Chicago Sun-Times*, October 19, 2010.
[48] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 4. Available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/perf_mang/news/2010/apr/commission_to_strengthenchicagospensionfundsreleasesreportonfisc.html.
[49]The total budgeted FY2011 employer contribution to the four pension funds is $456.1 million because the City also uses Personal Property Replacement Tax revenues for its pension contributions. City of Chicago FY2011 Budget Overview and Estimates, p. 112.

Commission to Strengthen Chicago's Pension Funds report models such a reduction for current employees.[50]

Require Employer and Employee Contributions to Relate to Funded Status of the Plans

The City's employer contributions to its four pension funds are a multiple of past employee contributions, with no relationship to the funded status of the plan. The employee contributions are a fixed percentage of pay.

The Civic Federation recommends that employer and employee contributions be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC).

The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured such that employees pay a proportion of required contributions, similar to the new structure of the Chicago Transit Authority contributions. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions, and that those contributions relate to the fiscal health of the fund.

Study Pension Fund Consolidation

It is difficult to understand how the maintenance of four separate pension funds is cost effective. The Civic Federation recommends that the City study ways to consolidate the funds by, for example, merging the four funds into a single fund, or by merging the Municipal and Laborers funds with the Illinois Municipal Retirement Fund and merging the Police and Fire funds into a single Chicago Public Safety fund.

Reform Pension Board Governance

If the four pension funds remain separate, the Civic Federation recommends that the composition of the pension boards of trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent citizen representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[51]

[50] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, pp. 55-60.
[51] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf. See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois.

Build Corporate Fund Reserves

The Civic Federation urges the City to move forward on the establishment of Corporate Fund reserves that meet the minimum standard proposed by the Government Finance Officers Association, equivalent to two months of expenditures or revenues. In FY2011 this amount would total roughly $500 million. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio maybe appropriate for the largest governments.[52]

The City argues that it has already created reserves in the form of the $500 million Skyway Long-Term Reserve Fund. While asset reserves have in the past been viewed favorably by bond rating agencies, it was a one-time windfall. The Civic Federation is deeply concerned that the City has not demonstrated the will or ability to build a Corporate Fund reserve through disciplined execution of a reserve policy that would require it to hold back spending on an annual basis until the target reserve level is reached.

The Civic Federation recommends that the City develop a long-term plan and policy to build up its Corporate Fund reserves as revenues slowly begin to recover. These reserves must be built using fiscal discipline of not spending all anticipated revenues. Other units of governments have Corporate Fund reserve policies that outline how much money the government should have on hand, including the Metropolitan Water Reclamation District, the Chicago Park District, and the Forest Preserve District of Cook County.

Implement a Formal Long-Term Financial Planning Process

Currently, the City of Chicago internally employs many of the techniques of a long-term financial planning process, including projecting multi-year revenue trends and modeling various revenue and expenditure options. However, the City does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders.

The Civic Federation recommends that the City of Chicago develop and implement a formal long-term financial planning process to be reviewed not just internally, but with input from the City Council and other key policy stakeholders, including the public. This must become a priority for the City in the next year. The magnitude of the City's budgetary challenges is so great that they will likely require a multi-year plan to address. All stakeholders must be actively engaged because the City must pursue opportunities for efficiency, address personnel expenses, and make difficult choices about taxation and service levels. Long-term planning is critical both during times of protracted fiscal distress, such as the current economic environment, and during times of recovery when it is important to prudently plan for the next downturn.

Improve Transparency in City of Chicago Tax Increment Financing (TIF) Reporting

In recent years the City of Chicago has taken steps to address the issue of TIF transparency by enhancing the city's Department of Community Development (DCD) website and the information it provides about TIF. The City Council's April 2009 TIF Sunshine Amendment

[52] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

delegated new responsibilities for online reporting of TIF information to DCD. The ordinance, which was introduced by Aldermen Scott Waguespack and Manny Flores, addressed a few goals that included consolidating information about TIFs already posted on several city departments' web pages and providing the public with better information about TIF in a more accessible manner.

The new TIF section of the DCD website organizes TIF information into sub-sections containing district overviews, annual reports, Community Development Commission reports, district redevelopment plans, maps, frequently asked questions and success stories. The DCD has added documents projecting the revenues, transfers out, current obligations, potential projects, and fund balance for each TIF.[53] The new TIF Projection Reports webpage includes some overall totals for the amount of TIF revenue collected and spent by local governments and by the private sector.[54] These are good steps forward on TIF transparency.

The City has also begun to comply with TIF transparency requirements of Public Act 96-1335, enacted in July 2010. The Civic Federation had long advocated for these transparency reforms.[55] In compliance with P.A. 96-1335, the City included a summary of 2009 revenues and expenses for each TIF in the back of the budget recommendations book and created a separate TIF administration fund to account for personnel and non-personnel costs associated with the TIF program.[56]

A persistent problem with the TIF information presented by the City, however, is the lack of aggregate data. For example, the City did not provide totals collected and spent on TIF City-wide in the 2009 schedule of TIF revenues and expenditures included for the first time in the budget book. Although the new TIF Projection Reports webpage provides a few total numbers, much more could be done to show the types of revenue and spending by year across TIFs. In its display of TIF information, the City has historically treated each TIF as a separate entity while in reality a significant amount of money is transferred ("ported") between TIFs, and all taxpayers ultimately pay for TIF whether they reside in a TIF or not.[57] TIF is a City-wide economic development tool. The Civic Federation recommends that the City also display annual TIF information grouped by type of project in order to better inform the public about TIF activity across the City.

Furthermore, a large amount of TIF funds are used directly for capital projects of other local governments, particularly the Chicago Public Schools and the Chicago Park District. The Civic Federation recommends that the City publish annual TIF reports that list the TIF projects

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[53] http://www.cityofchicago.org/content/dam/city/depts/dcd/general/ProjectedTIFFundBalances2010_2012.pdf
[54] http://www.cityofchicago.org/city/en/depts/dcd/supp_info/tif_projection_reports.html
[55] See Civic Federation, "Tax Increment Financing (TIF): A Civic Federation Position Statement," November 12, 2007. http://www.civicfed.org/civic-federation/publications/tax-increment-financing-tif-civic-federation-position-statement
[56] City of Chicago FY2011 Budget Recommendations, pp. 506-512, 535-538. http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2011_Budget_Recommendations.pdf.
[57] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-

completed for or by other local governments in order to better inform the public about this substantial use of their tax dollars.

Budget Format Improvements

The City's Office of Budget and Management is commended for making substantive improvements to the format of the Budget documents in recent years. The Civic Federation offers the following additional recommendations to further increase the transparency and usefulness of City's budget documents.

<u>Report Actual Expenditure and Personnel Data in the Budget Overview and Revenue Estimates</u>

The Budget Overview and Revenue Estimates book includes actual revenue data for five prior years, as well as a year-end estimate and the budget projection in the "Budget Details" section. This is important historical information and a critical feature of the budget presentation. The Civic Federation urges the Budget Office to also provide actual data for the expenditures and personnel parts of the "Budget Details." Currently only the appropriated, not actual, figures for prior year expenditures and personnel are provided.

<u>Report All Reserve Fund Revenues and Expenditures in Budget Overview and Revenue Estimates</u>

The long-term, mid-term, and short-term funds created as part of the City's recent asset lease transactions have played a central role in its operating budget since 2006. The City currently posts helpful information about the balances in the funds on its website[58] and shows some information about the long-term and mid-term reserves on page 62 of the FY2011 Budget Overview and Revenue Estimates book. The Civic Federation recommends that the City include current and historical information about all asset lease proceeds in the Budget Details section of the Overview book in order to show exactly how much revenue was generated by the transactions (including interest), how it has been spent, and how much is still in reserve. It should also treat the Reserve Fund[59] the same as other funds in the Recommendations budget book such as adding it to the Detail of Revenue Estimates section.

<u>Report All Fund Revenues by Source in Budget Overview and Revenue Estimates Narrative</u>

Information is currently provided for revenues by fund and for Corporate Fund revenues by source. It would be useful to follow the practice employed by many other governments and also present revenue information by source for all funds, including grant funds, in the narrative section contained the Revenue Estimates portion of the budget book. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.

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[58] See the City's Asset Lease Agreements page at http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

[59] The Reserve Fund was created to account for reserves from the Skyway and parking meter transactions (See City of Chicago, FY2009 Comprehensive Annual Financial Report p. 48).

Report all Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and the Chicago Public Schools. These levies are legal, but the transactions are not transparent. The City provides no narrative information about the levies in its budget.

The Civic Federation believes that it is important for taxpayers to clearly understand what public services they are paying for and which governments receive and spend their monies. Governments must clearly present a complete picture of their revenues and expenses. We urge the City of Chicago to improve the public disclosure of its arrangements with the City Colleges and the Chicago Public Schools in future budget documents.

ACKNOWLEDGMENTS

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FY2011 BUDGET HIGHLIGHTS

The City proposes a total FY2011 budget of $6.2 billion. This is a 0.8% increase from the FY2010 adopted budget appropriation and a 3.1% increase from the FY2010 year-end revenue estimate of $6.0 billion across all local funds.

The FY2011 Corporate Fund budget proposal is $3.3 billion, which is a 2.5% increase from FY2010 adopted appropriations and a 5.2% increase from FY2010 year-end revenue estimates.

The City proposes to reduce budgeted positions from 33,156 in FY2010 to 32,922 across all local funds. This is a decline of 234 positions or 0.7%. Corporate Fund positions will decline by 277, a 1.0% decline from 27,097 positions in the FY2010 adopted budget to 26,820 positions in FY2011 (see the Personnel section of this report for more detail).

City of Chicago FY2010 Adopted and FY2011 Proposed Budget: (in $ millions)				
	FY2010	FY2011	$ Change	% Change
Appropriations: FY2010 Adopted and FY2011 Proposed				
Corporate Fund	$ 3,179.7	$ 3,260.2	$ 80.5	**2.5%**
All Local Funds	$ 6,106.1	$ 6,154.8	$ 48.7	**0.8%**
Revenues: FY2010 Year-End Estimates and FY2011 Proposed				
Corporate Fund	$ 3,098.3	$ 3,260.2	$ 161.9	**5.2%**
All Local Funds	$ 5,967.4	$ 6,154.8	$ 187.4	**3.1%**
Budgeted Positions: FY2010 Adopted and FY2011 Proposed				
Corporate Fund	27,097	26,820	(277)	**-1.0%**
All Local Funds	33,156	32,922	(234)	**-0.7%**

Source: City of Chicago FY2010 Appropriation Ordinance, Summary D; FY2011 Overview and Revenue Estimates, pp. 6, 39, 119.

FY2011 Budget Deficit & Gap Closing Measures

The City of Chicago projected a $654.7 million budget deficit for FY2011 in its 2011 Preliminary Budget Estimates released on July 30, 2010.[60] The deficit was the result of a projected $447.9 million or 14.1% decline in Corporate Fund resources and a $206.8 million or 6.5% increase in Corporate Fund expenditures compared to the FY2010 adopted budget.

The Preliminary Budget Estimates stated that $447.9 million decrease in resources available in FY2011 is "predominantly due to the loss of non-recurring revenue streams that were applied in prior years."[61]

The $60.0 million fund balance shown below for the FY2010 year-end estimate is the result of a $2.9 million increase in resources (primarily a $2.7 million 2009 year-end unreserved fund balance) and a $57.1 million decrease in expenditures due to personnel and non-personnel

[60] The FY2011 deficit is reported as $654.8 million in the FY2011 budget documents.
[61] City of Chicago FY2011 Preliminary Budget Estimates, July 30, 2010, p. 5.

savings throughout the year.[62] The $60.0 million fund balance allowed the City to reduce the amount of parking meter reserve funds that it had budgeted to spend in FY2010.[63]

City of Chicago FY2011 Budget Deficit (in $ thousands)					
	FY2010 Adopted Budget	FY2010 Year-End Estimate	FY2011 Projected	FY2011 Projected vs. FY2010 Adopted $ Change	FY2011 Projected vs. FY2010 Adopted % Change
Corporate Fund Resources	$ 3,179,745.0	$ 3,182,668.0	$ 2,731,796.0	**$ (447,949.0)**	**-14.1%**
Corporate Fund Expenditures	$ 3,179,745.0	$ 3,122,668.0	$ 3,386,519.0	**$ 206,774.0**	**6.5%**
Ending Fund Balance	**$ -**	**$ 60,000.0**	**$ (654,723.0)**		

Source: City of Chicago 2011 Preliminary Budget Estimates, p. 1.

The City proposes to close the $654.8 million deficit (as reported in the FY2011 budget books) using an assortment of methods listed on page 26. The single largest gap-closing measure is a $142.0 million proposal to restructure and refinance existing debt. This will close 21.7% of the budget gap. The next largest measure is the use of $119.9 million from the principal in the Parking Meter Long-Term Reserve Fund, which will close an additional 18.3% of the deficit. As in FY2010, the principal taken from the Parking Meter Long-Term Reserve Fund is designated to be borrowed and returned to the fund at some point in the future.

Approximately $98.0 million or 15.0% of the gap will be closed by maximizing reimbursements to the Corporate Fund from other funds and other entities. For example, the budget projects a $53.3 million reimbursement from Chicago Public Schools for safety and security-related services provided by the Chicago Police Department.[64] The City will also use $32.0 million that had been designated for the Property Tax Relief Program in FY2010 but was not used. The FY2010 budget proposed using $35.0 million of Parking Meter Human Infrastructure Fund resources for a program that would grant property tax rebates ranging from $25 to $200 to homeowners whose household income did not exceed $200,000. Only $2.1 million in grants had been distributed as of September 16, 2010.[65] The City will also shift roughly $6.9 million in Corporate Fund expenses to other funds and seek $6.1 million in reimbursement for services from the Motor Fuel Tax Fund.[66]

A variety of expenditure reductions will close 14.8% or $96.9 million of the FY2011 deficit. These include personnel cost reductions from elimination of positions, health care savings, and an ongoing hiring freeze, as well as contractual and commodities reductions. The City proposes to eliminate funding for local Chambers of Commerce, saving $3.4 million.[67]

Revenue growth will close $91.3 million, or 13.9% of the deficit. However, $32.0 million of that amount is attributed to the State of Illinois catching up on two months of late transfers from the prior fiscal year so that portion is a non-recurring source of revenue.

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[62] City of Chicago FY2011 Preliminary Budget Estimates, July 30, 2010, pp. 2, 3.
[63] City of Chicago FY2011 Preliminary Budget Estimates, July 30, 2010, p. 1.
[64] City of Chicago FY2011 Budget Overview and Revenue Estimates, p. 61.
[65] Chicago Inspector General's Office, "Budget Options for the City of Chicago," October 2010, p. 48.
[66] Information provided by the City of Chicago Office of Budget and Management, October 28, 2010.
[67] This is also noted in the Inspector General's Office report, p. 36.

Approximately $68.2 million will come from a number of "strategic financial options" including modifying interest rate contracts, capturing the release of funds from mortgage escrow agreements, and transferring federal interest rate subsidies on Build America Bonds (BAB) from the enterprise funds to the Corporate Fund. The $10.0 million from the BAB subsidy could be a recurring revenue source in the future but the other two strategic financial options are non-recurring.

Finally, the City will declare a surplus of $180 million in 25 Tax Increment Financing districts, thus allowing for the transfer of $38.5 million to the Corporate Fund. The balance of the surplus will be distributed to other local governments according to their proportional share of the composite property tax rate. This is a non-recurring revenue source unless the City begins to declare TIF surpluses on a regular basis.

City of Chicago FY2011 Budget Deficit Elimination Proposal (in $ millions)		
FY2011 Budget Deficit	**$ 654.8**	
Gap Closing Measure	**$ Amount**	**% of Gap Closed**
Debt Service Restructuring Savings	**$ 142.0**	**21.7%**
Asset Lease Long-Term Reserve Funds	**$ 119.9**	**18.3%**
Maximizing Reimbursements		
CPS services reimbursement	$ 53.0	8.1%
Salvage from 2010 Property Tax Relief Program	$ 32.0	4.9%
Shift to other funds (CDBG and Water Fund primarily)	$ 6.9	1.1%
Motor Fuelt Tax Fund reimbursement	$ 6.1	0.9%
Subtotal Maximizing Reimbursements	**$ 98.0**	**15.0%**
Expenditure Reductions		
FY2010 year-end savings	$ 33.7	5.1%
Hiring freeze savings for 2011	$ 20.0	3.1%
Cut 277 positions (235 vacancies and 42 layoffs)	$ 13.0	2.0%
Heathcare savings for 2011	$ 13.0	2.0%
Timing and impact of firefighters contract	$ 5.0	0.8%
Eliminate Chambers of Commerce funding	$ 3.4	0.5%
Lease savings	$ 2.9	0.4%
Natural gas contract savings	$ 2.3	0.4%
Fuel prices	$ 1.5	0.2%
Mainframe contract reduction	$ 1.1	0.2%
Eliminate police officer/teacher homebuying incentive	$ 0.5	0.1%
Custodial service contract savings	$ 0.5	0.1%
Subtotal Expenditure Reductions	**$ 96.9**	**14.8%**
Revenue Growth		
More favorable revenues	$ 59.3	9.1%
Income Tax catch up	$ 32.0	4.9%
Subtotal Revenue Growth	**$ 91.3**	**13.9%**
Strategic Financial Options		
Modifying existing interest-rate subsidy	$ 35.0	5.3%
Capturing the release of funds from escrow agreements/housing bond defeasance	$ 23.2	3.5%
Capturing Build America Bond subsidies	$ 10.0	1.5%
Subtotal Strategic Financial Options	**$ 68.2**	**10.4%**
City portion of declared TIF surplus	**$ 38.5**	**5.9%**
Total	**$ 654.8**	**100.0%**

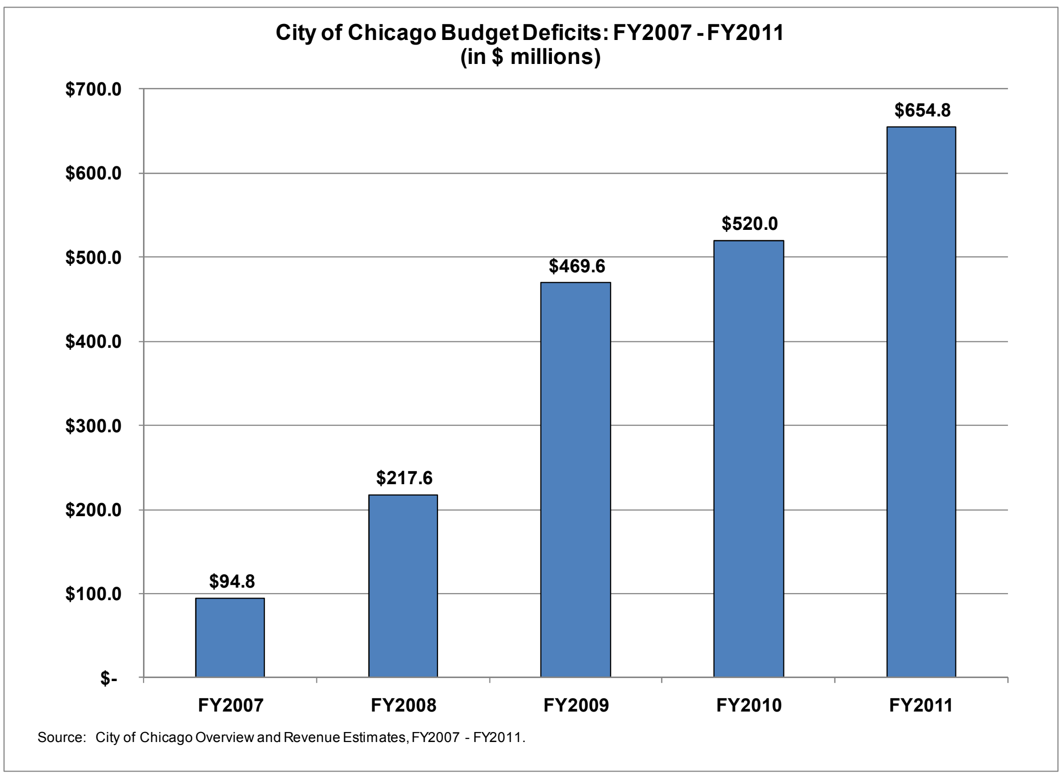
Source: City of Chicago FY2011 Overview and Revenue Estimates, p. 5, and information from the City of Chicago Office of Budget and Management, October 28, 2010.

STRUCTURAL DEFICIT INDICATORS

This section describes major indicators that the City has a structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time.

Significant Recurring Budget Deficits

The City began the FY2011 budget process with a projected deficit of nearly $654.8 million, which is 10.6% of the total budget for the City across all local funds. It is not unusual for a unit of government to project a deficit at the beginning of a budget process. However, the City of Chicago has had significant and growing deficits during the past five fiscal years. The City began with a $94.8 million budget gap in FY2007 and a $217.6 million budget gap in FY2008. In FY2009 the budget deficit totaled $469.6 million, and in FY2010 the deficit totaled $520.0 million. The increase in the City's annual budget deficit over time is a leading indicator that the City's expenses are outpacing its revenues. The deficits continue to grow because the City has failed to enact measures that make deep enough spending cuts and/or utilize new or increased recurring revenues. Rather, it has addressed the problem with insufficient spending reductions and non-recurring revenues.



The City has experienced deep revenue declines in recent years due in part to the economic recession that officially ended in June 2009 and its lingering aftereffects.[68] By the end of 2010,

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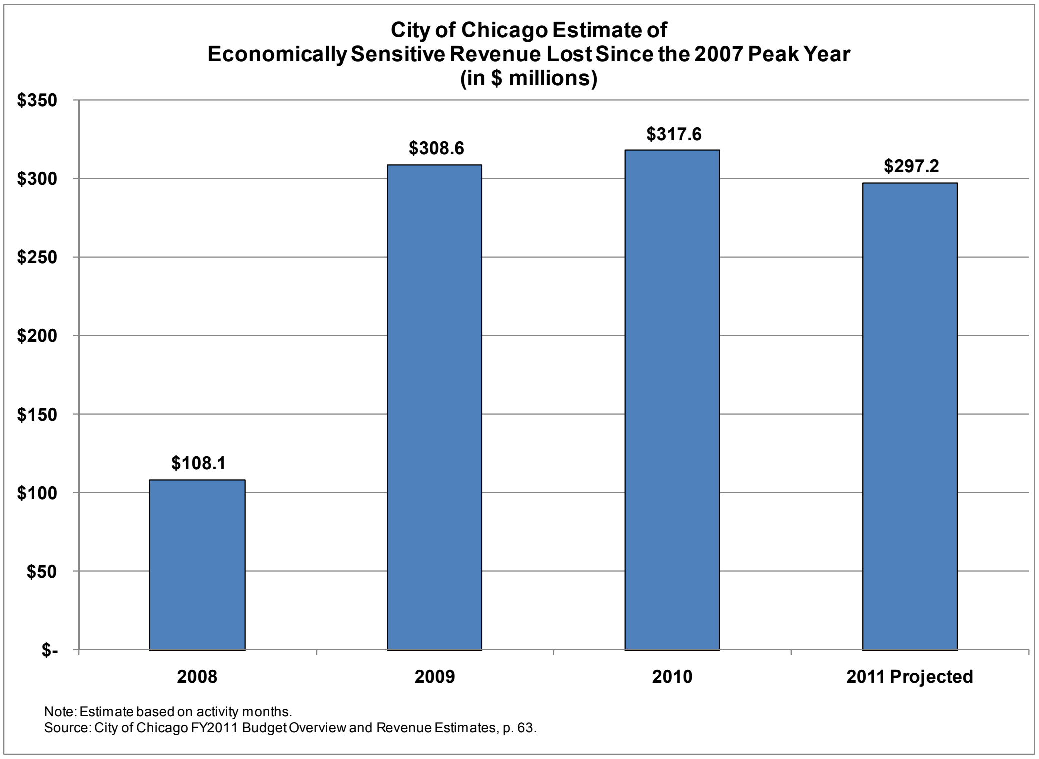
[68] The National Bureau of Economic Research announced on September 20, 2010 that the recession that began in December of 2007 ended in June 2009. National Bureau of Economic Research, http://www.nber.org/cycles/sept2010.html (last visited on October 25, 2010).

the City estimates that it will have lost a total of $734.3 million in economically-sensitive revenues since the 2007 revenue peak, and projects an additional $297.2 million loss for 2011.[69] The decline in economically-sensitive revenues has added roughly $300 million in pressure on the City's annual budget in each of the last three years.



However, the City's growing deficit problem is not due solely to the recent recession. Spending has continued to rise. Between FY2007 and FY2011, total net appropriations will have increased by 8.6%, rising from $5.7 billion to $6.1 billion.[70] Appropriations for personnel, the single biggest expenditure in the budget, will have increased by 9.2%, rising from $3.0 billion to $3.3 billion.[71] The personnel cost increases come despite a reduction in the City's workforce of 3,648 full time equivalent positions.[72]

Growing Long-Term Liabilities

Another indication of the City's structural deficit is the growth of its long-term liabilities, including bonded debt and unfunded pension liabilities. In August 2010 Fitch Ratings downgraded $6.8 billion of the City's outstanding General Obligation bonds from AA+ to AA, citing the City's above average debt levels and significant pension unfunded accrued actuarial

[69] City of Chicago FY2011 Budget Overview and Revenue Estimates, p. 63.
[70] City of Chicago, FY2007 Appropriations Ordinance, p. IX, and FY2011 Budget Recommendations, p. 11.
[71] City of Chicago, FY2007 Appropriations Ordinance, p. IX, and FY2011 Budget Recommendations, p. 11.
[72] The total number of full time equivalent positions is projected to decline from 40,207 to 36,559 between FY2007 and FY2011. See City of Chicago, FY2008 and FY2011 Program and Budget Summaries.

liability (UAAL) in its downgrade rationale.[73] Fitch cited the same issues in its October 2010 downgrade of the City's ratings from AA to AA-.[74]

The City's total direct debt grew by $3.7 billion or 121.9% between FY2000 and FY2009, from $3.1 billion to $6.8 billion. Calculated on a per capita basis, the increase grew from $1,069 to $2,371 per resident of Chicago, a $1,302 increase over ten years. The City's annual debt service costs have also risen, reaching $1.3 billion budgeted for FY2011, or 21.0% of the City's proposed $6.2 billion all local funds budget. The rating agencies consider a debt burden high if this ratio is between 15% and 20%. Steady increases in the amount of recurring resources used to pay for debt service mean that fewer and fewer revenues are available to fund other purposes, such as deficit reduction.

The City of Chicago's pension funds are significantly underfunded. The actuarial value funded ratios of all four City pension funds declined in FY2009. The Fire Fund fell to 36.5% and the Police Fund fell to 43.6%. The funded ratio for the Municipal Fund was 57.0% and the Laborers Fund was 79.4%. The Fire and Police Pension Funds continue to be a serious cause for concern as they are funded well below levels considered to be financially healthy. Between FY2000 and FY2009 the total unfunded actuarial accrued liabilities grew from $2.4 billion to $12.4 billion for the four City funds combined, an increase of 426.1%. On a per capita basis this was an increase from $827 to $4,348 per resident of Chicago.

The direct debt per capita and unfunded pension liabilities per capita in Chicago together grew from $1,896 to $6,719 between FY2000 and FY2009.

The rise in unfunded pension liabilities is especially problematic. The Commission to Strengthen Chicago's Pension Funds has warned that the retirement funds will begin to run out of money in a decade or less if nothing is done.[75] Fixing this problem will likely require a large infusion of resources in the near future. Those resources will not be available for new or enhanced programs or to address future funding shortfalls in the City's operating funds.

Repeated Use of Non-Recurring Revenues to Close Budget Deficits

The following chart provides an estimate of non-recurring Corporate Fund revenue between FY2007 and FY2011. Asset lease proceeds are included in the Proceeds and Transfers line excluding the Skyway Long-Term Reserve Fund interest because it is an ongoing[76] and direct disbursement. The Proceeds and Transfers also include debt restructuring and other financial initiatives. The "Other" revenue category includes the TIF surplus proposed for FY2011 and other revenues that the City characterizes as generally non-recurring.[77] Lastly, the unreserved fund balance illustrates the amount taken from the Corporate Fund fund balance, which is now at

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[73] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.
[74] Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[75] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 4.
[76] As long as the $500 million Skyway Long-Term Reserve principal remains intact. Parking Meter Long-Term Reserve interest was included as a non-recurring revenue source because the principal is being depleted.
[77] City of Chicago, FY2011 Overview and Revenue Estimates, p. 61.

extremely low levels. The share of the Corporate Fund that is made up of these non-recurring revenues has jumped from 5.6% in FY2007 to 17.6% in the FY2011 budget. The City has tapped most of the possible sources of one-time revenues. The Corporate Fund fund balance, parking meter lease proceeds, and Skyway operating reserves have already been used. So too have many other non-recurring revenues such debt restructuring and financial options. The only major source remaining is the Skyway long-term reserves.

Estimate of City of Chicago Corporate Fund Non-Recurring Revenues (in $ millions)

	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Year-End Estimated	FY2011 Proposed
Proceeds and Transfers*	$ 129.5	$ 234.2	$ 449.6	$ 548.3	$ 479.6
Other Revenues	$ 19.1	$ 19.1	$ 25.4	$ 21.2	$ 84.7
Prior Year Unreserved Fund Balance	$ 26.8	$ 4.6	$ 1.5	$ 2.7	$ 9.4
Estimated Non-recurring Revenue	**$ 175.4**	**$ 257.9**	**$ 476.5**	**$ 572.2**	**$ 573.7**
Total Corporate Fund Resources	$ 3,116.7	$ 3,139.6	$ 3,037.7	$ 3,098.3	$ 3,260.2
% of Total Resources	5.6%	8.2%	15.7%	18.5%	17.6%

*Less Skyw ay Long-Term Reserve interest, w hich is recurring as long as the principal remains intact.

Source: City of Chicago, 2011 Overview and Revenue Estimates, pp. 108-109.

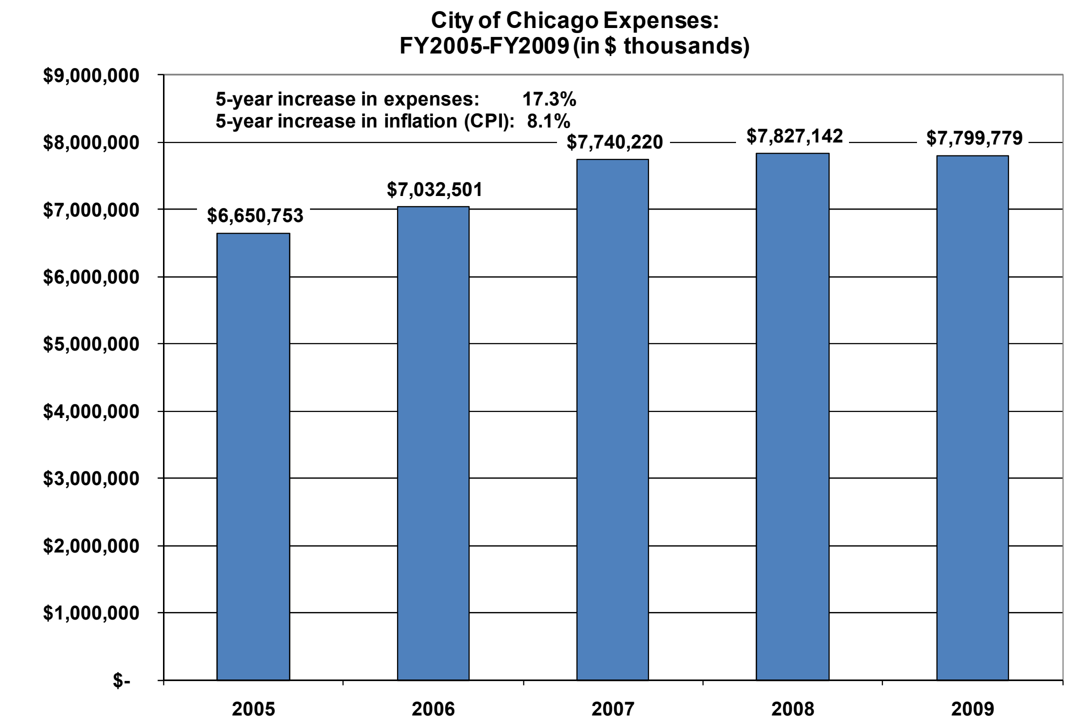
Financial Indicators Analysis

The following section examines financial indicators of the City's fiscal health based on the audited government-wide financial statements, which are reported using full accrual accounting methods similar to those used in the private sector. This analysis provides a broad perspective on the City's fiscal health and examines the five years from FY2005 to FY2009, the most recent audited figures available. Unless otherwise noted, the figures shown include the City's governmental activities (including the Chicago Public Library) and its business-type activities (e.g., airport, water, and sewer funds). Governmental activities are primarily supported by taxes, fees, and intergovernmental revenues, while business-type activities are expected to recover all or most of their expenses through user fees and charges.

The analysis shows that on an accrual basis, expenses rose 17.3% and tax revenues rose 6.5% over five years, compared to an 8.1% increase in inflation. The City's governmental assets grew by 15.5% while governmental liabilities grew 34.8%.

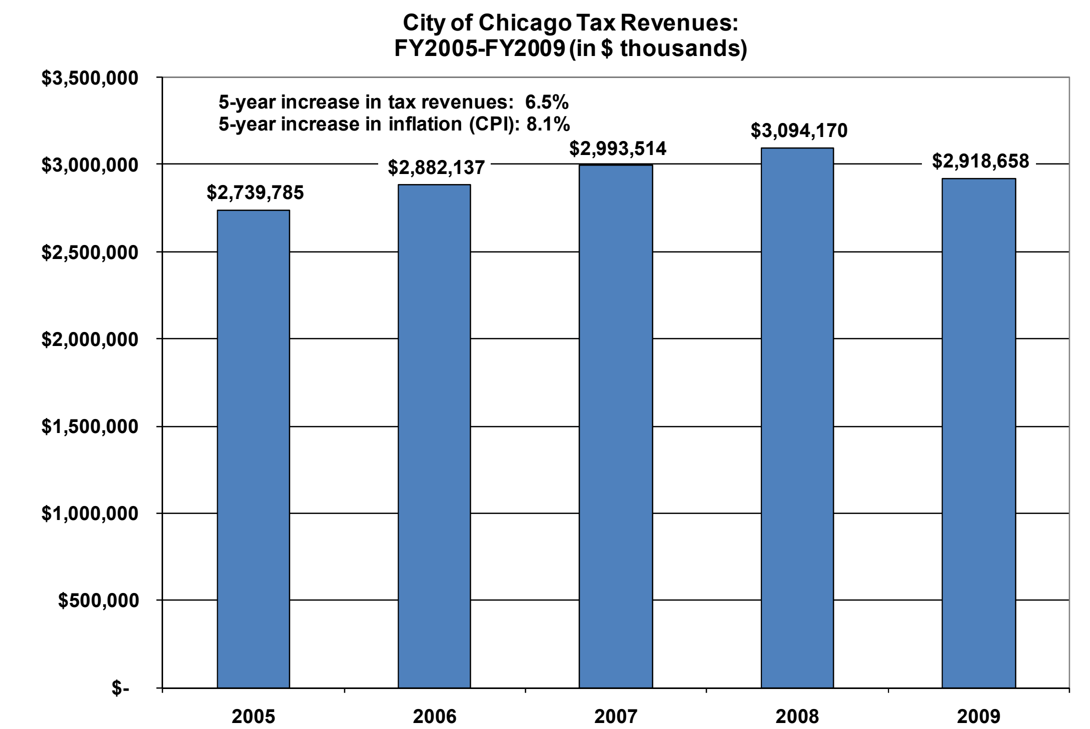
Expenses and Tax Revenues

The following graph illustrates growth in the City of Chicago's expenses between FY2005 and FY2009. Expenses grew from \$6.7 billion in FY2005 to \$7.8 billion in FY2009. This 17.3% growth in expenses was over twice the 8.1% rate of inflation over the same period.



Sources: City of Chicago Comprehensive Annual Financial Reports, Statement of Activities, FY2005-FY2009; Bureau of Labor Statistics All Urban Consumers Annual Consumer Price Index for Chicago-Gary-Kenosha MSA.

The City's tax revenues grew by $178.9 million over the five-year period, from $2.7 billion in FY2005 to $2.9 billion in FY2009. During this period, tax revenue reached $3.2 billion in FY2008, a 12.9% increase from FY2005, but fell by $175.5 million in FY2009. The 6.5% growth in revenue over the five-year period is less than the 8.1% rate of inflation over the same period.

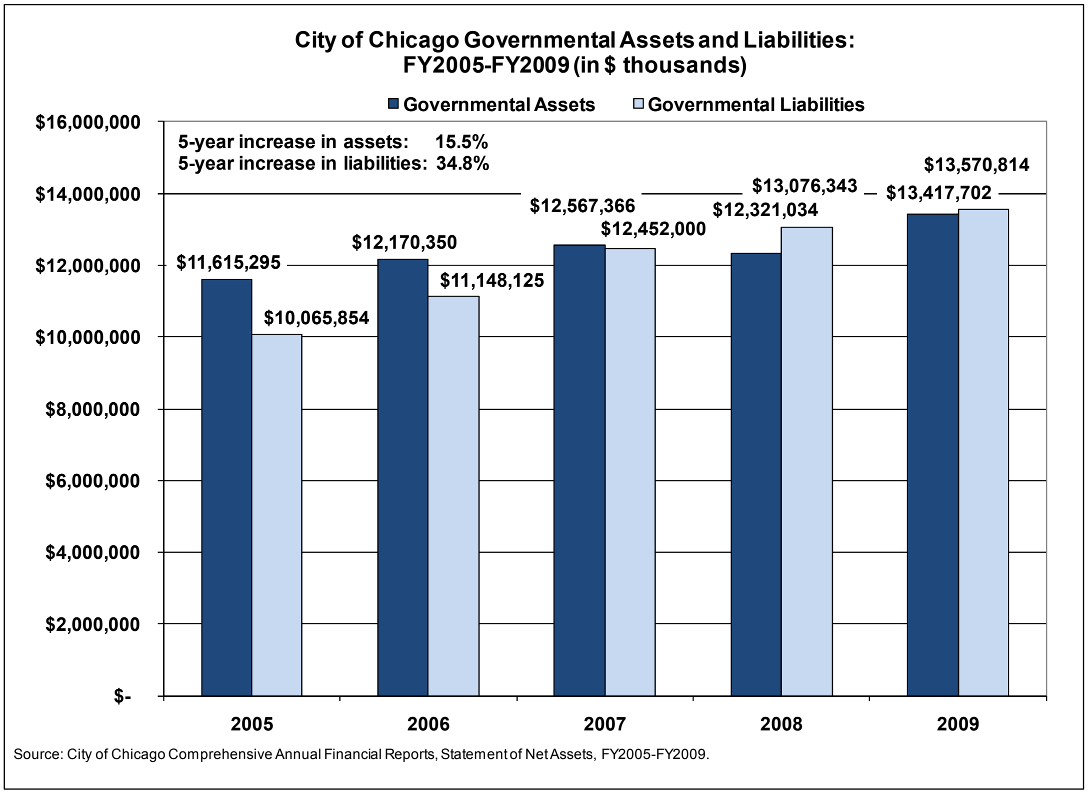


Sources: City of Chicago Comprehensive Annual Financial Reports, Statement of Activities, FY2005-FY2009; Bureau of Labor Statistics All Urban Consumers Annual Consumer Price Index for Chicago-Gary-Kenosha MSA.

The fact that expenses have grown notably faster than inflation indicates that either the cost of services or the level of services provided by the City have expanded in recent years. The significant decline in tax revenues between FY2008 and FY2009 reflect the economic downturn and changes in the housing market. With revenue growth in the five-year period lower than the rate of inflation, continuing to increase expenditure at levels twice the rate of inflation is unsustainable.

Assets and Liabilities

The City of Chicago's assets for governmental activities (excluding business-type activities) grew by 15.5% from $11.6 billion in FY2005 to $13.4 billion in FY2009. During the same time period, governmental liabilities increased by over double the rate of asset growth, or 34.8% from $10.1 billion in FY2005 to $13.6 billion in FY2009.



Net assets is the difference between assets and liabilities. Change in net assets over time is an indicator of whether a government's financial condition is improving or deteriorating. The City of Chicago's total net assets including governmental and business-type activities has fallen by 109.8% from $2.7 billion in FY2005 to a deficit of nearly $0.3 billion in FY2009.

While long-term lease transactions added substantial liabilities to the City's balance sheet in recent years, the major driver is the City's growing pension obligations. The City's net pension obligation, a cumulative measure of the City's unmet pension obligations, grew to $3.5 billion in FY2009 and is the largest portion of the City's unrestricted governmental net assets.[78] Unrestricted governmental net assets grew 264% between FY2005 and FY2009, from -$1.6 billion to -$5.8 billion.

City of Chicago Total Net Assets and Unrestricted Governmental Net Assets: FY2005-FY2009 (in $ thousands)

	2005	2006	2007	2008	2009	$ change	% change
Total Net Assets	$ 2,711,506	$ 2,346,024	$ 1,604,473	$ 830,088	$ (264,497)	$ (2,976,003)	-109.8%
Unrestricted Governmental Net Assets	$(1,597,634)	$(2,003,328)	$(3,435,506)	$(4,092,388)	$(5,820,802)	$ (4,223,168)	264.3%

Source: City of Chicago Comprehensive Annual Financial Reports, Statement of Net Assets, FY2005-FY2009.

[78] City of Chicago, FY2009 Comprehensive Annual Financial Report, p. 19.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2011 as compared to adopted appropriations for FY2010 and FY2007, and actual expenditures for FY2007 when available. Appropriations are compared by object, fund and program across all local funds. "All local funds" is the Corporate Fund, special revenue funds, pension funds, debt service funds, and enterprise funds. It excludes grant funds.[79]

Two- and Five-Year Appropriation Trends by Object

The FY2011 City of Chicago budget proposes a net appropriation of approximately $6.15 billion. This is an increase of 0.8% or approximately $48.7 million more than the FY2010 adopted appropriation of $6.11 billion. Personnel Services appropriations are projected to increase over the two-year period by 3.7%, due in part to rising healthcare costs and contractual obligations which increase employee wages.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2010 & FY2011 (in $ millions)

Object	FY2010 Adopted	FY2011 Proposed	$ Change	% Change
Personnel Services	$ 3,187.9	$ 3,306.9	$ 119.1	3.7%
Contractual Services	$ 761.5	$ 758.1	$ (3.4)	-0.4%
Travel	$ 3.0	$ 2.7	$ (0.2)	-7.9%
Commodities	$ 149.4	$ 143.5	$ (5.9)	-3.9%
Equipment	$ 15.8	$ 14.6	$ (1.2)	-7.9%
Permanent Improvements	$ 2.9	$ 2.9	$ -	0.0%
Specific Items/Contingencies	$ 2,373.1	$ 2,340.8	$ (32.3)	-1.4%
Subtotal	**$ 6,493.6**	**$ 6,569.6**	**$ 76.1**	**1.2%**
Less Internal Transfers	$ 317.0	$ 344.4	$ 27.4	8.6%
Less Proceeds of Debt	$ 70.4	$ 70.4	$ -	0.0%
Total	**$ 6,106.1**	**$ 6,154.8**	**$ 48.7**	**0.8%**

Source: FY2010 Appropriation Ordinance, p. 11; and FY2011 Budget Recommendations, p. 11.

[79] City of Chicago, FY2011 Budget Overview and Revenue Estimates, pp. 6, 108-121.

Over the five-year period from FY2007 to FY2011, net appropriations have risen by 8.6%, or approximately $485.5 million. Personnel Services appropriations have increased by 9.2%, or $277.4 million. Commodities appropriations will increase by 17.6%, from $122.0 million in FY2007 to $143.5 million in FY2011.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2007 & FY2011 (in $ millions)

Object	FY2007 Adopted	FY2011 Proposed	$ Change	% Change
Personnel Services	$ 3,029.6	$ 3,306.9	$ 277.4	9.2%
Contractual Services	$ 716.4	$ 758.1	$ 41.7	5.8%
Travel	$ 4.4	$ 2.7	$ (1.6)	-37.1%
Commodities	$ 122.0	$ 143.5	$ 21.5	17.6%
Equipment	$ 10.7	$ 14.6	$ 3.9	36.4%
Permanent Improvements	$ 2.0	$ 2.9	$ 0.9	46.8%
Specific Items/Contingencies	$ 2,101.5	$ 2,340.8	$ 239.3	11.4%
Subtotal	**$ 5,986.5**	**$ 6,569.6**	**$ 583.1**	**9.7%**
Less Internal Transfers	$ 285.5	$ 344.4	$ 58.9	20.6%
Less Proceeds of Debt	$ 31.7	$ 70.4	$ 38.8	122.6%
Total	**$ 5,669.3**	**$ 6,154.8**	**$ 485.5**	**8.6%**

Source: FY2007 Appropriations Ordinance, p. IX; FY2011 Budget Recommendations, p. 11.

Two- and Five-Year Appropriation Trends by Fund

The FY2011 budget projects that appropriations for all local funds will increase by 0.8% from FY2010 appropriations. Appropriations for the City's Corporate Fund will increase by 2.5%, rising from $3,179.7 million in FY2010 to $3,260.2 million in FY2011.

Recommended appropriations for most other funds have decreased from the FY2010 appropriations. Enterprise Fund appropriations are for operations that are typically self-supporting and include the airports, water and sewer operations. Though appropriations for the Chicago Midway Airport Fund and the Chicago O'Hare Airport Fund have increased by 2.9%, or $31.2 million, Water and Sewer Fund appropriations have decreased slightly. Pension Fund appropriations have decreased also, falling by $2.8 million or 0.6%. Pension fund appropriations typically reflect changes in payroll from two years prior. Per state statute, the City's pension contributions are a multiple of employee payroll deductions made two years prior.

City of Chicago All Local Funds Appropriations by Fund: FY2010 & FY2011 (in $ millions)				
	FY2010 Adopted	FY2011 Proposed	$ Change	% Change
Corporate Fund	$ 3,179.7	$ 3,260.2	$ 80.5	2.5%
Water Fund	$ 499.9	$ 493.1	$ (6.8)	-1.4%
Vehicle Tax Fund	$ 147.6	$ 143.7	$ (3.9)	-2.6%
Motor Fuel Tax Fund	$ 74.1	$ 66.2	$ (7.9)	-10.7%
Sewer Fund	$ 211.5	$ 209.3	$ (2.2)	-1.0%
Airport Funds	$ 1,089.0	$ 1,120.2	$ 31.2	2.9%
Pension Funds	$ 458.9	$ 456.1	$ (2.8)	-0.6%
All Other Local Funds	$ 832.7	$ 820.8	$ (12.0)	-1.4%
Total	**$ 6,493.6**	**$ 6,569.6**	**$ 76.1**	**1.2%**
Transfers	$ (317.0)	$ (344.4)	$ (27.4)	8.6%
Proceeds of Debt	$ (70.4)	$ (70.4)	$ -	0.0%
Net Total	**$ 6,106.1**	**$ 6,154.8**	**$ 48.7**	**0.8%**

Source: FY2010 Appropriation Ordinance, Summary D; FY2011 Budget Recommendations, Summary D.

Net appropriations are projected to rise by approximately 10.6% from actual expenditures in FY2007. Corporate Fund appropriations are expected to rise by 4.4%, from $3.1 billion to $3.3 billion. The recommended appropriation for Pension Funds increased by 22.7%, or $84.5 million from FY2007 actual expenditures.

City of Chicago All Local Funds Appropriations by Fund: FY2007 & FY2011 (in $ millions)				
	FY2007 Actual	FY2011 Proposed	$ Change	% Change
Corporate Fund	$ 3,123.7	$ 3,260.2	$ 136.5	4.4%
Water Fund	$ 358.4	$ 493.1	$ 134.7	37.6%
Vehicle Tax Fund	$ 167.6	$ 143.7	$ (23.9)	-14.2%
Motor Fuel Tax Fund	$ -	$ 66.2	$ 66.2	
Sewer Fund	$ 115.0	$ 209.3	$ 94.3	82.0%
Airport Funds	$ 889.6	$ 1,120.2	$ 230.7	25.9%
Pension Funds	$ 371.6	$ 456.1	$ 84.5	22.7%
All Other Local Funds	$ 538.5	$ 820.8	$ 282.2	52.4%
Total	**$ 5,564.5**	**$ 6,569.6**	**$ 1,005.1**	**18.1%**
Transfers	$ -	$ (344.4)		
Proceeds of Debt	$ -	$ (70.4)		
Net Total	**$ 5,564.5**	**$ 6,154.8**	**$ 590.3**	**10.6%**

Source: FY2009 Budget Recommendations, Summary F; FY2011 Budget Recommendations, Summary D.

Two- and Five-Year Appropriation Trends by Program Area

In the City of Chicago budget, City agencies are organized into nine functional program areas. These areas are as follows:

- **Finance and Administration** departments manage the City's finances, personnel, legal functions, and day-to-day operations. Such departments include the Office of the Mayor and the Departments of Finance, Revenue, Law, and General Services.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections, and administer appropriations for the City Council and its various committees.
- **City Development** departments, including the City's Department of Planning and Development, handle community, economic, cultural, and infrastructure development in the City.
- **Community Services** departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs, and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include the Department of Buildings, the Department of Construction and Permits, and the Office of the Inspector General.

- **Infrastructure Services**, formerly called the Department of Transportation, is responsible for the reconstruction of streets, sidewalks, and bridges, as well as the issuance of permits. As of FY2009, Streets and Sanitation is listed under this umbrella program group.[80]
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, manages O'Hare and Midway Airports.
- **General Financing Requirements** departments administer pension benefits, long-term debt payments, and other cross-departmental expenses.

Appropriations by function between the FY2010 adopted appropriations and the FY2011 proposed budget for all local funds will increase by 0.8%. Appropriations for most program areas will decrease, including a significant fall in Infrastructure Services from $1,203.5 million in FY2010 to $878.8 million in FY2011 due in part to a fall in grant funds. Grant fund appropriations will fall from $2,544.1 million in FY2010 to $2,121.0 million in FY2011.

City of Chicago All Local Funds Appropriations by Program Area: FY2010 & FY2011 (in $ millions)

	FY2010 Adopted	FY2011 Proposed	$ Change	% Change
Finance and Administration	$ 629.6	$ 601.8	$ (27.8)	-4.4%
Legislative and Elections	$ 38.8	$ 45.0	$ 6.3	16.2%
City Development	$ 396.4	$ 361.9	$ (34.5)	-8.7%
Community Services	$ 768.0	$ 705.2	$ (62.7)	-8.2%
Public Safety	$ 2,172.3	$ 2,224.2	$ 51.9	2.4%
Regulatory	$ 133.1	$ 114.9	$ (18.2)	-13.7%
Infrastructure Services	$ 1,203.5	$ 878.8	$ (324.7)	-27.0%
Public Services Enterprises	$ 814.4	$ 851.7	$ 37.3	4.6%
General Financing Requirements	$ 2,881.7	$ 2,907.3	$ 25.6	0.9%
Subtotal	**$ 9,037.7**	**$ 8,690.6**	**$ (347.1)**	**-3.8%**
Less Proceeds and Reimbusements	$ 387.5	$ 414.8	$ 27.4	7.1%
Less Grant Funds	$ 2,544.1	$ 2,121.0	$ (423.2)	-16.6%
Total	**$ 6,106.1**	**$ 6,154.8**	**$ 48.7**	**0.8%**

Source: City of Chicago FY2011 Program & Budget Summary, p. 3.

[80] City of Chicago, FY2009 Program and Budget Summary, p. 217.

Appropriations by major program area between FY2007 and FY2011 are presented in the next exhibit, showing an increase in proposed expenditure of 8.6%. The largest increase by percentage occurred in Infrastructure Services, with an increases of 148.3%, due to the adoption of the Streets and Sanitation program area.

City of Chicago All Local Funds Appropriations by Program Area: FY2007 & FY2011 (in $ millions)				
	FY2007 Adopted	FY2011 Proposed	$ Change	% Change
Finance and Administration	$ 478.5	$ 601.8	$ 123.3	25.8%
Legislative and Elections	$ 42.5	$ 45.0	$ 2.6	6.0%
City Development	$ 306.9	$ 361.9	$ 55.0	17.9%
Community Services	$ 639.0	$ 705.2	$ 66.2	10.4%
Public Safety	$ 2,032.5	$ 2,224.2	$ 191.7	9.4%
Regulatory	$ 104.5	$ 114.9	$ 10.4	9.9%
Streets and Sanitation	$ 358.5	$ -	$ (358.5)	-100.0%
Infrastructure Services/Transportation	$ 354.0	$ 878.8	$ 524.8	148.3%
Public Services Enterprises	$ 726.4	$ 851.7	$ 125.3	17.2%
General Financing Requirements	$ 2,372.1	$ 2,907.3	$ 535.2	22.6%
Subtotal	**$ 7,414.7**	**$ 8,690.6**	**$ 1,275.9**	**17.2%**
Less Proceeds and Reimbusements	$ 317.2	$ 414.8	$ 97.7	30.8%
Less Grant Funds	$ 1,428.2	$ 2,121.0	$ 692.8	48.5%
Total	**$ 5,669.3**	**$ 6,154.8**	**$ 485.5**	**8.6%**

Source: City of Chicago FY2008 Program & Budget Summary, p. 3, and FY2011 Program & Budget Summary, p. 3.

Parking Meter Human Infrastructure Fund Appropriations for FY2011

In FY2010, the City proposed to use $56.5 million from the Parking Meter Human Infrastructure Fund to continue supporting some programs previously funded by the Skyway Human Infrastructure Fund, and eight new programs not previously funded via the Skyway fund. The City proposes to continue the four-year, $100.0 million plan by appropriating $21.7 million from the Parking Meter Human Infrastructure Fund for use in FY2011.

Parking Meter Human Infrastructure Fund Appropriations FY2010 & FY2011 (in $ millions)			
	FY2010 Proposed	FY2011 Proposed	Total Proposed
Property Tax Relief	$ 35.0	$ -	$ 35.0
Benefit Enrollment System	$ 0.5	$ -	$ 0.5
Chicago Tech Corps Program	$ 8.4	$ 8.4	$ 16.8
Meals for Seniors	$ 2.0	$ 2.0	$ 4.0
Multi-Family Affordable Housing Loans	$ 1.6	$ 1.6	$ 3.2
Youth Programs	$ 1.5	$ 1.5	$ 3.0
Low-Income Housing Trust Fund	$ 1.3	$ 1.3	$ 2.6
Small Business	$ 0.6	$ 1.0	$ 1.6
Youth Jobs Program	$ 1.0	$ 1.0	$ 2.0
Re-entry Programming	$ 1.0	$ 1.0	$ 2.0
Share the Warmth	$ 0.8	$ 0.8	$ 1.5
Homeless Shelter Beds	$ 0.7	$ 0.7	$ 1.4
Plan to End Homelessness	$ 0.7	$ 0.7	$ 1.4
Emergency Home Repairs	$ 0.6	$ 0.6	$ 1.2
Home Modifications for Individuals with Disabilities	$ 0.4	$ 0.4	$ 0.8
Emergency Food Boxes	$ 0.3	$ 0.3	$ 0.5
DV Case Management	$ 0.2	$ 0.2	$ 0.4
Adult Job Training	$ -	$ 0.3	$ 0.3
Total	**$ 56.5**	**$ 21.7**	**$ 78.2**

Source: FY2010 Overview and Revenue Estimates, p. 5; FY2011 Overview and Revenue Estimates, p. 4.

REVENUES

This section of the analysis provides an overview of City of Chicago resources including an analysis of all local funds and Corporate Fund revenue trends. "All local funds" are the Corporate Fund, special revenue funds, pension funds, debt service funds, and enterprise funds. It excludes grant funds.[81]

All Local Fund Revenue Trends

The City of Chicago's total resources are projected to increase by 1.2% or $79.0 million in FY2011, from $6.5 billion in FY2010 to $6.6 billion in FY2011. The exhibit that follows compares the City of Chicago's total resources in the FY2010 adopted budget and the FY2010 proposed budget. Some of the resource highlights include:

[81] City of Chicago, FY2011 Budget Overview and Revenue Estimates, pp. 6, 108-121.

- Aviation revenues for O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase slightly by $31.2 million or 2.9%.
- The property tax levy will be held flat at $796.9 million.[82]
- Proceeds and Transfers-In will decline by 28.0%, from $687.2 million to $494.6 million due to less use of lease reserves. Interest earnings and use of proceeds of the City's Skyway and parking meter asset lease transactions provide $288.0 million, general obligation debt restructuring makes up $91.9 million, other financial initiatives are expected to generate $55.0 million,[83] the balance of the property tax relief program is $32 million, the final midway termination payment allocation is $20 million, and approximately $8 million reflects smaller transfers in from non-local funds.[84]
- Sales tax revenues will rise by 7.6% or $37.0 million from the FY2010 budgeted amount because actual receipts have been higher than originally budgeted in FY2010 (see page 47 of this report). The FY2011 estimate is based on projected growth of less than 2% from current receipts.[85]
- Income tax receipts, including revenues from a corporate income tax called the Personal Property Replacement Tax (PPRT), will increase by $98.9 million or 31.1% to $417.3 million. There have been delays in state payments and two distributions were not recognized in FY2010. The City is including those two payments in the FY2011 projection.[86] Deducting for those missed distribution, the City is expecting a growth rate of 6.2%.[87]
- The City is projecting to use $9.4 million of unreserved fund balance.
- Internal Service Earnings increase by $61.8 million or 21.5%, rising from $287.8 million to $349.6 million. These revenues are reimbursements from other City funds. The City attributes the large rise in anticipated collections to increased reimbursements from CPS for expenses paid its behalf.[88]
- Other resources increase 28.1% or $70.1 million driven by increases in the Corporate Fund other category. This includes generally non-recurring revenues including anticipation of $38.5 million from the declaration of surplus in Tax Increment Financing (TIF) districts[89], $17.5 million from the City's share of the distribution of revenues to TIF closures, and $10 million in Build America Bond subsidies.[90]
- Special Events revenues shows an elimination in revenue as the budget proposes to merge the Hotel Tax and Special Events funds.[91] The 2010 appropriation for Special Events was $19.8 million. The Hotel Tax Fund and the new combined fund are included in the other category in the exhibit.

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[82] This figure does not include the levy to pay debt service on capital improvement bonds for the City Colleges.
[83] City of Chicago, FY2011 Overview and Revenue Estimates, p. 63.
[84] Email communication between the Civic Federation and the Office of Budget and Management, October 27, 2010.
[85] Revenues are anticipated to be higher than budgeted in FY2010. The FY2011 budget is based on a growth rate of less than 2% from current receipts is anticipated (See City of Chicago, FY2011 Overview and Revenue Estimates, p. 55).
[86] Email communication between the Civic Federation and the Office of Budget and Management, October 27, 2010
[87] City of Chicago, FY2011 Overview and Revenue Estimates, p. 57.
[88] Email communication between the Civic Federation and the Office of Budget and Management, October 27, 2010
[89] City of Chicago, FY2011 Overview and Revenue Estimates, p. 61.
[90] Email communication between the Civic Federation and the Office of Budget and Management, October 27, 2010
[91] City of Chicago, FY2011 Overview and Revenue Estimates, p. 64.

The top five City of Chicago FY2011 revenues account for 55.4% of all resources or $3.6 billion. They are:

1. Aviation Fees and taxes: $1.1 billion or 17.1% of total resources;
2. Property Taxes: $796.9 million or 12.1% of all resources;
3. Proceeds & Transfers In: $494.6 million or 7.5% of all resources;
4. Sewer & Water Fees and Taxes: $702.4 million or 10.7% of the total; and
5. Sales Taxes: $523.3 million or 8.0% of total resources.

City of Chicago Resources All Local Funds: Budget-to-Budget Basis
FY2010 & FY2011 (in $ million)

Revenue	FY2010 Adopted	FY2011 Proposed	$ Change	% Change
Aviation	$ 1,089.0	$ 1,120.2	$ 31.2	2.9%
Property Taxes	$ 796.9	$ 796.9	$ -	0.0%
Sewer & Water	$ 711.4	$ 702.4	$ (9.0)	-1.3%
Sales Taxes	$ 486.3	$ 523.3	$ 37.0	7.6%
Proceeds & Transfers In	$ 687.2	$ 494.6	$ (192.6)	-28.0%
Utility Taxes & Fees	$ 479.8	$ 479.5	$ (0.3)	-0.1%
Income Taxes/PPRT	$ 318.4	$ 417.3	$ 98.9	31.1%
Vehicle, Transportation & Motor Fuel Taxes	$ 390.9	$ 384.0	$ (6.9)	-1.8%
Internal Service Earnings	$ 289.3	$ 349.6	$ 60.3	20.8%
Other Resources*	$ 249.9	$ 320.0	$ 70.1	28.1%
Fines, Forfeitures & Penalties	$ 262.9	$ 254.4	$ (8.5)	-3.2%
Transaction Taxes	$ 172.7	$ 175.9	$ 3.2	1.9%
Recreation Taxes	$ 154.8	$ 155.1	$ 0.3	0.2%
Charges for Services	$ 77.8	$ 97.2	$ 19.4	24.9%
Licenses & Permits	$ 105.7	$ 95.4	$ (10.3)	-9.7%
Emergency Communications Surcharge	$ 97.3	$ 94.1	$ (3.2)	-3.3%
Business Taxes	$ 78.1	$ 77.0	$ (1.1)	-1.4%
Special Events	$ 19.8	$ -	$ (19.8)	-100.0%
Lease, Rentals & Sales	$ 19.4	$ 16.5	$ (2.9)	-14.9%
Municipal Utilities (Parking)	$ 6.0	$ 6.8	$ 0.8	13.3%
Revenue Subtotal	**$ 6,493.6**	**$ 6,560.2**	**$ 66.6**	**1.0%**
Prior Year Unreserved Corporate Fund Balance	**$ -**	**$ 9.4**	**$ 9.4**	**-**
Total	**$ 6,493.6**	**$ 6,569.6**	**$ 76.0**	**1.2%**

Sources: FY2010 Annual Appropriation Ordinance, pp. 16-26 and City of Chicago FY2011 Budget Overview and Revenue Estimates, pp. 108-115.

*Other = Hotel Operator's Tax, CTA Real Estate Transfer Taxes, Library Funds, Intergovermental Fund Reimbursements, Interest Income, Other Revenue (Corporate Fund)

Over the five-year period between FY2007 and FY2011, all local fund resources are projected to increase by 15.2%.

- Aviation revenues are expected to increase by 17.9%, rising $170.3 million to $1.1 billion;
- Property taxes will increase by 24.3%, from $641.2 million to $796.9 million;
- Proceeds and Transfers In will grow by 220.1%, rising from $154.5 million to $494.6 million;
- Sewer and water revenues will rise by 34.5% from $522.2 million to $702.4 million;
- Sales tax revenues will decrease by $45.4 million or 8.0%, falling from $568.7 million to $523.3 million; and
- Utility taxes and fees will decrease slightly from $501.0 million to $479.5 million.

City of Chicago Resources All Local Funds: Actual-to-Budget Basis
FY2007 & FY2010 (in $ millions)

Revenue	FY2007	FY2011	$ Change	% Change
Aviation	$ 949.9	$ 1,120.2	$ 170.3	17.9%
Property Taxes	$ 641.2	$ 796.9	$ 155.7	24.3%
Sewer & Water	$ 522.2	$ 702.4	$ 180.2	34.5%
Sales Taxes	$ 568.7	$ 523.3	$ (45.4)	-8.0%
Proceeds & Transfers In	$ 154.5	$ 494.6	$ 340.1	220.1%
Utility Taxes & Fees	$ 501.0	$ 479.5	$ (21.5)	-4.3%
Income Taxes/PPRT	$ 433.4	$ 417.3	$ (16.1)	-3.7%
Vehicle, Transportation & Motor Fuel Taxes	$ 384.9	$ 384.0	$ (0.9)	-0.2%
Internal Service Earnings	$ 283.0	$ 349.6	$ 66.6	23.5%
Other Resources*	$ 124.7	$ 320.0	$ 195.3	156.6%
Fines, Forfeitures & Penalties	$ 220.6	$ 254.4	$ 33.8	15.3%
Transaction Taxes	$ 304.7	$ 175.9	$ (128.8)	-42.3%
Recreation Taxes	$ 133.9	$ 155.1	$ 21.2	15.8%
Charges for Services	$ 90.8	$ 97.2	$ 6.4	7.0%
Licenses & Permits	$ 148.2	$ 95.4	$ (52.8)	-35.6%
Emergency Communications Surcharge	$ 53.0	$ 94.1	$ 41.1	77.5%
Business Taxes	$ 89.9	$ 77.0	$ (12.9)	-14.3%
Special Events	$ 21.6	$ -	$ (21.6)	-100.0%
Lease, Rentals & Sales	$ 22.8	$ 16.5	$ (6.3)	-27.6%
Municipal Utilities (Parking)	$ 28.1	$ 6.8	$ (21.3)	-75.8%
Revenue Subtotal	**$ 5,677.1**	**$ 6,560.2**	**$ 883.1**	15.6%
Prior Year Unreserved Corporate Fund Balance	**$ 26.8**	**$ 9.4**	**$ (17.4)**	-64.9%
Total	**$ 5,703.9**	**$ 6,569.6**	**$ 865.7**	**15.2%**

Sources: City of Chicago FY2011 Budget Overview and Revenue Estimates, pp. 108-115.

Corporate Fund Revenue Trends

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 2.5% or $80.4 million increase in Corporate Fund revenues in FY2011 from the previous fiscal year budget.

The Corporate Fund's tax revenues are projected to increase by 7.7% in FY2011, rising from $1.7 billion in FY2010 to $1.8 billion in FY2011. Sales and Use Tax revenue, which includes both the City's own home rule sales tax and its share of sales taxes collected by the State, is expected to increase by 7.9% or $36.3 million. Income tax receipts, which include the personal property replacement tax levied on corporations and utilities, are projected to increase by 47.4% to $309.9 million. Two State distributions totaling $32.3 million were not booked in FY2010 exaggerating the one year increase. In addition, the City is projecting growth in income tax receipts, primarily corporate income taxes.[92] Utility taxes and franchise fees will remain flat at $479.5 million.

Non-tax Corporate Fund revenues will increase by 16.9%, rising from $777.7 million in FY2010 to $909.3 million in FY2011. This includes license and permit revenues, which will decrease by 9.7% in FY2011 due to economic conditions and City legislation intended to bolster businesses during the downturn.[93] The reimbursement, interest, other category will increase by 43.5% or $133.1 million driven by the "Other" category, which includes TIF surplus funds. Fines and forfeitures are another significant non-tax revenue source at $254.4 million, which is fairly stable from the FY2010.

The category of Proceeds and Transfers In will decrease by 28.0%, declining from $687.2 million in FY2010 million[94] to $494.6 million in FY2011 due to less use of asset lease proceeds. This category includes tax revenue from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes $288.0 million in revenue derived from transfers of generally nonrecurring revenue sources such as the City's Skyway and Parking Meter asset lease transactions. Charges for Services is projected to increase 24.9% to $97.2 million in anticipation of an increased reimbursement from Chicago Public Schools for safety related services.[95]

[92] City of Chicago, FY2011 Overview and Revenue Estimates, p. 57.
[93] City of Chicago, FY2011 Overview and Revenue Estimates, p. 59.
[94] The City now estimates that less than anticipated reserves will need to be transferred in FY2010. See Year-End estimate to budget comparison section of this report for current comparison.
[95] City of Chicago, FY2011 Overview and Revenue Estimates, p. 61.

City of Chicago Corporate Fund Revenues: FY2010 & FY2011 (in $ millions)				
Tax Revenue	**FY2010 Adopted**	**FY2011 Proposed**	**$ Change**	**% Change**
Sales & Use Taxes	$ 460.3	$ 496.6	$ 36.3	7.9%
Utility Tax & Franchise Fees	$ 479.8	$ 479.5	$ (0.3)	-0.1%
Income Taxes (Incl. PPRT)	$ 210.2	$ 309.9	$ 99.7	47.4%
Transaction Taxes	$ 172.7	$ 175.9	$ 3.2	1.9%
Transportation Taxes	$ 155.7	$ 149.6	$ (6.1)	-3.9%
Recreation Taxes	$ 154.8	$ 155.1	$ 0.3	0.2%
Business Taxes	$ 78.1	$ 77.0	$ (1.1)	-1.4%
Municipal Auto Rental Tax	$ 3.2	$ 3.2	$ -	0.0%
Total Tax Revenue	**$ 1,714.8**	**$ 1,846.8**	**$ 132.0**	**7.7%**
Non-Tax Revenue				
Fines & Forfeitures	$ 262.9	$ 254.4	$ (8.5)	-3.2%
Licenses & Permits	$ 105.7	$ 95.4	$ (10.3)	-9.7%
Charges for Services	$ 77.8	$ 97.2	$ 19.4	24.9%
Leases, Rentals & Sales	$ 19.4	$ 16.5	$ (2.9)	-14.9%
Municipal Utilities (Parking)	$ 6.0	$ 6.8	$ 0.8	13.3%
Reimbursement,Interest,Other	$ 305.9	$ 439.0	$ 133.1	43.5%
Total Non-Tax Revenue	**$ 777.7**	**$ 909.3**	**$ 131.6**	**16.9%**
Prior Year Unreserved Fund Balance	**$ -**	**$ 9.4**	**$ 9.4**	**-**
Proceeds & Transfers In	**$ 687.2**	**$ 494.6**	**$ (192.6)**	**-28.0%**
Total Corporate Revenue	**$ 3,179.7**	**$ 3,260.1**	**$ 80.4**	**2.5%**

Source: FY2010 Annual Appropriation Ordinance, pp. 16-26 & City of Chicago FY2011 Budget Overview and Revenue Estimates, p. 108-109.

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2007 and FY2011, Corporate Fund revenues will increase by 4.6% a $143.3 million increase from $3.1 billion to $3.3 billion. During this period, Corporate Fund tax revenues will decrease by 12.4% and non-tax revenues will increase by 10.1%.

Economically sensitive revenues will decrease over the five-year period of this analysis, reflecting the economic downturn.

- Income tax receipts, which include personal property replacement tax revenues, will decrease by 18.0%, falling from $377.7 million to $309.9 million;
- Sales tax revenues will drop by $46.6 million or 8.6% to $496.6 million;
- Transaction taxes, which include the real estate transfer tax, will fall a dramatic 42.3%, a $128.8 million decrease.

Business taxes decreased 14.3% partly as a result of legislative actions that changed tax liabilities to encourage job creation.[96] Recreation taxes have increased 15.8% driven by increases in amusement tax, liquor tax and non-alcoholic beverage tax combined with decreased cigarette tax revenue. The increases are largely the result of the following tax rate and base increases: (1) effective January 1, 2009 the amusement tax was increased by 1% for both live performances

[96] City of Chicago, FY2011 Overview and Revenue Estimates, p. 53.

and other events,[97] (2) in 2008 a new bottled water tax was added to the non-alcoholic beverage tax,[98] and (3) the state's definition of soft drinks was expanded in September 2009 impacting non-alcoholic beverage tax collections[99]

City of Chicago Corporate Fund Revenues: FY2007 & FY2011 (in $ millions)				
Tax Revenue	FY2007 Actual	FY2011 Proposed	$ Change	% Change
Sales & Use Taxes	$ 543.2	$ 496.6	$ (46.6)	-8.6%
Utility Tax & Franchise Fees	$ 501.0	$ 479.5	$ (21.5)	-4.3%
Income Taxes (Incl. PPRT)	$ 377.7	$ 309.9	$ (67.8)	-18.0%
Transaction Taxes	$ 304.7	$ 175.9	$ (128.8)	-42.3%
Transportation Taxes	$ 155.2	$ 149.6	$ (5.6)	-3.6%
Recreation Taxes	$ 133.9	$ 155.1	$ 21.2	15.8%
Business Taxes	$ 89.9	$ 77.0	$ (12.9)	-14.3%
Municipal Auto Rental	$ 3.8	$ 3.2	$ (0.6)	-15.8%
Total Tax Revenue	**$ 2,109.4**	**$ 1,846.8**	**$ (262.6)**	**-12.4%**
Non-Tax Revenue				
Fines & Forfeitures	$ 220.6	$ 254.4	$ 33.8	15.3%
Licenses & Permits	$ 148.2	$ 95.4	$ (52.8)	-35.6%
Charges for Services	$ 90.8	$ 97.2	$ 6.4	7.0%
Leases, Rentals & Sales	$ 22.8	$ 16.5	$ (6.3)	-27.6%
Municipal Utilities (Parking)	$ 28.1	$ 6.8	$ (21.3)	-75.8%
Reimbursement,Interest,Other	$ 315.6	$ 439.0	$ 123.4	39.1%
Total Non-Tax Revenue	**$ 826.1**	**$ 909.3**	**$ 83.2**	**10.1%**
Prior Year Unreserved Fund Balance	**$ 26.8**	**$ 9.4**	**$ (17.4)**	**-64.9%**
Proceeds & Transfers In	**$ 154.5**	**$ 494.6**	**$ 340.1**	**220.1%**
Total Corporate Revenue	**$ 3,116.8**	**$ 3,260.1**	**$ 143.3**	**4.6%**

Source: City of Chicago FY2011 Budget Overview and Revenue Estimates, p. 108-109.

Year-End Estimate Budget Comparisons

The previous trend analysis examined budgeted resources by comparing the adopted budget to the proposed budget. However, the amount of revenue actually collected in a fiscal year may differ significantly from the original budget. A new budget is typically based on the amount of revenue a government expects to actually collect in the prior fiscal year (the year-end estimate), not the budgeted amount. In addition, the differences between the year-end estimate of the prior fiscal year and the budget proposal for the new fiscal year are widely cited in government and media reports. The next two exhibits present information for City of Chicago all local fund resources and Corporate Fund resources on a FY2010 year-end estimate to a FY2011 proposed budget basis.

Comparing the FY2010 year-end estimates with the proposed FY2011 budget reveals that the City's all local fund resources are expected to increase by 2.7%. In addition:

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[97] City of Chicago, 2009 Overview and Revenue Estimates, p. 55, City of Chicago Municipal Code Chapter 4-156.
[98] City of Chicago, 2008 Overview and Revenue Estimates, p. 55, City of Chicago Municipal Code Chapter 3-43.
[99] City of Chicago, FY2011 Overview and Revenue Estimates, p. 50.

- Sales tax revenues will increase by 1.8%, from $513.8 million to $523.3 million;
- Income tax and PPRT receipts will increase by $76.6 million, or 22.5%;
- Utility taxes and fees will be flat at $479.5 million;
- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase by $10.2 million or 0.9%;
- Proceeds and Transfers In will decline by 13.7%, from $573.3 million to $494.6 million. Of the $494.6 million, $288.0 million is from interest earnings or proceeds of the City's Skyway and parking meter asset lease transactions; and
- Internal Service Earnings will increase by $77.0 million or 28.2%.

City of Chicago Resources All Local Funds: Year-End Estimates to Budget FY2010 & FY2011 (in $ millions)

Revenue	FY2010 Year End Est.	FY2011 Proposed	$ Change	% Change
Aviation	$ 1,110.0	$ 1,120.2	$ 10.2	0.9%
Property Taxes	$ 796.8	$ 796.9	$ 0.1	0.0%
Sewer & Water	$ 702.4	$ 702.4	$ -	0.0%
Sales Taxes	$ 513.8	$ 523.3	$ 9.5	1.8%
Proceeds & Transfers In	$ 573.3	$ 494.6	$ (78.7)	-13.7%
Utility Taxes & Fees	$ 475.9	$ 479.5	$ 3.6	0.8%
Income Taxes/PPRT	$ 340.7	$ 417.3	$ 76.6	22.5%
Vehicle, Transportation & Motor Fuel Taxes	$ 384.2	$ 384.0	$ (0.2)	-0.1%
Internal Service Earnings	$ 272.6	$ 349.6	$ 77.0	28.2%
Other Resources	$ 230.0	$ 320.0	$ 90.0	39.1%
Fines, Forfeitures & Penalties	$ 258.4	$ 254.4	$ (4.0)	-1.5%
Transaction Taxes	$ 180.5	$ 175.9	$ (4.6)	-2.5%
Recreation Taxes	$ 156.0	$ 155.1	$ (0.9)	-0.6%
Charges for Services	$ 84.9	$ 97.2	$ 12.3	14.5%
Licenses & Permits	$ 95.2	$ 95.4	$ 0.2	0.2%
Emergency Communications Surcharge	$ 94.9	$ 94.1	$ (0.8)	-0.8%
Business Taxes	$ 78.9	$ 77.0	$ (1.9)	-2.4%
Special Events	$ 12.4	$ -	$ (12.4)	-100.0%
Lease, Rentals & Sales	$ 15.6	$ 16.5	$ 0.9	5.8%
Municipal Utilities (Parking)	$ 6.8	$ 6.8	$ -	0.0%
Revenue Subtotal	**$ 6,383.3**	**$ 6,560.2**	**$ 176.9**	**2.8%**
Prior Year Unreserved Corporate Fund Balance	**$ 1.5**	**$ -**	**$ (1.5)**	**-100.0%**
Total	**$ 6,384.8**	**$ 6,560.2**	**$ 175.4**	**2.7%**

Sources: City of Chicago FY2011 Budget Overview and Revenue Estimates, pp. 111-118.

From the FY2010 year-end estimate to FY2011 budget, the City projects a 5.2% or $161.5 million increase in Corporate Fund revenues. Tax revenues will increase by 4.7% or $83.6 million. This includes a 1.8% or $8.8 million increase in sales tax revenue and a $77.4 million or 33.3% increase in income tax and PPRT revenues. Two State distributions totaling $32.3 million were not booked in FY2010 exaggerating the one year increase.[100]

City of Chicago Corporate Fund Revenues: Year-End Estimates to Budget FY2010 & FY2011 (in $ millions)				
Tax Revenue	**FY2010 Year End Est.**	**FY2011 Proposed**	**$ Change**	**% Change**
Sales & Use Taxes	$ 487.8	$ 496.6	$ 8.8	1.8%
Utility Tax & Franchise Fees	$ 475.9	$ 479.5	$ 3.6	0.8%
Income Taxes (Incl. PPRT)	$ 232.5	$ 309.9	$ 77.4	33.3%
Transaction Taxes	$ 180.5	$ 175.9	$ (4.6)	-2.5%
Transportation Taxes	$ 148.4	$ 149.6	$ 1.2	0.8%
Recreation Taxes	$ 156.0	$ 155.1	$ (0.9)	-0.6%
Business Taxes	$ 78.9	$ 77.0	$ (1.9)	-2.4%
Municipal Auto Rental Tax	$ 3.2	$ 3.2	$ -	0.0%
Total Tax Revenue	**$ 1,763.2**	**$ 1,846.8**	**$ 83.6**	**4.7%**
Non-Tax Revenue		$ - $ -		
Fines & Forfeitures	$ 258.4	$ 254.4	$ (4.0)	-1.5%
Licenses & Permits	$ 95.2	$ 95.4	$ 0.2	0.2%
Charges for Services	$ 84.9	$ 97.2	$ 12.3	14.5%
Leases, Rentals & Sales	$ 15.6	$ 16.5	$ 0.9	5.8%
Municipal Utilities (Parking)	$ 6.8	$ 6.8	$ -	0.0%
Reimbursement,Interest,Other	$ 298.5	$ 439.0	$ 140.5	47.1%
Total Non-Tax Revenue	**$ 759.4**	**$ 909.3**	**$ 149.9**	**19.7%**
Prior Year Unreserved Fund Balance	**$ 2.7**	**$ 9.4**	**$ 6.7**	**248.1%**
Proceeds & Transfers In	**$ 573.3**	**$ 494.6**	**$ (78.7)**	**-13.7%**
Total Corporate Revenue	**$ 3,098.6**	**$ 3,260.1**	**$ 161.5**	**5.2%**

Sources: City of Chicago FY2011 Budget Overview and Revenue Estimates, pp. 108-109.

Property Tax Revenues

The City of Chicago's proposed 2011 property tax levy for City government purposes is $796.9 million and is held flat over last year's levy.

The proposed 2011 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[101] A portion of the Library levy funds debt service on bonds issued for the Library's capital program, but some of the levy pays for short-term borrowing to fund Library operating expenses. The City issues short-term debt (tax anticipation notes) for the Library in order to bridge the roughly 18-month gap between approval of the levy and collection of an increase in taxes. Taxes levied for FY2011 will not begin to be collected until the late winter of 2012 and any increase appears on second installment of tax bills sent in the fall of 2012.

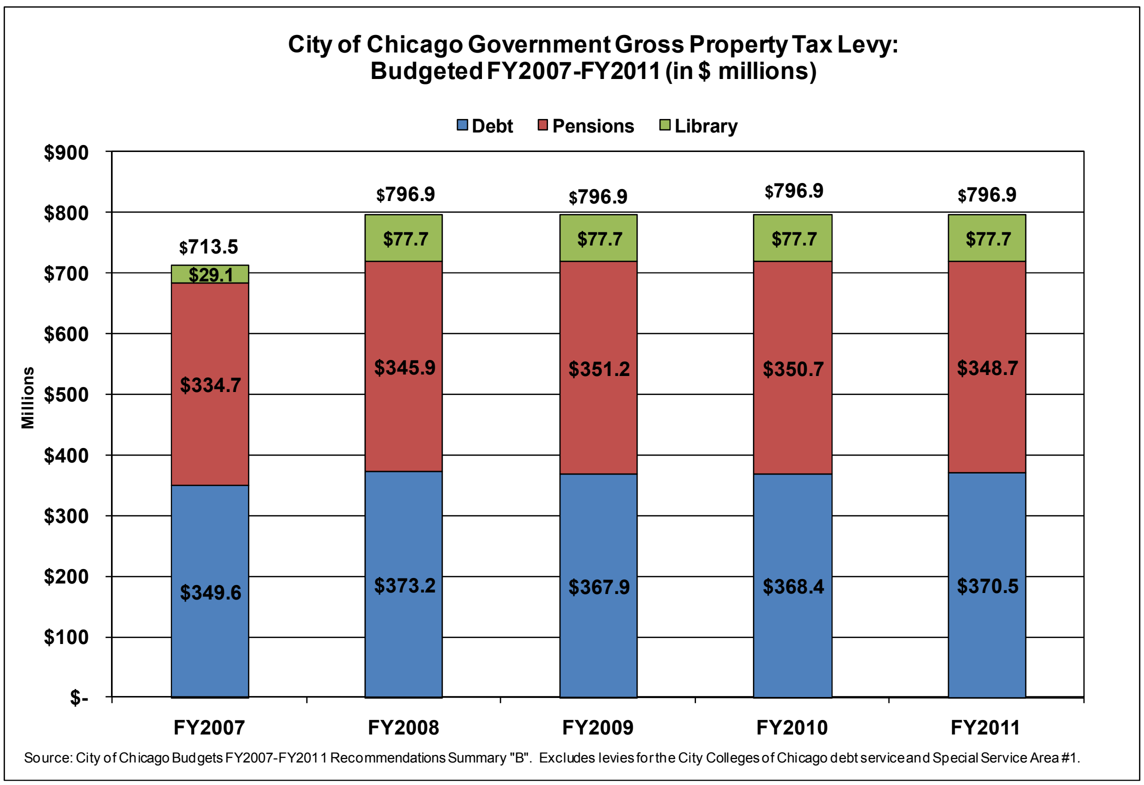
The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Property taxes levied for pensions are a direct result of payroll

[100] City of Chicago, FY2011 Overview and Revenue Estimates, p. 57.
[101] Since 1996, the Library has been listed as a separate line item on Chicago property tax bills.

increases, including retroactive increases, since the City's employer contributions to pensions are set in state statute as a multiple of employee contributions made two years prior. Employee contributions are a percentage of pay. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule. None of the property tax levy is used for Corporate Fund operating purposes.[102]

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008, the levy was increased 11.7% or $83.4 million to $796.8 million.[103] The 2008 levy increase was paid by taxpayers in the fall of 2009, as there is a one-year lag in Cook County between the approval of a levy and the time it is reflected in a new tax rate.

The 2008 levy increase exceeded the City's self-imposed limit on property tax increases. As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[104] The figure below shows the $83.4 million levy increase in FY2008. There have not been any subsequent increases in the gross property tax levy for city purposes.



[102] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[103] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[104] The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the Library levy from the definition of "aggregate extension".

Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed 2011 property tax levy for City government purposes, including the library, is $796.8 million. There has been no change in the levy since 2008. However, this figure does not represent the full amount of property tax revenues collected by the City of Chicago.

There are at least three significant additional uses of property tax revenue by the City: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools, and Tax Increment Financing (TIF) district revenue. The City Colleges and Chicago Public Schools are separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

We discuss these three additional property tax uses here because it is important for property tax payers to have an accurate description of which governments receive their property tax dollars and for what purpose. Without accurate descriptions, it is impossible for the public to hold elected officials responsible for the level of property taxation they impose and for the uses of those dollars.

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[105]

The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC). Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995;[106] at that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O & M) levy. When these obligations were fulfilled, the O & M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[107] This arrangement results in no net increase for property tax payers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

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105 Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php
106 Property Tax Extension Limitation Law, 35 ILCS 200/18.
107 Information provided by City Colleges of Chicago Finance Office, June 26, 2008.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and $36.6 million in FY2008.[108] It has remained at $36.6 million from through FY2011.

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is absent from the budget narrative and budget totals where the City's property tax levy is described.[109] When City Colleges $36.6 million levy is added to the $796.9 million total listed it brings the total levy to $833.5 million.

Chicago Public Schools

There is an intergovernmental agreement between the City of Chicago and the Chicago Public Schools through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was entered into on October 1, 1997 and has been used to fund and refund several bond issuances.[110] The City has taken on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority, which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[111] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds will increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million through 2018.[112]

The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates.[113] The City's financial statements refer to it only in the property tax statistics, from which the property taxes for the "School Building and Improvement Fund" are explicitly excluded.[114] The City also issued over $356 million in new bonds to finance its "Modern Schools Across Chicago" school construction program in 2007.[115]

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[108] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf

[109] The City Colleges levy appears in the City's FY2011 Budget Recommendations book (p. 32) but is absent from the property tax discussion on pages 40 and 41 of the Overview and Revenue Estimates book.

[110] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf . See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.

[111] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution

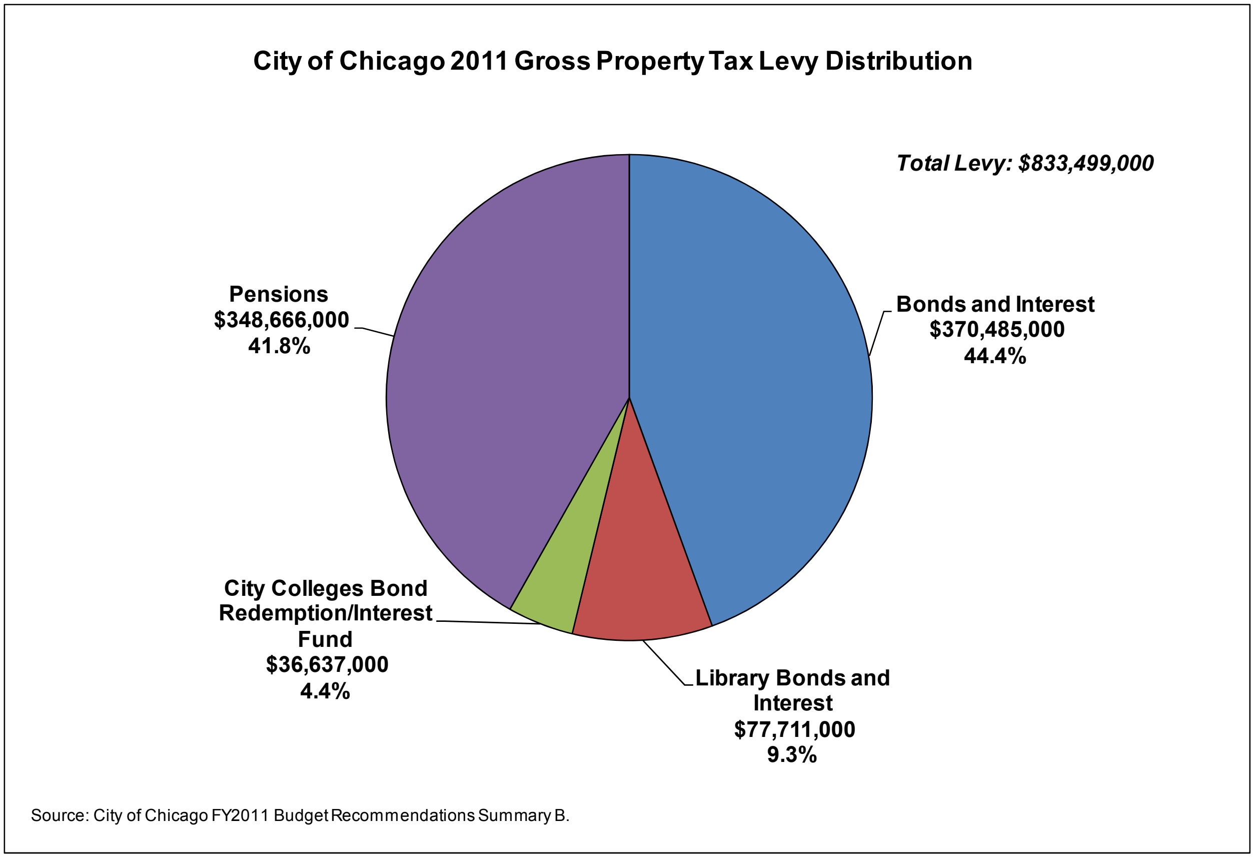
[112] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf .

[113] City of Chicago, FY2011 Budget Recommendations book, p. 32.

[114] City of Chicago, FY2008 Comprehensive Annual Financial Report, p. 136.

[115] City of Chicago, FY2007 Comprehensive Annual Financial Report, p. 26.

The following pie chart illustrates the distribution of the City's total proposed property tax levy for 2011 (taxes payable in 2012). Approximately 4.4% of the City's proposed FY2011 property tax levy is for City Colleges bonds, and 9.3% is for the Library. Roughly 41.8% is dedicated to pension payments and 44.4% of the levy is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the Chicago Public Schools are included in this latter amount but are not itemized. The total City levy is $833.5 million.



Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for Tax Increment Financing districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are currently 165 active TIFs in Chicago according to the City's Department of Community Development web site.[116]

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the

[116] City of Chicago Department of Community Development web site, TIF District FAQ's, navigate from www.cityofchicago.org, visited October 25, 2010.

other extensions to the incremental EAV growth in a TIF district.[117] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2008 rates, paid in 2009.[118] For tax year 2008, Chicago TIFs generated $495.6 million, up from $386.5 million in 2005 but a decline from 2007 due to the expiration of the Central Loop TIF.[119]

This revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[120]

When TIF revenue is added to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs), the City's 2008 property tax revenues totaled over $1.3 billion. This was an increase of $223.4 million over FY2005.

City of Chicago FY2005 - FY2008 Gross Property Tax Levy and TIF Revenue

Fund #	Fund Name	FY2005	FY2006	FY2007	FY2008
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 713,452,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fund	$ 5,729,000	$ 5,729,000	$ 33,509,000	$ 36,632,000
	TIF Property Tax Revenues	$ 386,502,771	$ 500,369,348	$ 555,310,568	$ 495,590,381
	GRAND TOTAL*	**$1,105,683,771**	**$ 1,219,550,348**	**$ 1,302,271,568**	**$ 1,329,084,381**

Source: City of Chicago Budgets FY2005-FY2007 Recommendations Summary "B", City of Chicago FY2008 Appropriations Ordinance Summary "B", Cook County Clerk Tax Agency Reports 2005-2008, and Clerk TIF reports 2006-2008

Transparency and Accountability Issues

It is important for property taxpayers to have an accurate picture of which governments receive their property tax dollars and for what purpose so that taxpayers may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on property tax bills does not provide an accurate picture of property tax distribution.

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes a pie chart showing the distribution of the City of Chicago tax bill among the different governments,[121] and the City of Chicago reprints that pie chart in its own Overview and Revenue Estimates section of the annual budget. The 2008 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 21.4% of a typical City property tax bill is for the City of Chicago, including the Library, and 53.8% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages,

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[117] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
[118] At the time of publication, the Cook County Clerk had not yet released tax year 2009 tax rates or TIF reports.
[119] Cook County Clerk TIF Reports. See http://www.cookctyclerk.com/sub/TIF.asp
[120] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[121] Cook County Clerk 2008 Tax Rate Report, p. v. http://www.cookcountyclerk.com/tsd/DocumentLibrary/2008TaxRates.pdf.

the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments.

There is also a discrepancy between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The two tables below show the City's 2005-2008 levies as reported by City Budget Appropriation Ordinances and by the Cook County Clerk. The differences each year in the total levy may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports.

City of Chicago Gross Property Tax Levy: Tax Year 2005-2008
As Reported in the Cook County Clerk Agency Tax Rate Reports

Fund #	Fund Name	2005	2006	2007	2008
3	Bonds & Interest	$ 331,938,289	$ 335,910,594	$ 400,728,571	$ 411,108,080
120	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000	$ 139,640,000
121	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000	$ 65,426,000
122	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000	$ 125,644,000
125	Laborers Pension	$ -	$ -	$ -	$ 9,526,000
289	Note Redemption & Interest Fund	$ 16,208,000	$ 12,715,000	$ 3,867,000	$ -
319	1998 Equipment Notes	$ 11,441,052	$ 12,377,894	$ -	$ -
	Subtotal City	**$ 683,655,341**	**$ 703,259,488**	**$ 739,295,571**	**$ 751,344,080**
3	Bonds & Interest	$ -	$ -	$ -	$ 3,049,661
128	Library Municipal Pension	$ -	$ -	$ -	$ 5,700,000
259	Library Note Redemption	$ 53,404,000	$ 34,737,000	$ 29,103,000	$ 73,363,000
	Subtotal Library	**$ 53,404,000**	**$ 34,737,000**	**$ 29,103,000**	**$ 82,112,661**
	GRAND TOTAL City + Library	**$ 737,059,341**	**$ 737,996,488**	**$ 768,398,571**	**$ 833,456,741**

Note: Funds for which there were no levies in these years are excluded.

Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund

City of Chicago Gross Property Tax Levy: Tax Year 2005-2008
As Reported in the City of Chicago Appropriation Ordinances

Fund #	Fund Name	2005	2006	2007	2008
509	Note Redemption and Interest Fund	$ 11,441,000	$ 12,378,000	$ -	$ -
510	Bond Redemption and Interest Fund	$ 307,220,000	$ 311,366,000	$ 345,782,000	$ 373,216,000
512	Note Redemption and Interest Fund	$ 16,208,000	$ 12,715,000	$ 3,867,000	$ -
516	Library Bond Redemption Fund	$ 1,111,000	$ -	$ -	$ 4,347,000
521	Library Note Redemption and Interest Fund	$ 53,404,000	$ 34,737,000	$ 29,103,000	$ 73,363,000
681	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000	$ 131,344,000
682	Laborers' Pension	$ -	$ -	$ -	$ 9,526,000
683	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000	$ 139,640,000
684	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000	$ 65,426,000
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 713,452,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fun	$ 5,729,000	$ 5,729,000	$ 33,509,000	$ 36,632,000
	GRAND TOTAL	**$ 719,181,000**	**$ 719,181,000**	**$ 746,961,000**	**$ 833,494,000**

Source: City of Chicago Appropriations FY2006-FY2010. The levy for Special Service Area #1 is excluded.

Property taxpayers collectively owe the full amount as reported by the Cook County Clerk, not the smaller amount reported by the City, and the final City tax rate is calculated based on the total levy reported by the Clerk.

LONG-TERM ASSET LEASE PROCEEDS

In 2005 the City leased the Skyway toll road to a private operator for 99 years, and in 2009 the City completed a similar deal that leased its parking meters to a private operator for 75 years. These proceeds have been a principal method that the City has used to balance its budget, but the proceeds are being quickly depleted.

Skyway Lease

In 2005 the City leased the Chicago Skyway for $1.83 billion to a private operator for 99 years. The City deposited $500.0 million of the proceeds into a long-term reserve account and $855.0 million was used to retire debt associated with the Skyway itself, along with other debt accrued by the City. The remaining $475.0 million was set aside for operating expenses; $100.0 for a Human Infrastructure Fund[122] and $375 million in a Mid-Term Reserve Fund.

Chicago Skyway Long-Term Lease Proceeds: (in $ millions)	
Lease Transaction Proceeds	**$1,830.0**
Long-Term Reserves	
Long-Term Reserve Fund	$ 500.0
Retired Debt	
Skyway Associated Debt Retired	$ 463.0
Other Debt Retired	$ 392.0
Operating Expenses	
Mid-Term Reserve Fund	$ 375.0
Human Infrastructure Fund	$ 100.0
Total	**$1,830.0**

Source: City of Chicago, Asset Lease Agreements http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html; Government Accountability Office, Highway Public-Private Partnerships, February 2008, p.85.

The following chart outlines how the Skyway lease proceeds have been used. The Mid-Term Reserve Fund has been depleted as it has been used to balance the Corporate Fund budget from 2005 through 2011. The Skyway Human Infrastructure Fund has also been exhausted; it has funded a variety of programs primarily focused on human service, job training, and housing programs. The Parking Meter Human Infrastructure Fund has taken its place and is being used to continue and expand the number of programs originally supported by Skyway funds. The Skyway Long-Term Reserve Fund principal of $500 million has not been utilized in the operating budget and remains intact. Investment earnings from the account are transferred to the

[122] The term "fund" is used loosely in this discussion and in the concession agreements. The remaining Skyway and other lease proceeds that have not been expended or allocated to the Corporate Fund are held in one accounting entity called the "Reserve Fund" (see City of Chicago FY2009 CAFR p. 48 for a description of this fund).

Corporate Fund. These annual earnings have ranged from between $18 million and $29 million[123] with $15 million projected for FY2011.[124]

The City is projecting that at FY2011 year-end the only Skyway lease proceeds remaining will be $500 million in long-term reserves.[125]

Skyway Lease Proceeds (in $ thousands)					
	Debt Retirement	Long-Term Reserve Fund	Mid-Term Reserve Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/10)					
Proceeds	$ 855,000	$ 500,000	$ 375,000	$ 100,000	$ 1,830,000
Interest Earnings*	$ -	$ 141,456	$ 49,524	$ 12,257	$ 203,237
Total	**$ 855,000**	**$ 641,456**	**$ 424,524**	**$ 112,257**	**$ 2,033,237**
Expenses, Transfers and Disbursements					
2005	$ 855,000	$ 18,244	$ 100,000	$ 34,000	$ 1,007,244
2006	$ -	$ 27,400	$ 50,000	$ 25,505	$ 102,905
2007	$ -	$ 26,497	$ 75,000	$ 19,058	$ 120,555
2008	$ -	$ 28,857	$ 50,000	$ 15,025	$ 93,882
2009	$ -	$ 25,079	$ 50,000	$ 12,198	$ 87,277
2010	$ -	$ 25,000	$ 50,000	$ 3,530	$ 78,530
2011	$ -	$ 15,000	$ 50,000	$ -	$ 65,000
Total	**$ 855,000**	**$ 166,077**	**$ 425,000**	**$ 109,316**	**$ 1,555,393**

*Interest earnings are through 6/30/10. Additional earnings can be anticipated in 2010 and 2011
Source: Historical Data from City of Chicago, Asset Lease Agreements
http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html
2010 and 2011 transfers from City of Chicago, 2011 Overview and Revenue Estimates, p. 108.

Parking Meter Lease

In 2009 the City leased its parking meters for $1.15 billion to a private operator for 75 years. The City allocated $400.0 million of the parking meter proceeds into a Long-Term Reserve Fund and set aside the remaining $751.4 million for operating expenses in the following funds.

- Mid-Term Reserve Fund – $325.0 million intended to be transferred to the Corporate Fund over five fiscal years ($25 million initially, $100 million to cover 2008 carried forward obligations, $50 million for 2009, $50 million for 2010, $50 million for 2011 and $100 million for 2012).

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[123] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html (last visited on October 26, 2010).
[124] City of Chicago, FY2011 Overview and Revenue Estimates, p. 108.
[125] City of Chicago, FY2011 Overview and Revenue Estimates, p. 62. The chart does not contain a balance line as the budget does include an estimate of interest earnings for FY2010 and FY2011.

- Budget Stabilization Fund – $326.3 million for largely discretionary purposes with no specified time period for transfer.
- Human Infrastructure Fund - $100 million intended to replace Skyway Human Infrastructure Fund.

Chicago Parking Meter Long-Term Lease Proceeds: (in $ millions)	
Lease Transaction Proceeds	**$1,150.0**
Long-Term Reserves	
Long-Term Reserve Fund	$ 400.0
Operating Expenses	
Mid-Term Reserve Fund	$ 325.0
Human Infrastructure Fund	$ 100.0
Budget Stabilization Fund	$ 326.4
Subtotal Operating Expenses	**$ 751.4**
Total	**$1,151.4**

Source: City of Chicago, Asset Lease Agreements
http://w w w .cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

As illustrated in the following chart, the parking meter proceeds have been utilized at a rapid rate. The City will have spent over a billion dollars in parking meter revenue (combined Budget Stabilization, Mid-Term Reserve, and Long-Term Reserve) funds in just three years leaving the Budget Stabilization and Mid-Term Reserve funds practically depleted. An additional $78.2 million has been allocated from the Human Infrastructure Fund.

Unlike the Skyway Long-Term Reserve Fund, the parking meter Long-Term Reserve Fund principal has been used to close the Corporate Fund deficits. There is $190.0 million of principal being used in 2010 and $119.9 million in 2011. This use of principal is considered borrowing from the Long-Term Reserve Fund and will need to be paid back. Another distinction from the Skyway Long-Term Reserve Fund is that the Parking Meter Long-Term Reserve Fund must transfer at least $20 million in interest earnings per year to the Corporate Fund. If $20 million is not earned then the balance comes from the principal. As funds are borrowed from the principal there is less funds available on which to earn interest and therefore even more must be taken from principal to meet the $20 million requirement perpetuating a downward spiral.

The FY2011 City budget proposal includes a total of $244.4 million from the Parking Meter Long-Term, Mid-Term and Human Infrastructure Funds. The City is projecting that the only balances remaining from parking meter lease proceeds at FY2011year end will be $54.0 million in the Long-Term Reserve Fund and $22.0 million in the Human Infrastructure Fund.[126]

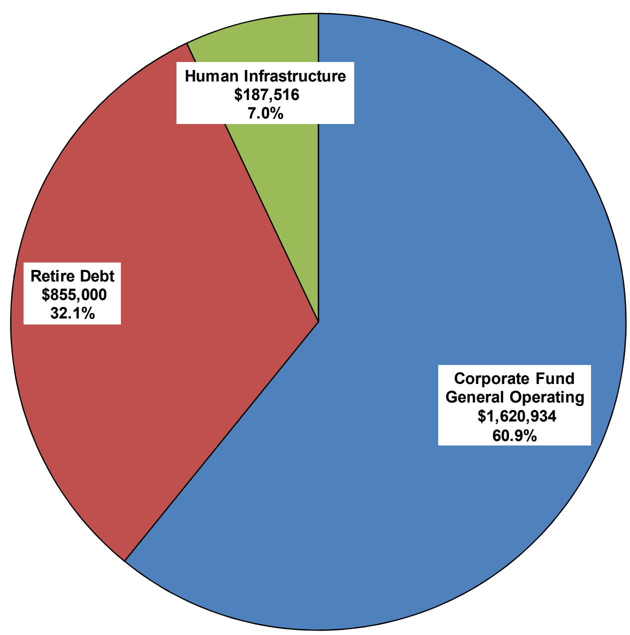
Parking Meter Lease Proceeds (in $ thousands)					
	Long-Term Reserve Fund	Mid-Term Reserve Fund	Budget Stabilization Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/10)					
Proceeds	$ 400,000	$ 325,000	$ 326,355	$ 100,000	$ 1,151,355
Interest Earnings*	$ 13,796	$ 3,286	$ 2,776	$ 546	$ 20,404
Total	**$ 413,796**	**$ 328,286**	**$ 329,131**	**$ 100,546**	**$ 1,171,759**
Expenses, Transfers and Disbursements					
2005	$ -	$ -	$ -	$ -	$ -
2006	$ -	$ -	$ -	$ -	$ -
2007	$ -	$ -	$ -	$ -	$ -
2008	$ -	$ -	$ -	$ -	$ -
2009	$ 20,000	$ 150,000	$ 224,753	$ -	$ 394,753
2010	$ 210,000	$ 100,000	$ 102,404	$ 56,500	$ 468,904
2011	$ 139,900	$ 82,800	$ -	$ 21,700	$ 244,400
Total	**$ 369,900**	**$ 332,800**	**$ 327,157**	**$ 78,200**	**$ 1,108,057**

*Interest earnings are through 6/30/10. Additional earnings can be anticipated in 2010 and 2011
Source: Historical Data from City of Chicago, Asset Lease Agreements
http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html
2010 and 2011 from City of Chicago, 2011 Overview and Revenue Estimates, p. 108.

[126] City of Chicago, FY2011 Overview and Revenue Estimates, p. 63. The chart does not contain a balance line as the budget does include an estimate of interest earnings for FY2010 and FY2011.

The majority of asset lease proceeds have been used to support the Corporate Fund, with 60.9% or $1.6 billion used for general operating expenditures. The second largest use has been $855.0 million or 32.1% to retire debt. Lastly, $187.5 million or 7.0% of proceeds have gone towards human infrastructure programs, which are additional operating expenditures.

City of Chicago: Use of Asset Long-Term Lease Proceeds 2005-2010
(in $ thousands)



Source: Historical Data from City of Chicago, Asset Lease Agreements. 2010 and 2011 from City of Chicago, 2011 Overview and Revenue Estimates, p. 108.

Projected Balance

The table below compares the original proceeds from the Skyway and parking meter lease agreements to the City's projected FY2011 year-end balance in those funds. The balance represents the original proceeds plus interest earned less expenditures. The City is projecting that there will be only $576.0 million left from the nearly $3 billion[127] of proceeds from long-term asset lease proceeds by the end of Fiscal Year 2011 a decline of 80.7%.

City of Chicago Long-Term Asset Lease Proceeds
(in $ thousands)

	Original Proceeds	FY2011 Projected Year-End	$ Change	% Change
Skyway	$ 1,830,000	$ 500,000	$ (1,330,000)	-72.7%
Parking Meter	$ 1,150,000	$ 76,000	$ (1,074,000)	-93.4%
Total Proceeds	**$ 2,980,000**	**$ 576,000**	**$ (2,404,000)**	**-80.7%**

Source: City of Chicago, 2011 Overview and Revenue Estimates, p. 62.

[127] This number does not include interest earnings.

As these funds are depleted the City will face a multitude of challenges including:

- Closing its future budget deficits;
- Replenishing the funds borrowed from the Parking Meter Long-Term Reserve Fund;
- Addressing programs funded through the Parking Meter Human Infrastructure Fund as there will likely be pressure to continue these programs; and
- Rebuilding the Corporate Fund fund balance.

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

This section describes City of Chicago personnel levels and appropriations. It includes information on Corporate Fund personnel, all local funds personnel, and all personnel including grant-funded positions.

Corporate Fund Personnel: Two-Year and Five-Year Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $89.4 million in FY2011, a 3.4% increase over the FY2010 budget amount.[128]

City of Chicago Corporate Fund Appropriations For Personnel and Non-Personnel Services: FY2010 & FY2011				
	FY2010 Adopted	FY2011 Proposed	$ Change	% Change
Personnel Services	$ 2,625,576,609	$ 2,715,004,480	$ 89,427,871	3.4%
Non-Personnel Services	$ 554,168,391	$ 545,215,520	$ (8,952,871)	-1.6%
Total	**$ 3,179,745,000**	**$ 3,260,220,000**	**$ 80,475,000**	**2.5%**

Source: City of Chicago FY2010 Appropriation Ordinance, p. 5; FY2011 Budget Recommendations, p. 6.

Between FY2007 and FY2011 personnel service appropriations in the Corporate Fund will increase by 9.0%, from approximately $2.5 billion to $2.7 billion. This represents a $223.8 million rise. The percentage of Corporate Fund appropriations earmarked for personnel services increased from 80.4% in FY2007 to 83.3% in FY2011.

City of Chicago Corporate Fund Appropriations For Personnel Services: FY2007 & FY2011				
	FY2007 Adopted	FY2011 Proposed	$ Change	% Change
Personnel Services	$ 2,491,228,772	$ 2,715,004,480	$ 223,775,708	9.0%
% of Corporate Fund	80.4%	83.3%		

Source: City of Chicago FY2007 Appropriation Ordinance, p. V; FY2011 Budget Recommendations, p. 6.

[128] In the City Budget Recommendations book, "Personnel Service" includes salaries, wages, overtime, salary adjustments, and furlough savings. It does not include any benefits or pensions.

All Local Funds Personnel

The personnel summaries in the *City of Chicago FY2011 Budget Overview and Revenue Estimates* book describe personnel for all "local" funds, which include all funds except grant funds. The City proposes to reduce budgeted positions from 33,156 in FY2010 to 32,922 across all local funds. This is a decline of 234 positions or 0.7%. Corporate Fund positions will decline by 277, a 1.0% decline from 27,097 positions in the FY2010 adopted budget to 26,820 positions in FY2011. The 277 positions consist of 235 vacancies and 42 layoffs.[129]

City of Chicago FY2010 Appropriation and FY2011 Proposed Budget Positions				
	FY2010 Appropriation	FY2011 Proposed	Change	% Change
Corporate Fund	27,097	26,820	(277)	**-1.0%**
All Local Funds	33,156	32,922	(234)	**-0.7%**

Source: City of Chicago FY2011 Overview and Revenue Estimates, p. 6.

The 43 position net difference between the Corporate Fund and all local funds is due primarily to the creation of the TIF Administration fund and transfer of 47 positions to that fund.[130] These positions are not new, but were previously funded directly out of TIF revenues and not included in the local funds budget until this year.[131] The table below shows the change in budgeted positions by fund in the local funds.

City of Chicago FY2011 Proposed Budget Position Change by Fund	
Fund	**Change from FY2010 Appropriation**
Corporate	(277)
Water	2
Vehicle	(8)
Sewer	(1)
Library Maintenance/Operations	10
Special Events/Hotel Motel	(2)
Midway	(4)
O'Hare	(1)
TIF Administration	47
Net Position Change	**(234)**

Source: City of Chicago Office of Management and Budget, October 28, 2010.

[129] City of Chicago FY2011 Budget Overview and Revenue Estimates, p. 2, and information provided by the City of Chicago Office of Management and Budget, October 28, 2010.
[130] TIF Administration Fund positions are in the departments of Budget and Management, Finance, Law, and Housing and Economic Development. City of Chicago FY2011 Budget Recommendations, pp. 506-511.
[131] Information provided by the City of Chicago Office of Management and Budget, October 28, 2010.

Between the FY2007 appropriation and FY2011 proposed budget, Corporate Fund positions will decline by 7.6% or 2,200 positions. Positions for all local funds will decline by 8.2% or 2,945 positions over the five-year period.

City of Chicago FY2007 Appropriation and FY2011 Proposed Budget Positions				
	FY2007 Appropriation	FY2011 Proposed	Change	% Change
Corporate Fund	29,020	26,820	(2,200)	**-7.6%**
All Local Funds	35,867	32,922	(2,945)	**-8.2%**

Source: City of Chicago FY2011 Overview and Revenue Estimates, p. 6; FY2008 Overview and Revenue Estimates, p. 5.

All Personnel by Function: Two-Year and Five-Year Trends

In FY2011, the total number of full time equivalent positions (FTE) will be 36,559 for the City of Chicago including all local funds and grant-funded positions. This represents a decrease of 0.9% or 326 positions from the number of FTEs appropriated in FY2010. The greatest number of position reductions will occur in the area of Public Safety, which will eliminate 194 FTE civilian positions for a decrease of 0.9%.[132] The City Development functional area will see an additional 92 FTEs representing a 37.7% increase. This is due to the merging of the Departments of Community Development and Zoning and Land Use Planning into the Department of Housing and Economic Development. The totals for full-time equivalents were obtained from the *City of Chicago FY2011 Program & Budget Summary* – these totals are larger than those reported in the *FY2011 Budget Overview and Revenue Estimates* because they include positions funded by grants and part-time positions**.**

Full-Time Equivalent Positions by Function: FY2010 & FY2011				
Function	FY2010 Appropriated	FY2011 Proposed	# Change	% Change
Finance & Administration	2,829	2,780	(49)	-1.7%
Legislative & Elections	358	358	0	0.0%
City Development	244	336	92	37.7%
Community Services	3,064	3,036	(28)	-0.9%
Public Safety	22,313	22,119	(194)	-0.9%
Regulatory	835	757	(78)	-9.3%
Streets & Sanitation	2,605	2,576	(29)	-1.1%
Transportation	1,022	980	(42)	-4.1%
Public Service Enterprises	3,615	3,617	2	0.1%
Total	**36,885**	**36,559**	**(326)**	**-0.9%**

Source: City of Chicago FY2011 Budget Program and Budget Summary.

During the five-year period from FY2007 to FY2011, there has been a 9.1% reduction in the level of total full-time equivalent positions. This is a reduction of 3,648 FTE positions, from the 40,207 FTE positions appropriated in FY2007 to the 36,559 FTE positions recommended for FY2011.

[132] City of Chicago, FY2011 Budget Overview and Revenue Estimates, p. 82.

Over this five-year period, there has been a trend of reduction in all nine program areas except for the area of Transportation. The Transportation program area has increased by 151 FTEs since FY2007, rising to 980 FTEs in FY2011 from 829 in FY2007. This is due in part to the increase in budget for the Chicago Department of Transportation (CDOT) in FY2010: when portions of the Bureau of Electricity and the Office of Emergency Communications transferred into CDOT, the department increased by 231 FTEs. The greatest unit decrease occurred in the area of Streets & Sanitation, which experienced reductions of 1,033 FTE positions. The most significant decrease occurred in FY2009 when 438 FTE positions in the Departments of Streets and Sanitation were eliminated due to budget cuts. The greatest percentage decline between FY2007 and FY2011 occurred in the City Development functional area, which decreased by 38.8% or 213 FTE positions. This is due to the continued consolidation of City Development into two departments: Department of Housing and Economic Development, and Department of Cultural Affairs and Special Events.

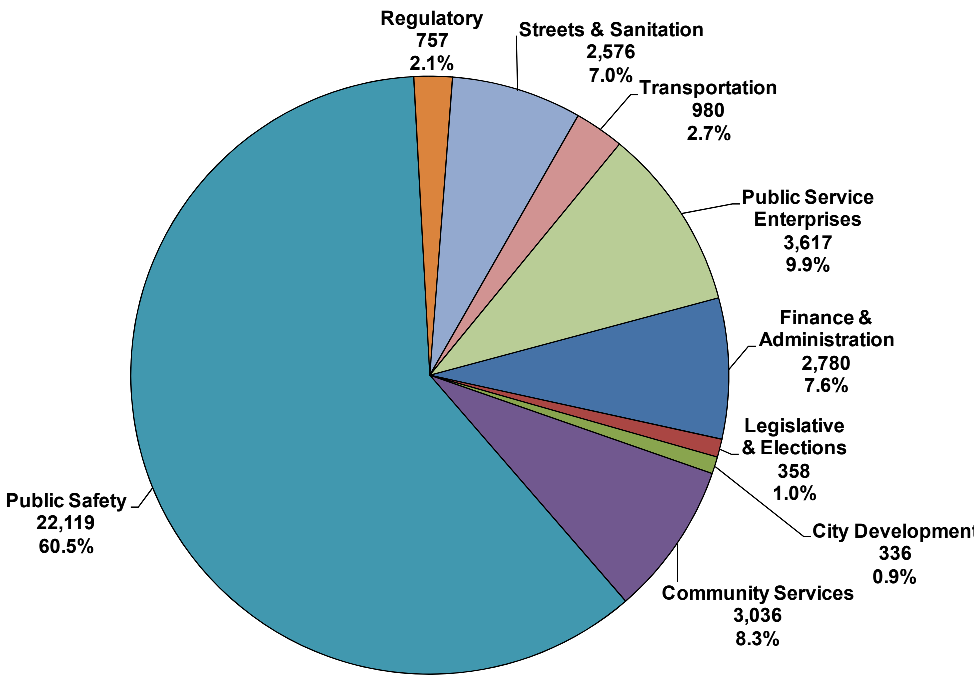
Full-Time Equivalent Positions by Function: FY2007 & FY2010

Function	FY2007 Appropriated	FY2011 Proposed	# Change	% Change
Finance & Administration	3,202	2,780	(422)	-13.2%
Legislative & Elections	371	358	(13)	-3.5%
City Development	549	336	(213)	-38.8%
Community Services	3,909	3,036	(873)	-22.3%
Public Safety	22,725	22,119	(606)	-2.7%
Regulatory	998	757	(241)	-24.1%
Streets & Sanitation	3,609	2,576	(1,033)	-28.6%
Transportation	829	980	151	18.2%
Public Service Enterprises	4,015	3,617	(398)	-9.9%
Total	**40,207**	**36,559**	**(3,648)**	**-9.1%**

Source: FY2008 and FY2011 City of Chicago Program and Budget Summary.

Approximately 60.5% of all budgeted FTE positions in the proposed FY2011 budget are in the area of Public Safety. The next largest percentages are in the categories of Public Service Enterprises and Community Services, at 9.9% and 8.3%, respectively.

City of Chicago Full-Time Equivalent Personnel by Function: FY2011



Source: City of Chicago FY2011 Program and Budget Summary

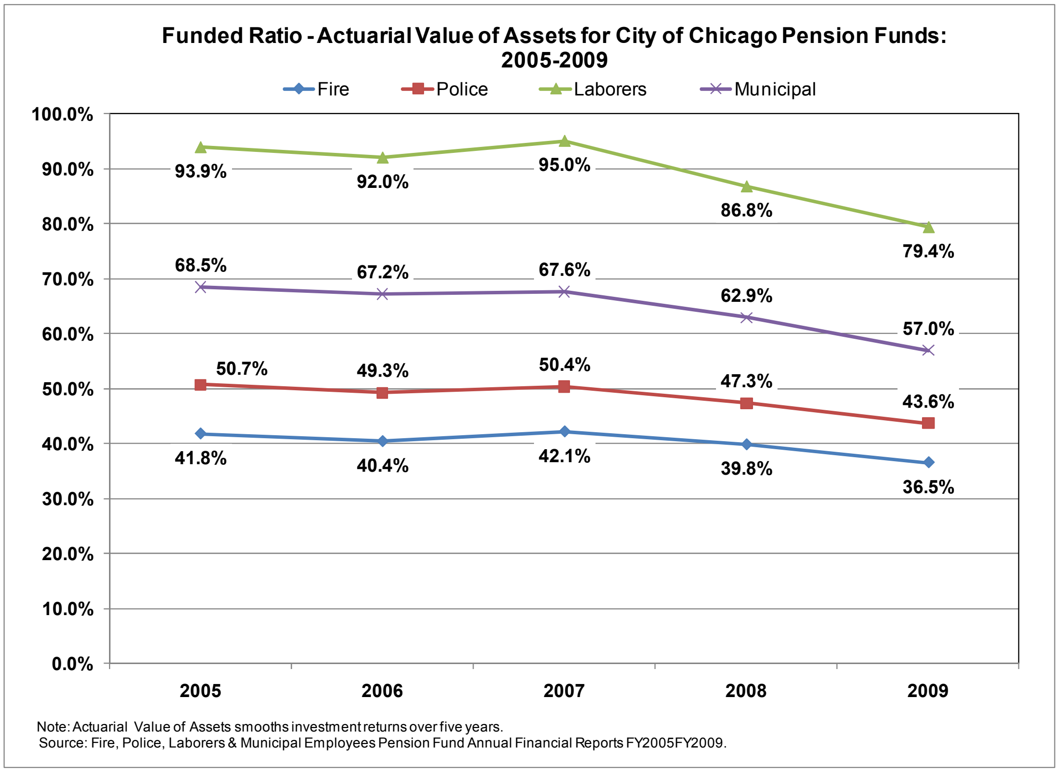
PENSIONS

The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborer's Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds' fiscal health: actuarial value funded ratios, unfunded actuarial accrued liabilities, and investment rate of return. This section also describes the pension benefits and annual required employer contributions to the fund.

Funded Ratios – Actuarial Value of Assets

The following exhibit shows funded ratios for each of the four pension funds. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The actuarial value funded ratios of all four City pension funds declined in FY2009. The Fire Fund fell to 36.5% and the Police Fund fell to 43.6%. The funded ratio for the Municipal Fund was 57.0% and the Laborers Fund was 79.4%. The Fire and Police Pension Funds continue to be a serious cause for concern because they are well below levels considered financially sustainable. In April 2010 the City of Chicago released a report showing that the Police and Fire pension funds are likely to deplete their assets within ten years if nothing is done to reduce unfunded liabilities.[133]

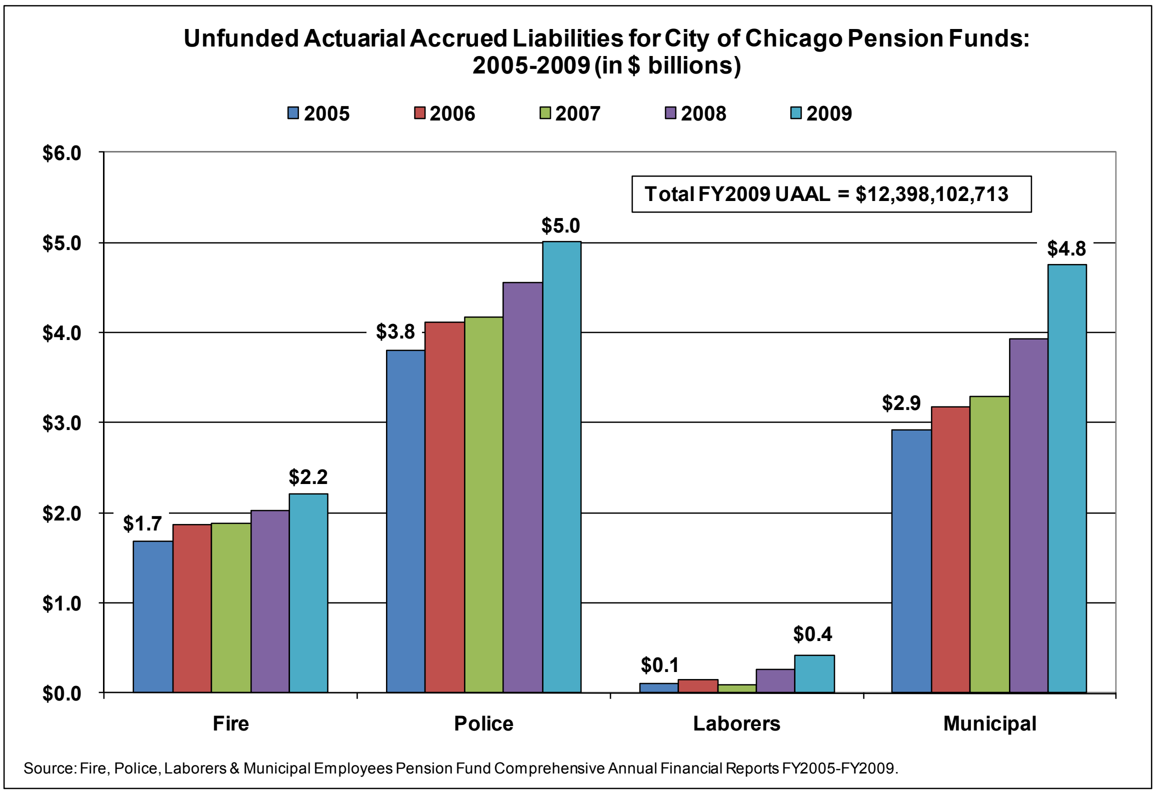


[133] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 21. Available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/perf_mang/news/2010/apr/commission_to_strengthenchicagospensionfundsreleasesreportonfisc.html.

Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2005 and FY2009, actuarial unfunded liabilities for the City's pension funds increased by 45.7% or nearly $3.9 billion, from $8.5 billion to $12.4 billion. A summary of the five-year changes in unfunded liabilities is shown below:

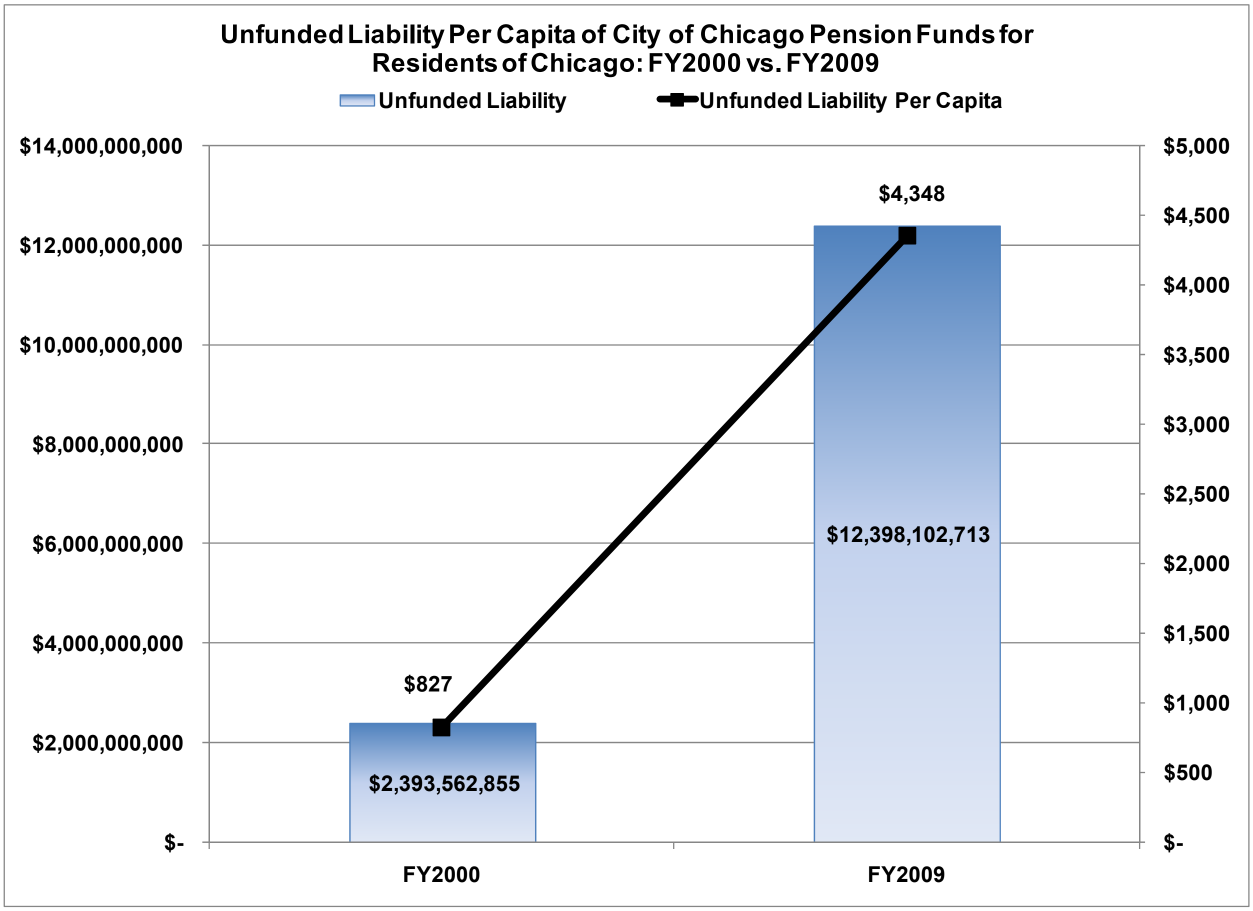
- Fire Pension Fund: 31.5% increase, from $1.7 billion to $2.2 billion;
- Police Pension Fund : 37.7% increase, from $3.8 billion to $5.0 billion;
- Laborers Pension Fund: 290.0% increase, $0.1 billion to $0.4 billion;[134]
- Municipal Pension Fund: 63.1% increase, from $2.9 billion to $4.8 billion; and
- **Total all four funds: 45.7%, from $8.5 billion to $12.4 billion**.



It is important to note that although the actuarial funded ratio of each fund increased slightly in 2007, the actuarial unfunded liabilities also increased that year. This occurred because the value of the actuarial assets increased at a faster rate than did liabilities.

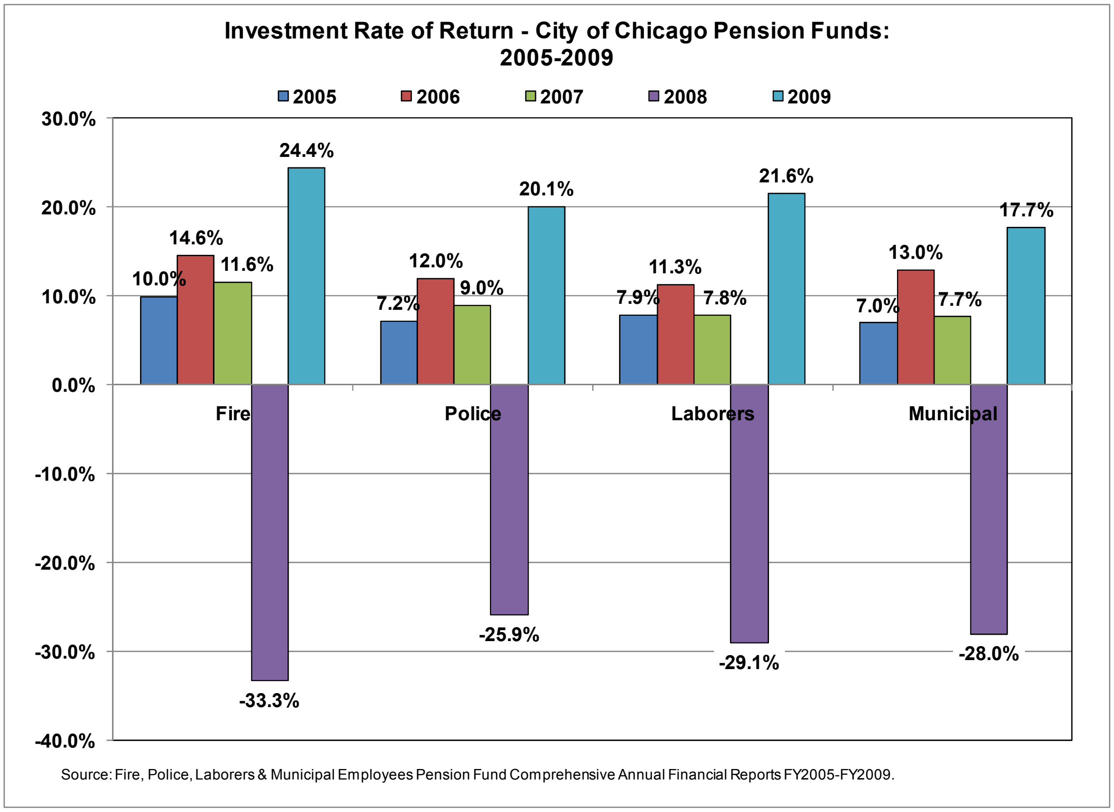
[134] The Laborers Fund had a surplus, or negative unfunded liability, until FY2004.

Total unfunded liabilities per capita for the four City pension funds rose to $4,348 in FY2009, up from $827 ten years earlier. This is an increase of 426.1%.



Investment Rates of Return

In FY2009, all four City pension funds reported strong positive returns on their investments, ranging from 24.4% for the Fire Fund to 17.7% for the Municipal Fund. This was a recovery from negative FY2008 returns experienced as a result of the financial market crisis and sharp decline in equities.



Pension Benefits

Public Act 96-0889, enacted in April 2010, creates a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the Chicago Municipal and Laborers' pension funds. The legislation did not change benefits for any police or fire pension funds in the state. This report will refer to "current employees" as those persons hired before the effective date of Public Act 96-0889 and "new hires" as those persons hired on or after January 1, 2011. Over time these benefit changes will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. However, this change will not affect City pension contributions under the current state statutes requiring City contributions to be a fixed multiple of employee contributions made two years prior.[135]

[135] See Civic Federation, "Status of Local Pension Funding Fiscal Year 2008," March 8, 2010, p. 41ff. for an explanation of employer contributions. http://www.civicfed.org/civic-federation/publications/fy2008statuslocalpensions

Current employees in the Municipal and Laborers funds are eligible for full retirement benefits once they reach age 60 and have at least 10 years of employment at the City, age 55 with 25 years, or age 50 with 30 years of service. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 62 year-old employee with 24 years of service and a $52,000 final average salary could retire with a $29,952 annuity: 24 x $52,000 x 2.4% = $29,952.[136] The annuity increases every year by an automatic compounded 3.0% cost of living adjustment (COLA). Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% for each month they are under age 60.

The following table compares current employee benefits to new hire benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest 4 year average to the highest 8 year average; the $106,800 cap on final average salary; and the reduction of the automatic COLA from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions		
	Current Employees (hired before 1/1/2011)	**New Hires (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, age 55 with 25 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.4% of final average salary for each year of service	
Early Retirement Formula	0.25% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Annuity Automatic COLA on Retiree or Surviving Spouse Annuity	3% compounded; begins at earlier of age 60 and first anniversary of retirement, or age 55 and third anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to aldermen, the City Clerk, and the City Treasurer. See 40 ILCS 5/8‑243.2.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2009; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2009; and Public Act 96-0889.

The following table lists major benefit provisions for Police and Fire fund members. Employees are eligible for full retirement benefits once they reach age 63 and have at least 10 years of service or age 50 with 20 years of service. The amount of retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity

[136] The average FY2009 benefit at retirement for Municipal fund participants was $29,843; the average age at retirement was 62.9 and the average years of service at retirement was 24. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2009, p. 45.

amount is 75% of final average salary. For example, a 58 year-old firefighter with 30 years of service and a $92,000 final average salary could retire with a $69,000 annuity: 30 x $92,000 x 2.5% = $69,000.[137] The annuity increases every year by an automatic 3.0% cost of living adjustment (COLA).

Major City of Chicago Police and Fire Fund Pension Benefit Provisions	
Full Retirement Eligibility: Age & Service	age 63 with 10 years of service, or age 50 with 20 years of service
Early Retirement Eligibility: Age & Service	age 50 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service
Annuity Formula*	2.5% of final average salary for each year of service
Early Retirement Formula	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service
Maximum Annuity	75% of final average salary
Annuity Automatic COLA on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1955, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1955, starts at later of age 60 or retirement, with a limit of 30%

*There is a different formula for employees retiring at the compulsory retirement age of 63 with less than 20 years of service.

Sources: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2009 and Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending

Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years. Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The

[137] The average FY2009 annuity at retirement for Fire fund participants was $67,310; the average age at retirement was 57.8; the average years of service at retirement was 30.3; and the average final average salary at retirement was $92,010. Firemen's Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2009, p. 35.

actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required City of Chicago contributions to its pension funds are set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator how well a public entity is actually funding its pension plan.

The following four tables compare the ARC to the actual City of Chicago contribution over the last ten years for each of the pension funds. These tables do not include the ARC for the pension funds' subsidy of retiree health care (see OPEB section of this report), which has been reported separately since FY2005.[138] In FY2009 the Municipal Fund had the largest ARC, at $413.5 million, followed by the Police Fund at $339.5 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $265.5 million. That is the additional amount that should have been contributed in order to pay the normal cost for that year and amortize the unfunded liability over a period of 30 years. The Police, Municipal, and Laborers Funds employer contributions all exceeded the ARC for the years 2000 through 2002 (2003 for Laborers) but the shortfalls emerged and grew in subsequent years.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2000 the Municipal Fund ARC was 7.5% of payroll and the actual employer contribution was greater than the ARC, at 11.3% of payroll. The Fund had a strong 94.5% actuarial funded ratio at that time. Ten years later the ARC had risen to 26.6% of payroll while the actual employer contribution was only 9.5% of payroll.

Chicago Policemens' Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2000	$ 125,129,864	$ 139,481,871	$ (14,352,007)	111.5%	$ 759,343,026	16.5%	18.4%	71.1%
2001	$ 123,201,657	$ 139,675,766	$ (16,474,109)	113.4%	$ 763,352,475	16.1%	18.3%	70.5%
2002	$ 130,237,405	$ 141,989,027	$ (11,751,622)	109.0%	$ 866,531,789	15.0%	16.4%	64.6%
2003	$ 181,545,562	$ 140,807,354	$ 40,738,208	77.6%	$ 887,555,791	20.5%	15.9%	61.4%
2004	$ 203,757,534	$ 135,744,173	$ 68,013,361	66.6%	$ 874,301,958	23.3%	15.5%	55.9%
2005	$ 238,423,459	$ 178,278,371	$ 60,145,088	74.8%	$ 948,973,732	25.1%	18.8%	50.7%
2006*	$ 262,657,025	$ 150,717,705	$ 111,939,320	57.4%	$ 1,012,983,635	25.9%	14.9%	49.3%
2007	$ 312,726,608	$ 170,598,268	$ 142,128,340	54.6%	$ 1,038,957,026	30.1%	16.4%	50.4%
2008	$ 318,234,870	$ 172,835,805	$ 145,399,065	54.3%	$ 1,023,580,667	31.1%	16.9%	47.3%
2009	$ 339,488,187	$ 172,043,754	$ 167,444,433	50.7%	$ 1,011,205,359	33.6%	17.0%	43.6%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2009 pp. 71 and 72.

[138] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a % of payroll and 0-1% to Actual Employer Contribution as a % of Payroll. See Civic Federation, "Status of Local Pension Funding Fiscal Year 2008," March 8, 2010 for more information.

Chicago Firemen's Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2000	$ 90,530,458	$ 65,928,675	$ 24,601,783	72.8%	$ 275,106,756	32.9%	24.0%	59.4%
2001	$ 104,014,168	$ 60,399,909	$ 43,614,259	58.1%	$ 277,964,912	37.4%	21.7%	60.2%
2002	$ 105,106,367	$ 59,452,787	$ 45,653,580	56.6%	$ 277,053,144	37.9%	21.5%	57.9%
2003	$ 111,079,054	$ 60,234,206	$ 50,844,848	54.2%	$ 335,170,501	33.1%	18.0%	47.4%
2004	$ 134,762,334	$ 55,532,454	$ 79,229,880	41.2%	$ 334,423,753	40.3%	16.6%	42.3%
2005	$ 161,696,388	$ 90,128,915	$ 71,567,473	55.7%	$ 341,252,492	47.4%	26.4%	41.8%
2006*	$ 160,246,525	$ 76,763,308	$ 83,483,217	47.9%	$ 387,442,074	41.4%	19.8%	40.4%
2007	$ 188,201,379	$ 72,022,810	$ 116,178,569	38.3%	$ 389,124,547	48.4%	18.5%	42.1%
2008	$ 189,940,561	$ 81,257,754	$ 108,682,807	42.8%	$ 396,181,778	47.9%	20.5%	39.8%
2009	$ 203,866,919	$ 89,211,671	$ 114,655,248	43.8%	$ 400,912,173	50.9%	22.3%	36.5%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Chicago Firemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2001 p. 60 and Financial Statements For the year ended December 31, 2009, p. 28.

Chicago Municipal Employees' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2000	$ 93,016,467	$ 140,175,816	$ (47,159,349)	150.7%	$ 1,243,439,345	7.5%	11.3%	94.5%
2001	$ 83,526,133	$ 131,470,133	$ (47,944,000)	157.4%	$ 1,375,048,892	6.1%	9.6%	93.3%
2002	$ 92,711,870	$ 131,001,872	$ (38,290,002)	141.3%	$ 1,377,909,441	6.7%	9.5%	84.5%
2003	$ 158,614,805	$ 141,960,250	$ 16,654,555	89.5%	$ 1,395,513,060	11.4%	10.2%	79.9%
2004	$ 198,199,001	$ 154,000,624	$ 44,198,377	77.7%	$ 1,303,127,528	15.2%	11.8%	72.0%
2005	$ 285,291,350	$ 155,198,494	$ 130,092,856	54.4%	$ 1,407,323,058	20.3%	11.0%	68.5%
2006**	$ 303,271,824	$ 148,299,922	$ 154,971,902	48.9%	$ 1,475,877,378	20.5%	10.0%	67.2%
2007	$ 343,123,106	$ 139,651,104	$ 203,472,002	40.7%	$ 1,564,458,835	21.9%	8.9%	67.6%
2008	$ 360,387,176	$ 146,677,581	$ 213,709,595	40.7%	$ 1,543,976,553	23.3%	9.5%	62.9%
2009	$ 413,508,622	$ 148,036,087	$ 265,472,535	35.8%	$ 1,551,973,348	26.6%	9.5%	57.0%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so one was computed from the % of ARC contributed.

**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Municipal Employees' Annuity and Benefit Fund of Chicago Comprehensive Annual Financial Report For the year ended December 31, 2000 p. 26, Comprehensive Annual Financial Report For the year ended December 31, 2004 p. 31 and Comprehensive Annual Financial Report For the year ended December 31, 2009, p. 41.

Chicago Laborers' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2000	$ -	$ 683,352	$ (683,352)	0.0%	$ 185,051,048	0.0%	0.4%	133.9%
2001	$ -	$ 659,946	$ (659,946)	0.0%	$ 211,203,088	0.0%	0.3%	125.2%
2002	$ -	$ 82,865	$ (82,865)	0.0%	$ 207,403,973	0.0%	0.0%	111.3%
2003	$ -	$ 366,920	$ (366,920)	0.0%	$ 205,691,917	0.0%	0.2%	103.1%
2004	$ 8,513,018	$ 202,684	$ 8,310,334	2.4%	$ 171,476,937	5.0%	0.1%	98.5%
2005	$ 12,744,103	$ 40,435	$ 12,703,668	0.3%	$ 182,809,397	7.0%	0.0%	93.9%
2006**	$ 17,599,766	$ 106,270	$ 17,493,496	0.6%	$ 193,176,272	9.1%	0.1%	92.0%
2007	$ 21,725,805	$ 13,256,147	$ 8,469,658	61.0%	$ 192,847,482	11.3%	6.9%	95.0%
2008	$ 17,652,023	$ 15,232,804	$ 2,419,219	86.3%	$ 216,744,211	8.1%	7.0%	86.8%
2009	$ 33,517,429	$ 14,626,771	$ 18,890,658	43.6%	$ 208,626,493	16.1%	7.0%	79.4%

*The City did not levy a property tax for the Laborer's fund from 2000-2006 because it was over 100% funded, excluding the liabilities attributable to the Early Retirement Incentive. These amounts represent miscellaneous income and changes in reserves for tax loss and collections for prior years. The FY2005 funded ratio excluding the ERI was 96.3%, thus the City was required begin making regular employer contributions again in FY2007.

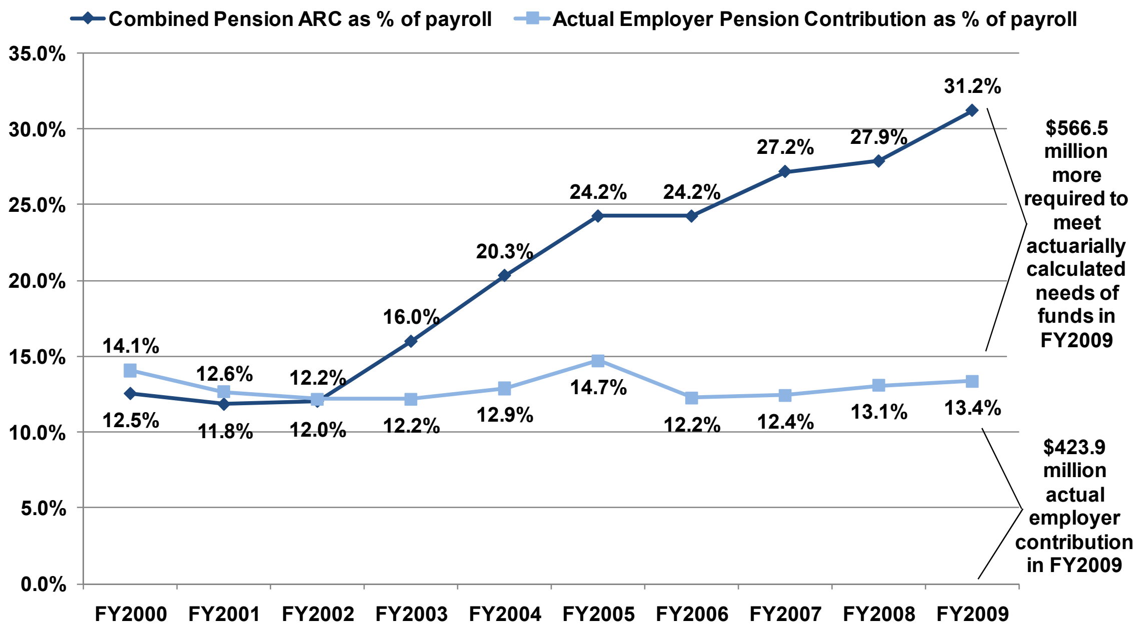
**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2001, p. 77, Actuarial Valuation for the year ended December 31, 2009, pp. 89-90.

The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $2.4 billion shortfall. In 2009, the combined ARC for the four funds was $990.4 million or more than double the actual employer contribution of $423.9 million. The combined pension and OPEB employer contribution shortfall in FY2009 was $566.5 million.

The graph below illustrates the growing gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from surplus of 1.5 percentage points, or $37.6 million, in FY2000 to a gap of 17.9 percentage points in FY2009. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years the City would have needed to contribute an additional 17.9% of payroll, or $556.5 million, in FY2009.[139]

City of Chicago Four Pension Funds Combined
Annual Required Contribution vs. Actual Employer Contribution: FY2000-FY2009
(calculated according to Governmental Accounting Standards Board Statement 25)



Note: Beginning in FY2005, the ARC for the portion of OPEB paid for by the pension funds was calculated separately from the pension ARC. This graph shows only the pension ARC after FY2005. The OPEB ARC for the pension funds would add roughly 1-2% of payroll and the actual employer contribution was roughly 0-1% of payroll.
Sources: Actuarial Valuations for the Police, Fire, Municipal, and Laborers pension funds, FY2000-FY2009.

The City of Chicago has consistently contributed its statutorily required amounts of 2.26 times the employee contribution made two years prior for the Fire Fund, 2.0 for the Police Fund, 1.25

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[139] This $556.5 million FY2009 figure is calculated according to the reporting requirement of Governmental Accounting Standards Board Statement 25. The assumptions are different from those used by the Commission to Strengthen Chicago's Pension Funds to project the $710 million additional contribution needed in FY2012. The GASB ARC assumptions are described beginning on page 71 of this report and represent the contribution needed to fund normal cost and a 30-year rolling amortization of the unfunded liabilities *after the employee contributions have been made*. The Commission's estimates were made assuming a schedule to reach 90% funded by December 31, 2061 and the $710 million figure is the total additional amount needed for that schedule without designating whether the employer or the employee makes the additional contribution. Page 55 of the Commission report shows that if the additional contribution were split such that the employer paid 60% and the employee paid 40%, the additional City contribution would be $427 million and the additional employee contribution would be 7.94% of pay.

for the Municipal Fund and 1.00 for the Laborers Fund. However, these amounts have been less than the ARC for most of the last ten years. The pension fund actuaries estimate that in order to contribute an amount sufficient to meet the ARC in FY2010, the City would need to contribute a multiple of 6.24 for the Fire Fund, 4.61 for the Police Fund, 3.76 for the Municipal Fund, and 2.76 for the Laborers Fund.[140]

FY2010 Statutory Multiple for Employer Contribution vs. Annual Required Multiple			
	Unfunded Actuarial Accrued Liability Amortization Method	**Annually Required Multiple (Normal Cost + UAAL Amortization)**	**Statutory Multiple**
Fire	level dollar, open	**6.24**	2.26
Police*	level % of payroll, open	**4.61**	2.00
Municipal	level dollar, open	**3.76**	1.25
Laborers	level dollar, open	**2.76**	1.00

*Police Fund also computes that the FY2010 annual required multiple using a level dollar amortization would be 6.42. See Police Fund FY2009 actuarial valuation p. 19.

Source: Respective Pension Fund FY2009 Actuarial Valuations

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administers a retiree benefit healthcare plan under which it pays a share of the expenses on a pay as you go basis. The City's obligation to pay these costs expires on June 30, 2013, after which time a new agreement is likely to be negotiated.[141] The four City of Chicago pension funds all subsidize the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The funds provide $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants.[142] The City's contribution is roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal, and Laborers' pension funds each contribute roughly 33% of the annuitant contribution, effectively subsidizing 12% of the total premium cost.[143] The terms of the obligation were approved by a court ordered settlement agreement.[144]

[140] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2009 p. 14; Chicago Firemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2001 p. 14; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2001, p. 77, Actuarial Valuation for the year ended December 31, 2009, p. 84; and Municipal Employees' Annuity and Benefit Fund of Chicago Comprehensive Annual Financial Report For the year ended December 31, 2009, p. 87.
[141] City of Chicago FY2009 Comprehensive Annual Report, p. 84.
[142] Between July 1, 2003 and June 30, 2008, the amounts were $85 for non-Medicare eligible and $55 for Medicare-eligible annuitants. See for example, Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report as of December 31, 2007, p. 68.
[143] See for example the Policemen's Annuity and Benefit Fund of Chicago *Actuarial Valuation Report as of December 31, 2006*, p. 52. Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago, February 15, 2010.
[144] City of Chicago, FY2009 Comprehensive Annual Report, p. 84.

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree health care plan totaled $1.5 billion in FY2009. As described above, the City pays for a portion of the retiree health care premiums, but the pension funds also subsidize part of the employee portion of the premium.

The following table shows the unfunded accrued actuarial liability reported for the pension funds, reflecting the obligations of each fund based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, so only the total City obligation is shown. The City's financial statements reported an FY2009 unfunded OPEB liability of $478.6 million for the portion subsidized by the pension funds and a FY2008 unfunded OPEB liability of $787.4 million for the portion subsidized by the City.[145] The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%. The combined unfunded OPEB liability for the City and the pension funds is $1.3 billion.

City of Chicago OPEB Unfunded Liabilities: FY2009 (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Unfunded Actuarial Accrued Liability--Pension Funds	$ 224,173	$ 41,738	$164,800	$ 47,933	**$ 478,644**
Unfunded Actuarial Accrued Liability--City					**$ 787,395**
TOTAL					**$ 1,266,039**

Source: Chicago FY2009 CAFR, pp. 84, 86.

RESERVE FUNDS

Fund balance is commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[146] The *unreserved* fund balance refers to resources that do not have any external legal restrictions or constraints. This section analyzes the fund balance levels maintained by the City of Chicago.

Fund Balance Policy

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%.[147] The GFOA statement adds that each unit of government should adopt a formal policy that considers the units own specific circumstances and that a smaller fund balance ratio maybe appropriate for the largest governments.[148]

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145 City of Chicago, FY2009 Comprehensive Annual Financial Report, pp. 84 and 86. The FY2009 financial statements state that January 1, 2009 was the most recent actuarial valuation date for the portion of OPEB subsidized by the City. The City does not report a combined total liability for both the pension fund and the City OPEB subsidies, nor does it break out its liabilities by pension fund.

146 Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

147 Previously the GFOA had recommended a general fund balance of 5 to 15%.

148 Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

The City's discussion of its financial policies does not include an explicit Corporate Fund fund balance target. Its policy regarding financial reserves contained in the budget only states that the City has established a $500.0 million long-term reserve from the lease of the Chicago Skyway[149] and that operating reserves in its enterprise funds are established to pay for unforeseen emergencies or shortfall caused by revenue declines.[150]

Corporate Fund Fund Balance

Between FY2000 and FY2009, the City of Chicago Corporate Fund unreserved fund balance dropped from $80.7 million to just $2.7 million. The fund balance ratio plummeted from 3.39% to 0.09%. There was a slight growth from FY2008 to FY2009 with the balance rising by $2.4 million. This increase is not the result of any structural improvement as there was $444.8 million in transfers to the Corporate Fund in non-recurring asset lease proceeds in FY2009. To meet the GFOA standard of two months of operating expenditures the City would need approximately $500 million. For a large government with a diverse revenue base and home-rule authority, a smaller ratio may be appropriate. For example, five percent of expenditures would amount to $150 million.

City of Chicago Unreserved, Undesignated Corporate Fund Balance Ratio (FY2000-FY2009)

	Unreserved, Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2000	$ 80,653,000	$ 2,380,310,000	3.39%
FY2001	$ 33,241,000	$ 2,440,426,000	1.36%
FY2002	$ 13,014,000	$ 2,442,796,000	0.53%
FY2003	$ 19,458,000	$ 2,661,102,000	0.73%
FY2004	$ 42,246,000	$ 2,567,658,000	1.65%
FY2005	$ 57,648,000	$ 2,739,570,000	2.10%
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%
FY2009	$ 2,658,000	$ 3,014,077,000	0.09%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY2000-FY2009

[149] The GFOA standard refers specifically to the unreserved General fund balance. The Skyway and parking meter reserves are held in a separate fund as reserved and are legally restricted.
[150] City of Chicago, FY2011 Overview and Revenue Estimates, p. 104.

The decline in fund balance happened despite significant transfers and disbursements of revenues to the Corporate Fund from the Skyway and parking meter leases. Between FY2004 and FY2009 the Corporate Fund utilized $719.7 million in non-recurring revenues from those sources. Skyway interest earnings were not included in this analysis because they are recurring revenues and human infrastructure funds were not included as these are not for operating expenses, but specific programs.

Non-Recurring Transfers & Disbursements to Corporate Fund from Long-Term Asset Lease Proceeds (in $ thousands)

Year	Skyway Mid-Term Reserve Fund*	Parking Meter Mid-Term Reserve Fund	Parking Meter Long-Term Reserve Fund	Parking Meter Budget Stabilization Fund**	Total Non-Recurring Lease Transfers to Corporate Fund
2004	$ -	$ -	$ -	$ -	$ -
2005	$ 100,000	$ -	$ -	$ -	$ 100,000
2006	$ 50,000	$ -	$ -	$ -	$ 50,000
2007	$ 75,000	$ -	$ -	$ -	$ 75,000
2008	$ 50,000	$ -	$ -	$ -	$ 50,000
2009	$ 50,000	$ 150,000	$ 20,000	$ 224,757	$ 444,757
	$ 325,000	**$ 150,000**	**$ 20,000**	**$ 224,757**	**$ 719,757**

Source: City of Chicago, Asset Lease Agreements

http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Based on date of transfers, which may not match fiscal year accounting.

*2005 includes $50 million for 2004 per ordinance and 2007 includes $25 million in investment earnings.

**$7.1 million is not reflected in the budget under proceeds and transfers in as this was made as a direct disbursement for transaction costs.

Asset Lease Reserves

In addition to its Corporate Fund fund balance, the City also maintains a reserve fund, which is used to account for mid-term and long-term reserves.[151] The City considers its long-term reserves when measuring its adherence to the GFOA standard[152] and ratings agencies also consider these balances. It should be noted that the GFOA standard refers to unrestricted general fund balances, whereas the asset lease long-term reserves are restricted. The City set aside $500 million of the $1.83 billion Skyway lease proceeds and $400 million of the $1.15 billion parking meter lease proceeds for long-term reserves.

As the lease proceeds that were allocated for mid-term reserves and budget stabilization are being exhausted (see previous table), the City is now turning to the parking meter long-term reserves to balance its budget. In FY2009 the City utilized $20.0 million of the parking meter long-term reserves, it expects to utilize $190.0 million in FY2010, and it has budgeted utilizing $120.0 million in FY2011. In total the Parking Meter Long-Term Reserve Fund will have

[151] City of Chicago, FY2009 Comprehensive Annual Financial Report p. 48.
[152] City of Chicago, FY2011 Overview and Revenue Estimates, p. 62.

declined by 85.8% or $326.0 million in just three fiscal years.[153] The City characterizes these withdrawals as borrowing from the fund. Fitch Ratings recent downgrade of city bonds cited "the accelerated use of reserves to balance operations" as one of the primary rating rationales.[154]

All proceeds from investment earnings from the long-term reserves are to be transferred to the Corporate Fund. There is a floor of $20 million on the amount of investment earnings that must be transferred to the Corporate Fund from the Parking Meter Long-Term Reserve Fund investment earnings.[155] If the interest earnings do not reach $20 million[156] then the balance will come from the principle further eroding the Parking Meter Long-Term Reserve Fund.

City of Chicago: Long-Term Reserves				
Reserve Fund Balance	**FY2009 Actual Year-end**	**FY2011 Projected Year-End***	**$ Change**	**% Change**
Skyway Long-Term Reserve	$ 500,000	$ 500,000	$ -	0.0%
Parking Meter Long-Term Reserve	$ 380,000	$ 54,000	$ (326,000)	-85.8%
Total Long-Term Reserve Balance	**$ 880,000**	**$ 554,000**	**$ (326,000)**	**-37.0%**

Source: City of Chicago FY2009 Comprehensive Annual Financial Reports and City of Chicago, 2011 Overview and Revenue Estimates, p. 62.
*Does not include additional funds that may be needed if interest earning do not reach $20.0 million
Note: In addition to the Parking Meter Long-Term Reserve there is a human insfrastructure fund with a $21.9 million balance estimated for FY2011 year-end.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago reported very little short-term debt but did include the following short-term liabilities in the report of net assets in its annual Comprehensive Annual Financial Report (CAFR) for FY2009, which is the most recent financial statement released by the City:

- Accounts Payable: monies owed to vendors for goods and services carried over into the new fiscal year;
- Short-Term Debt: loans taken out in anticipation of revenues paid back within 12 months or less;
- Accrued Interest: includes interest due on deposits payable by the City in the next fiscal year;
- Accrued and Other Liabilities: include self insurance funds, unclaimed property and other unspecified liabilities; and
- Unearned Revenue: revenues not collected from the previous fiscal year.

[153] The difference in the listing by year and total is due to additional funding being used to compensate for investment earnings as described in the succeeding paragraph.
[154] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.
[155] City of Chicago, Authorization for Execution of Concession and Lease Agreement and Amendment of Titles 2, 3 9 and 10 of Municipal Code of Chicago in Connection with Chicago Metered Parking System, Section 5 Use of Concession Proceeds.
[156] Interest earnings were $6.5 million in FY2009. As of 6/30/10, 2010 earnings had reached $7.2 million.

During the 5-year period of this review, there was a large 113.8% increase in the total "accrued & other liabilities" due at the end of each fiscal year. This increase is primarily due to new accounting rules that were adopted by the City in 2007 relating to the accounting and financial reporting for post employment benefits other than pensions (basically retiree healthcare). The portion of the increase associated with the accounting rule change is approximately $329 million. In addition, accruals for earned but unused vacation increased by approximately $8.0 million and actuarial calculations for incurred but not reported claims for healthcare and workers compensation resulted in an increase of $6.0 million.[157]

The following chart shows short-term liabilities by category and the percent change between FY2005 and FY2009.

City of Chicago Short-Term Liabilities: FY2005 - FY2009 (in $ thousands)

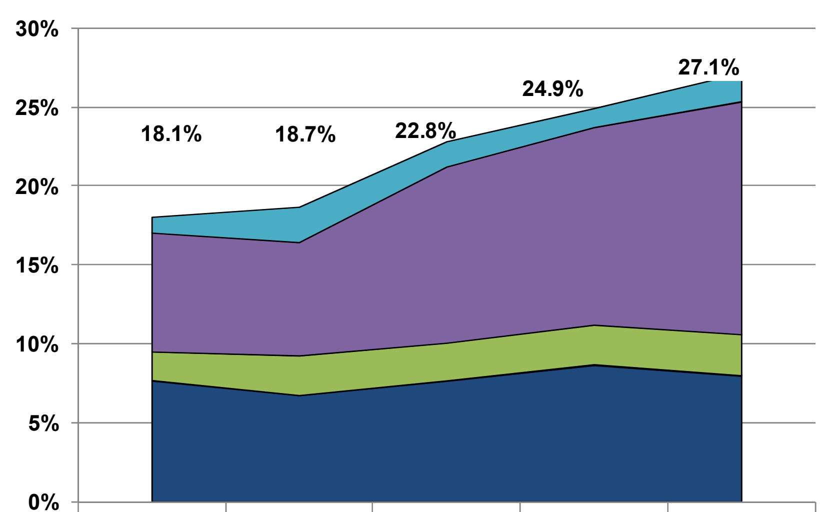
Type	FY2005	FY2006	FY2007	FY2008	FY2009	5-Year Change	5-Year % Change
Accounts Payable	$ 374,814	$ 349,039	$ 413,388	$ 469,214	$ 427,573	$ 52,759	14.1%
Short-Term Debt	$ 747	$ 747	$ 672	$ 672	$ 672	$ (75)	-10.0%
Accrued Interest	$ 87,256	$ 127,796	$ 127,183	$ 135,152	$ 138,294	$ 51,038	58.5%
Accrued & Other Liabilities	$ 367,726	$ 371,682	$ 599,197	$ 674,492	$ 786,128	$ 418,402	113.8%
Unearned Revenue	$ 48,304	$ 114,650	$ 85,326	$ 64,518	$ 95,343	$ 47,039	97.4%
Total	**$ 878,847**	**$ 963,914**	**$ 1,225,766**	**$ 1,344,048**	**$ 1,448,010**	**$ 569,163**	**64.8%**

Source: City of Chicago CAFR, FY2005-FY2009, p. 29.

[157] Email communication from the City of Chicago Office of Budget and Management, October 23, 2010.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[158] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The City of Chicago has shown a steady increase in this trend of short-term liabilities compared to total operating revenue between FY2005 and FY2009, rising from 18.1% to 27.1%. The following graph shows the five-year trend in the City's short-term liabilities by category. The steady upward trend in recent years, driven in large part by increases in Accrued and Other Liabilities, bears watching.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2005-FY2009



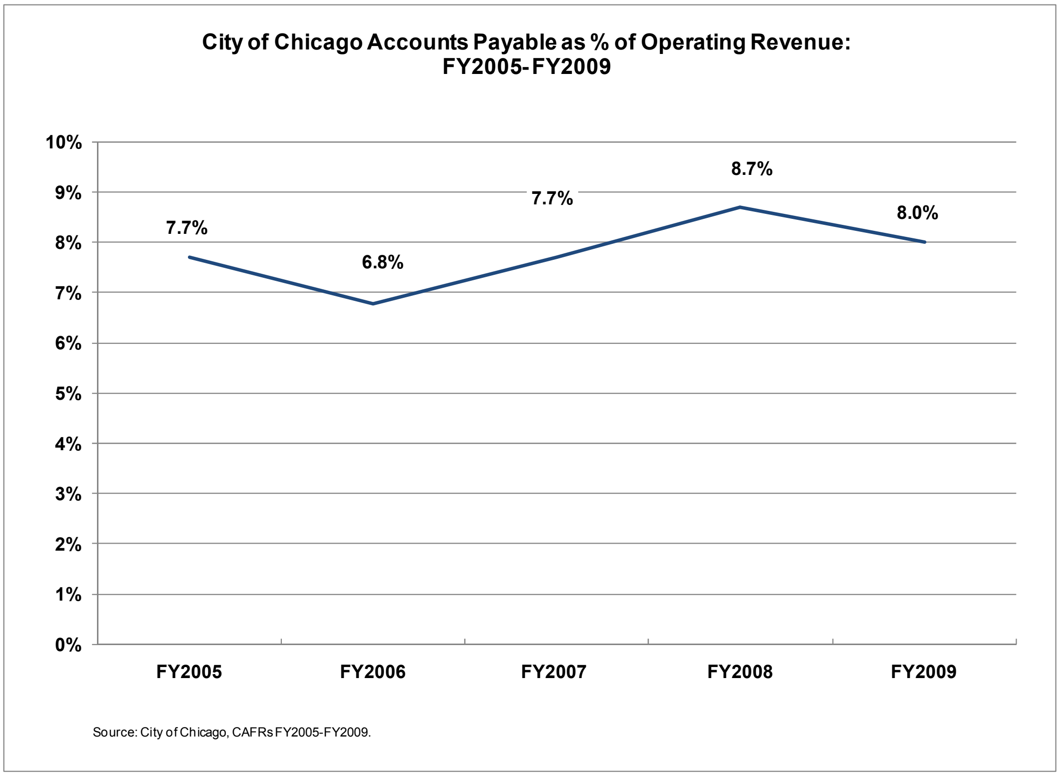
	FY2005	FY2006	FY2007	FY2008	FY2009
Unearned Revenue	1.0%	2.2%	1.6%	1.2%	1.8%
Accrued & Other Liabilities	7.6%	7.2%	11.2%	12.5%	14.7%
Accrued Interest	1.8%	2.5%	2.4%	2.5%	2.6%
Short-Term Debt*	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable	7.7%	6.8%	7.7%	8.7%	8.0%

Source: City of Chicago ,CAFR FY2005-FY2009.

[158] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

Accounts Payable

Over time, rising amounts of accounts payable may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The City of Chicago's ratio of accounts payable to operating revenues has fluctuated slightly over the past five years and is slightly higher in FY2009 than it was in FY2005, rising from 7.7% to 8.0%. The following graph shows the City's ratio of accounts payable to operating revenue over this time frame.



LONG-TERM DIRECT DEBT TRENDS

Long-term direct debt is a measure of a government's ability to maintain its current financial policies. Direct debt is a government's tax-supported debt. Increases bear watching as a potential sign of rising financial risk.

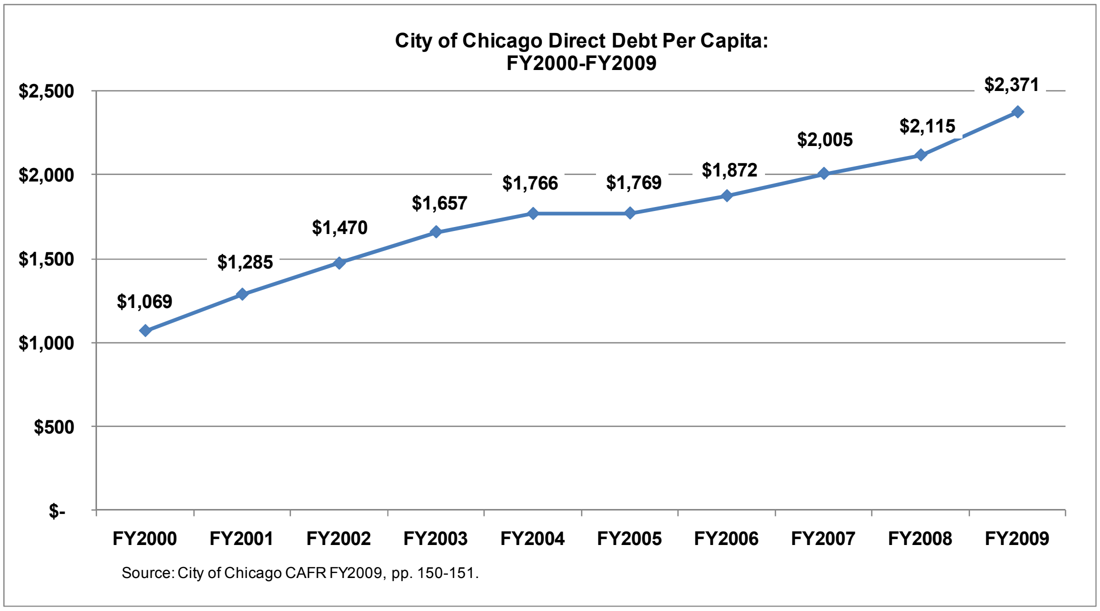
The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 121.9% or $3.7 billion. This represents an increase from $3.1 billion in FY2000 to approximately $6.8 billion in FY2009. During the five-year period between FY2005 and FY2009, net direct debt rose by 34.0% or $1.7 billion.

City of Chicago Direct Debt: FY2000-FY2009		
FY2000	$	3,094,839,000
FY2001	$	3,722,403,000
FY2002	$	4,257,256,000
FY2003	$	4,798,541,000
FY2004	$	5,113,565,000
FY2005	$	5,123,729,000
FY2006	$	5,422,232,000
FY2007	$	5,805,921,000
FY2008	$	6,126,295,000
FY2009	$	6,866,270,000
$ Change	**$**	**3,771,431,000**
% Change		**121.9%**

Source: City of Chicago CAFR FY2009, pp.150-151.

Long-Term Net Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the past five years, between FY2005 and FY2009, direct debt per capita rose by 34.0% from $1769 to $2371. This upward trend comes amidst a ten-year increase in the City of Chicago's debt per capita of 121.9%, which is a $1,302 per capita increase. The following chart shows the trend in the City of Chicago's direct debt per capita over the last decade.

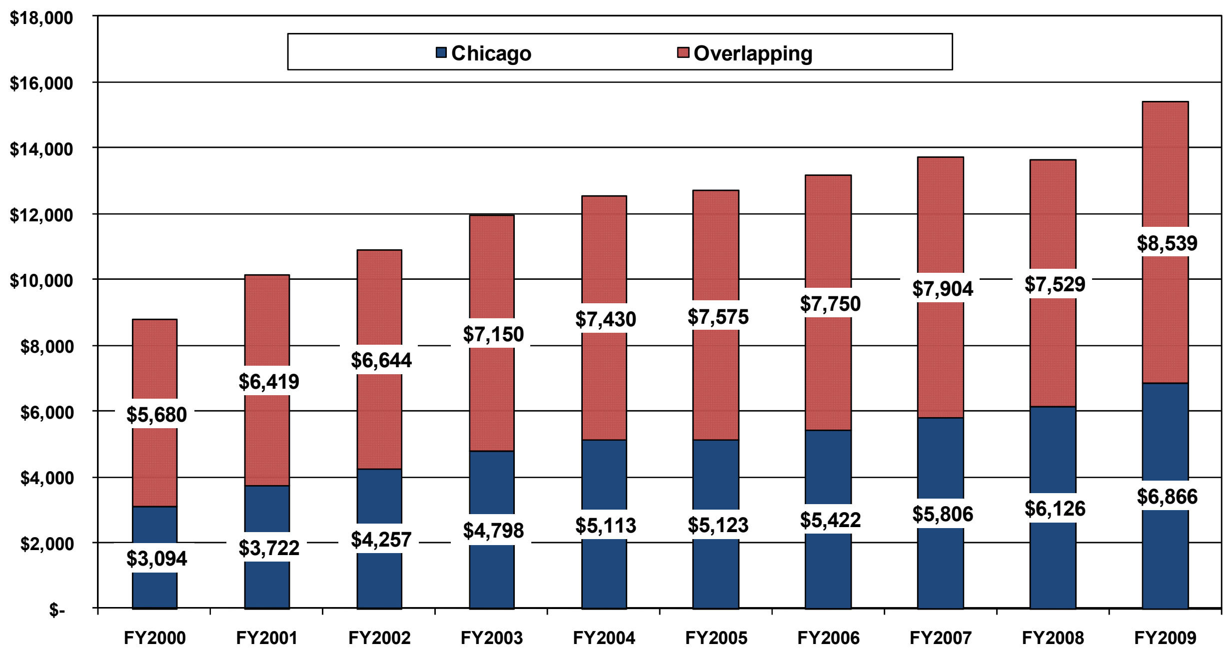


This sharp upward trend in debt per capita between FY2000 and FY2009 is cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating making borrowing more expensive and could limit available capacity for additional borrowing.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2000 and FY2009, overlapping debt from other governments combined increased by 50.3% at the same time City of Chicago debt rose by 121.9%. Total debt from all eight major governments rose by 75.6%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other governments in the region.

City of Chicago Direct Debt & Overlapping Debt: FY2000-FY2009
(in $ millions)



Source: City of Chicago CAFRs: FY2000-FY2009.

Debt Service Appropriations

Debt service appropriations in FY2011 are projected to be 21.0% of total appropriations, or nearly $1.3 billion out of expenditures totaling $6.1 billion. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.

City of Chicago Debt Service Appropriations: FY2007-FY2011			
	Debt Service	Total Appropriation	Ratio
FY2007	$ 1,105,073,826	$ 5,668,719,000	19.5%
FY2008	$ 1,160,340,262	$ 5,918,287,000	19.6%
FY2009	$ 1,127,795,840	$ 5,967,201,000	18.9%
FY2010	$ 1,241,164,403	$ 6,139,590,000	20.2%
FY2011	$ 1,291,683,500	$ 6,154,793,000	21.0%

Source: City of Chicago Program and Budget Summaries: FY2007-FY2011.

Bond Ratings and Credit Rating Downgrades

As of December 31, 2009, the three major rating agencies have awarded various City of Chicago bond issues high credit ratings. At that time, all of the outstanding Chicago bond issues are rated A or higher, indicating high quality investment grade status.

City of Chicago Credit Ratings (12/31/09)			
Rating Agency	Moody's	Standard & Poor's	Fitch
General Obligation			
City	Aa3	AA-	AA
Revenue Bonds			
O'Hare Airport			
First Lien	Aa3	AA	AA+
Second Lien	A1	AA-	AA
Third Lien	A1	A-	A
First Lien PFC	A1	A	A+
Midway Airport			
First Lien	A2	A	A+
Second Lien	A3	A-	A
Water			
First Lien	Aa3	AA	AA+
Second Lien	A1	AA-	AA
Wastewater			
First Lien	n/a	AA-	n/a
Junior Lien	A2	A+	AA-
Sales Tax	Aa3	AAA	AA
Motor Fuel Tax	A1	AA+	A-

Source: *City of Chicago FY2009 CAFR*, p. 27.

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds from AA+ to AA.[159] The City's rating outlook was changed to "Negative." The downgrade reflected the City's weakening financial condition as a result of revenue declines and the accelerated use of asset lease reserves to balance the operating budget. The downgrade and Negative outlook also reflected the City's large unfunded accrued actuarial pension liability.[160] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds from AA to AA-, again citing the City's accelerated use of asset lease reserves

[159] The City's GO debt had been raised to AA+ as part of Fitch Ratings' recalibration of almost all municipal issuers in April 2010. Moody's and Standard & Poor's also undertook recalibrations intended to rate public and corporate debt on the same scale. Dan Seymour, "Fitch Recalibrates 38,000-Plus Ratings," *The Bond Buyer*, April 6, 2010.
[160] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.

and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[161]

Moody's also downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2. The reasons given for the downgrade were that the Chicago is overly dependent on asset lease reserves that are being rapidly depleted, the City's pension funds are severely underfunded and the City maintains an above average debt burden characterized by a slow 32 year payout. Moody's noted, however, that Chicago maintains a large and diverse tax base, it still maintains reserves from the Skyway long-term lease and that management has taken steps to reduce expenditures.[162]

CAPITAL PROGRAM

The City published its FY2010-FY2014 capital improvement plan (CIP) in August of 2010.[163] The amount of planned improvements over that 5-year period totals $8.5 billion. The FY2010 portion of the CIP includes $1.86 billion in projects. For the 5-year period of the CIP, bond funds will provide 68.3% of all funding. The remaining funds will come from federal, city, tax increment financing and other funds.

City of Chicago Capital Program FY2010-FY2014 Funding Sources (in $ millions)

Source	Total	%
Bond Funds	$5,862.5	68.3%
Federal Funds	$1,114.1	13.0%
City Funds	$898.8	10.5%
State Funds	$342.1	4.0%
TIF Funds	$52.7	0.6%
Other Funds	$314.4	3.7%
Total	**$8,584.6**	**100.0%**

Source: City of Chicago Overview and Revenue Estimates, p. 95.

[161] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[162] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
[163] See http://www.cityofchicago.org/city/en/depts/obm/provdrs/cap_improve.html.