The Civic Federation

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CITY OF CHICAGO FY2016 PROPOSED BUDGET:

Analysis and Recommendations

October 14, 2015

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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 **supports** Mayor Emanuel's proposed FY2016 budget of just over $7.8 billion because it addresses the Police and Fire pension funding crisis by making the difficult yet necessary decision to increase property taxes and dedicating these taxes to the pension funds. The budget also reduces the use of "scoop and toss" borrowing by $100 million and pledges to eliminate the practice by 2019. However, the Civic Federation is concerned that the City of Chicago has not publicly released a plan on how it will come up with an additional $220 million to fund its Police and Fire pensions if proposed changes to the pension funding schedule as contained in Senate Bill 777, are not released by the General Assembly and signed into law by the Governor.[1]

The Civic Federation offers the following key findings on Mayor Emanuel's proposed FY2016 budget, which also includes proposed amendments to the FY2015 budget:

- The City proposes a FY2016 local funds budget of just over $7.8 billion; this is a 6.8% increase from the original FY2015 adopted appropriation of just over $7.3 billion across all local funds and a 2.2% increase above the proposed amended FY2015 budget of $7.7 billion. Most of the increase is due to pension contributions to the Police and Fire funds. When grant funds are included, the FY2016 budget totals $9.3 billion;
- The FY2016 Corporate Fund budget proposal is slightly above $3.6 billion, which is a 2.8% increase from original FY2015 adopted appropriations of approximately $3.5 billion;
- The FY2016 budget proposes to increase staff by 1.3% or 431 full-time equivalents in FY2016, for a workforce of 33,066 FTEs, not including grant-funded positions. When including all local and grant funds, the increase in FTEs is 311 due to reductions made in grant-funded FTEs. The Corporate Fund workforce will be 25,882 FTEs;
- Corporate Fund personnel service appropriations are projected to increase by 1.8% or $48.8 million above FY2015 originally adopted appropriations to total $2.8 billion in FY2016;
- The property tax levy for City purposes will rise by approximately $427.7 million above the originally adopted FY2015 budget for a total levy of nearly $1.26 billion proposed in FY2016 with additional amounts levied for the City Colleges of Chicago of $36.6 million;
- The $232.6 million FY2016 projected Corporate Fund budget deficit and $100 million to reduce "scoop and toss" borrowing is projected to be closed using the following measures: $129.1 million in expenditure reductions and reforms and $203.5 million in revenue increases; and
- Unfunded actuarial accrued liabilities for the City's four pension funds have grown by nearly $11.3 billion or 132.5% from $8.5 billion in FY2005 to $19.8 billion in FY2014.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's FY2016 budget:

[1] Although SB 777 has been passed by both the Illinois House and Senate, the bill has not been released from a parliamentary maneuver delaying the bill's consideration by the Governor. Illinois Governor Bruce Rauner has not indicated that he would sign the bill even if it released unless the City of Chicago signs onto his turnaround agenda. http://www.governing.com/topics/mgmt/rham-emanuels-budget-kick-the-can.html (last accessed October 11, 2015).

- Dedicating the property tax increase in FY2015 and FY2016 to fund public safety pensions and transparently including future necessary increases to the property tax;
- Reducing the use of "scoop and toss" borrowing by $100 million in FY2016 and creating a plan to end the practice of "scoop and toss" borrowing by 2019;
- Implementing a solid waste removal fee to relieve the Corporate Fund of financial pressure;
- Continuing to phase out the City's retiree health care subsidy and prepare to transition to the Affordable Care Act (ACA);
- Exploration of privatization of 311 non-emergency services;
- Increasing targeted taxes and fees;
- Progress with establishing the City Council Office of Independent Financial Analysis;
- Implementing management efficiencies and reforms; and
- Holding multiple stand-alone town hall meetings to encourage public participation in the budget process and promote greater understanding of the financial challenges the City faces.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2016 budget:

- Significant uncertainties surrounding the proposed FY2015 amended budget and proposed FY2016 budget;
    - The proposed multi-year property tax increase will not completely resolve the City's financial challenges;
    - The budget relies on funding changes to the Police and Fire pension contributions that have neither been sent to the Governor nor signed into law;
    - Reforms made to the Municipal and Laborers' Pension Funds are facing challenges in the Illinois Supreme Court and if overturned may cause the pension funds to deteriorate even further; and
    - Ongoing litigation in the Cook County Circuit Court causes uncertainty surrounding the City's ability to continue to implement the reduction of the retiree health care subsidy and transition its retirees to the Affordable Care Act (ACA) health care exchanges;
- The Mayor's proposal to increase the general homestead exemption has not been drafted into legislation and may unfairly shift the tax burden onto low-income families, renters and other taxpayers;
- Continued borrowing for ongoing costs;
- Increasing the size of the city workforce at a time when the City is facing enormous financial challenges;
- Ongoing structural deficit;
- Growing long-term liabilities;
- High bonded debt burden; and
- Lack of cost of services data in budget documents.

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

- Continue to explore additional savings for Police and Fire pension funds;

- Explore the creation of a separate fund to account for revenues and expenditures attributed to waste removal services;
- Explore establishing a variable rate waste removal fee;
- As an alternative to increasing the general homestead exemption, consider providing property tax relief through a circuit breaker program administered by the State of Illinois through the state income tax;
- Improve the City's debt management policy, including requiring level debt service payments for new bond issuances and formalizing the Mayor's plan to phase out "scoop and toss" borrowing by 2019;
- Explore rationalizing public safety expenditures;
- Implement a long-term financial planning process that includes the participation of the City Council and general public in order to address the issues that are poised to harm the City's fiscal future;
- Improve the Capital Improvement Plan process;
- Allocate the full unit cost of City services in the budget in order to evaluate their efficiency and possibly prepare the City for additional alternative service delivery opportunities by reporting Finance General costs for each department; and
- Improve the budget document format by reporting the following items: prior years' actual expenditure and personnel data, consistent FTE position counts including grants and vacancies 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 **supports** Mayor Emanuel's proposed FY2016 budget of just over $7.8 billion because it addresses the Police and Fire pension funding crisis by making the difficult yet necessary decision to increase property taxes and dedicating these taxes to the pension funds. The budget also reduces the use of "scoop and toss" borrowing by $100 million and pledges to eliminate the practice by 2019. However, the Civic Federation is concerned that the City of Chicago has not publicly released a plan on how it will come up with an additional $220 million to fund its Police and Fire pensions if proposed changes to the pension funding schedule, as proposed in Senate Bill 777, are not released by the Illinois General Assembly and signed into law by the Governor.[2]

The City of Chicago has not significantly increased the property tax levy since 2008.[3] Since taking office in 2011, Mayor Emanuel has worked to reduce the structural deficit through structural reforms and efficiencies, focused on targeted taxes and fees, reduced the use of one-time revenues, worked to reform two of the four city pension funds, started to eliminate the use of "scoop and toss" borrowing and worked to increase the rainy day fund. These actions have helped the City of Chicago balance its budget without relying on a general property tax increase.

While all of the Mayor's actions have helped improve the annual budget, significant long-term financial challenges remain. The City of Chicago can no longer delay its Police and Fire pension payment increase. Under current law, the City of Chicago is required to make an increased payment of $550 million to the police and fire pension funds in tax and budget year 2015 (payable in 2016) to bring the funded ratio to 90% by 2040. Although legislation has been passed by the Illinois General Assembly to reduce the $550 million pension fund payment increase by $220 million and extend the 90% funded target by 15 years to 2055, it has not been sent to the Governor. The City of Chicago is in desperate need of new revenue to make its statutorily required pension payments or else it could face an intercept of State grant funding.

Although this budget begins to dedicate more funding to the Police and Fire pensions and begins to phase out poor debt practices, the Mayor's plan to improve the financial position of the City is subject to a great deal of uncertainty. The City is facing tremendous financial pressure and the budget continues to buy time as the City works with the leadership in Springfield to finalize changes to the Police and Fire pension funding schedule. The City is also waiting for guidance from the Illinois Supreme Court on the constitutionality of the changes made to the Municipal and Laborers' Pension Funds. In addition, the City's effort to phase out retiree health care subsidies is being challenged in the courts. If these uncertainties are not resolved in the City's favor, it will require the City to come up with $220 million in addition to its proposed $318 million increase to the 2015 property tax levy already included in the amended FY2015 budget. The City could also face significantly increased retiree health care costs and a return to pre-reform crisis for the Municipal and Laborers' pension funds.

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[2] Although SB 777 has been passed by both the Illinois House and Senate, the bill has not been released from a parliamentary maneuver delaying the bill's release to the Governor's desk. Illinois Governor Bruce Rauner has not indicated that even if the bill is released by the General Assembly he would sign the bill into law." http://www.governing.com/topics/mgmt/rham-emanuels-budget-kick-the-can.html (last accessed October 11, 2015).

[3] The City has increased the levy to capture expiring TIF increment and some new property each year since FY2011.

The City has made significant progess over the years by reducing the projected budget shortfall each year through savings, reforms and growth in revenues. However, much of this progress could be derailed if the Mayor and Chicago City Council do not make the difficult choices that lie ahead.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2016 City of Chicago budget.

Dedicating the Increased Property Tax Levy to Fund the Police and Fire Pension Funds

Mayor Emanuel is proposing to make the painful yet necessary decision to amend the FY2015 budget to increase the property tax levy by $318 million for FY2015 in addition to a $109 million increase in the property tax levy proposed in FY2016 budget. The City is proposing to dedicate the entire increase in the property tax levy to fund the Police and Fire pension funds.

Under Public Act 96-1495, which was signed into law in 2010, the City of Chicago was scheduled to begin making increased contributions to the Police and Fire funds in tax year 2015 (payable in 2016) on a schedule to increase their funded ratios to 90% by 2040. The City's contribution towards the Police and Fire pension funds in the first year of the new funding schedule is projected to increase by approximately $550 million.

While the City had previously sought pension benefit reforms for the Police and Fire funds, after the Illinois Supreme Court struck down the State of Illinois' pension reform law as unconstitutional in May 2015, the City instead sought legislation to ramp up payments to Police and Fire pensions over several years and extend the 90% funded target by an additional 15 years. Senate Bill 777, the vehicle for the new payment ramp and schedule, was passed by both houses of the Illinois General Assembly in May 2015, but has not yet been sent to the Governor. The legislation would reduce the City's statutorily required contribution in 2015 by approximately $220 million. If SB777 is not signed into law, the City of Chicago will be required make the full $550 million increase to Police and Fire pension funds as required under Public Act 96-1495, bringing the City's total contribution to the Police and Fire pension funds to approximately $1.1 billion in budget year 2015. Under the current funding law, if the City of Chicago fails to make its statutorily required Police and Fire pension payments in 2016, the Illinois State Comptroller may intercept one third of the grant funding the City receives from the State and redirect it to the funds.

Although the Federation has long been opposed to pushing off pension contributions, it has also encouraged the governments it analyzes to fully fund their pensions. The funding schedule outlined in Senate Bill 777 is not ideal from an actuarial perspective, but the unprecedented and dedicated infusion of property taxes outlined in the FY2016 budget will at least begin the process of improving the financial sustainability of the City's two worst-funded pension plans. Unfortunately, decades of statutory underfunding of the City's pension obligations and ignoring the consequences has made it necessary for the taxpayers of Chicago to shoulder a burden that would have been lighter if it had been addressed sooner. Mayor Emanuel deserves credit for finally stepping up with a plan to start to fulfill the City's obligation to its employees and retirees.

Reducing the Use of "scoop and toss" Borrowing and Eliminating the Practice by 2019

The Civic Federation supports the Mayor's proposal to phase out the use of "scoop and toss" debt refinancing by FY2019. The $100 million reduction of "scoop and toss" refinancing in FY2016 to $125 million from $225 million in FY2015 is a significant improvement in the City's debt management. However, the continued use of long-term bonds to make current debt service payments is a form of borrowing for operations and an unsustainable technique for closing the City's ongoing budget deficits.

The City has used "scoop and toss" to refinance an aggregate total of $254.6 million in principal owed between FY2013 and FY2015 at a cost of $446.8 million in additional interest.[4] The City plans to do a "scoop and toss" refinancing of $170 million in November 2015 and an additional "scoop and toss" in the coming spring to complete the FY2016 refinancing.

In order to ensure that the Mayor's proposal to end "scoop and toss" comes to fruition and any deviation from the plan is given proper public vetting, the City Council should consider codifying the Mayor's five-point plan to improve the City's debt profile as part of an updated debt management policy.

Implementing a Solid Waste Removal Fee

The Civic Federation supports Mayor Emanuel's proposal to implement a new fee on more than 600,000 residents who receive waste removal services from City of Chicago employees. The City of Chicago currently spends approximately $244.4 million on residential solid waste removal services.[5] The proposed monthly fee of $9.50 that certain households will be charged in the City of Chicago is a reasonable user fee tied directly to a service currently funded through Corporate Fund revenues.

If the Chicago City Council approves the proposed monthly waste removal fee, the City of Chicago will no longer be an outlier among major U.S. cities when it comes to imposing a fee for waste removal services. Many of the suburban municipalities in the Chicago area and the majority of other major U.S. cities already impose some form of fee tied to the removal of residential solid waste. According to the U.S. Census Bureau, in fiscal year 2012 solid waste revenues ranged from 4.0% of waste removal expenses in Houston to more than 95% of expenses in Dallas, Los Angeles, Phoenix, San Antonio, San Diego and San Jose.[6]

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[4] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, March 13, 2014, p. H-2; City of Chicago, General Obligation Bonds, Taxable Project and Refunding Bonds Series 2012B, *Official Statement*, May 16, 2012, pp. G1-G3.
[5] Hal Dardick, "Emanuel trash-hauling fee could change over time," *Chicago Tribune*, September 28, 2015.
[6] Citizens Budget Commission, "A Better Way to Pay for Solid Waste Management," February 2015, p. 6.

Continuing to Phase Out the Retiree Health Care Subsidy in Preparation for Transition to the Affordable Care Act Exchanges

The Civic Federation supports Mayor Emanuel's difficult decision to phase out portions of the City's retiree health care subsidy and continue other health care reforms in order to manage the growth of its health care expenditures. The federal Affordable Care Act has changed the health care landscape for retirees by increasing health care access to low-income households, those with pre-existing conditions and retirees not yet eligible for Medicare. As such, the City's plan to phase out its subsidy takes advantage of the federal law while freeing itself of growing health care costs. Pre Medicare retirees will still be able to access health care at a reasonable cost and many, including Police, Fire and a group of retirees without access to Medicare, will still continue to receive subsidized health care funded by the City of Chicago.

The City faces billions of dollars in unfunded pension liabilities, growing debt service obligations and demand for public services that outstretches reasonable revenue projections. Continuing to fund health care costs for retirees would likely have required cuts to existing City services or even more significant tax increases. The City projects budgetary savings of approximately $30 million in FY2016 related to health care changes for retirees.[7] These retiree health care reforms are a rational move in the face of ongoing fiscal pressures.

Exploration of the Proposal to Privatize the City's 311 Non-Emergency Call Center

In his FY2016 budget address, Mayor Emanuel proposed privatizing the City's 311 call center for non-emergency assistance. The Mayor has cited initial savings of $1 million in operating costs and the need for approximately $50 million in long-term capital needs.[8]

The Civic Federation has traditionally supported alternative service delivery or privatization efforts that contain certain safeguards. The Civic Federation has previously identified the City's 311 non-emergency services call center as a potential candidate for privatization. If properly implemented and monitored, these efforts can be an effective means of reducing costs and/or improving efficiency. In our view, competition from private, nonprofit and even other public entities can help drive reduced costs and mitigate operational inefficiencies in government.

The proposal to privatize 311 services should be thoroughly reviewed once it is officially introduced to the City Council and provisions for proper management oversight must be incorporated into all future privatization proposals.

Increasing Targeted Taxes and Fees for Additional Revenue

The Civic Federation supports moderate revenue increases such as rates for fines and permits. Increases in these recurring revenue sources are preferable to broad-based tax increases because these revenue sources are tied directly to the service provided and are far better than using one-time funds from asset lease reserves, as the City did between FY2005 and FY2011.

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[7] Communication with the City of Chicago Office of Budget and Management, October 5, 2015.
[8] John Byrne, "Emanuel wants to privatize 311," *Chicago Tribune*, September 22, 2015.

As part of the FY2016 budget, in addition to increasing the property tax levy and imposing a first-ever waste removal fee, the City is proposing to increase building permit fees, rideshare and taxi fees, impose a tax on electronic cigarettes and "freeze" TIF spending in certain TIF districts. These revenue enhancements are estimated to total approximately $203 million in FY2016.

The City is also projecting to receive $22 million in additional funds associated with surplus in tax increment financing (TIF) districts largely due to Mayor Emanuel's plan to freeze new spending in TIF districts in and around the central business district for additional revenue.[9]

Progress with Establishing the Financial Analysis Office for the City Council

The Chicago City Council finally appointed a Council Financial Analyst as the first staff member of the City Council Office of Financial Analysis in July 2015. In the Civic Federation's 2011 *Recommendations for a Financially Sustainable City of Chicago*, the Federation recommended that the City create an independent budget office for the City Council. The office was intended to give aldermen access to the independent information and analysis that they need to be effective stewards of the City's finances. The Civic Federation is hopeful that once the financial analysis office is fully operational, it will serve as a resource to the City Council members as they review the FY2016 budget and consider future financial decisions.

Implementing Management Efficiencies and Reforms

Since taking office in 2011 Mayor Emanuel has implemented a number of reforms and efficiencies aimed at improving city operations and reducing growing expenditures. With the proposed FY2016 budget, the Mayor continues these reforms by improving grid-based garbage collection and redirecting those savings to additional neighborhood services, transitioning street sweeping to a grid-based system and achieving energy efficiency, IT and lease consolidation savings. In addition, the Mayor has implemented employee and retiree health care savings and vacancy eliminations. Together these reforms and efficiencies total more than $129 million in savings in FY2016.

Holding Multiple Stand-Alone Town Hall Meetings to Encourage Public Participation

The Civic Federation commends the Mayor and his finance team for holding three town hall meetings in August and early September to encourage public participation and inform the residents of the enormous financial challenges that the City faces in developing the FY2016 budget. Although the town hall meetings on the City's budget were overshadowed by the financial crisis facing the Chicago Public Schools, they allowed the residents of Chicago to voice their opinion to elected and appointed city officials on matters related to the financial crisis facing the City of Chicago and Chicago Public Schools.

[9] Fran Spielman, "Emanuel TIF reform too little, too late, critics contend," *Chicago Sun-Times*, July 13, 2015.

Civic Federation Concerns

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

Significant Uncertainty Surrounding the Proposed Budget

The Civic Federation is very concerned about the following major uncertainties surrounding the proposed FY2015 amended and proposed FY2016 City of Chicago budgets.

The Historic Multi-Year Increase in the Property Tax Levy Will Not Fully Resolve the City's Ongoing Financial Challenges

The City of Chicago's four pension funds combined have nearly $20 billion in unfunded pension liabilities. The $318 million property tax increase proposed in the FY2015 amended budget, $109 million proposed in FY2016, and $53 million and $63 million proposed for FY2017 and FY2018, respectively, while necessary will not by themselves resolve the City of Chicago's financial challenges. The City still faces enormous debt obligations and will face ongoing difficulty in funding is large pension obligations, particularly once the "ramps" are over and the City must fund at an actuarially calculated amount. While the significant property tax increase included in this budget will help move the City of Chicago closer to the road toward financial stability, much more will need to be done in the future and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

Budgeting for Reduced Pension Payments That Have Not Been Signed Into Law

Public Act 96-1495, enacted in December 2010, requires the City to increase funding levels for the Police and Fire pension funds by beginning to make contributions in tax year 2015 (payable in 2016) that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040. No changes to current employee and retiree benefits were included. Pursuant to this legislation, the City's contribution to its public safety funds are therefore scheduled to increase by nearly $550 million in tax year 2015 (payable in 2016). However, in May 2015 Mayor Emanuel supported Senate Bill 777, which would reduce the City's large pension contribution increase scheduled for tax year 2015 (payable in 2016) by $220 million.[10] Although SB 777 has been passed by the Illinois General Assembly, it has not been forwarded to the Governor's desk for his consideration and the Governor has not indicated he will sign.

The Civic Federation also has concerns about Senate Bill 777 outside of the bill's uncertain future. Representatives of the City have said that the five-year ramp of increased contributions to the Police and Fire funds laid out specifically in the bill will result in an increase in the funded ratio every year of the ramp. This will only be true if each fund hits its actuarial projections. For example, if investment returns fall short of the 8% expectation for the Fire fund and 7.5% expectation of the Police fund, as they did in the last fiscal year, the contributions laid out in

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[10] Senate Bill 777, http://www.ilga.gov/legislation/BillStatus.asp?DocTypeID=SB&DocNum=777&GAID=13&SessionID=88&LegID=85970

Senate Bill 777 may not be sufficient to prevent the funds' financial condition from slipping further.

Reforms Made to the Municipal and Laborers' Pension Funds Face Court Challenges

The Civic Federation again commends the City for working with labor unions and legislators to accomplish pension reform for the City of Chicago Municipal and Laborers' funds as it was a strong step toward improving the City's long-run financial prospects and the sustainability of the funds for their members.

Public Act 98-0641, signed into law on June 9, 2014, made changes to pension benefit levels for current retirees and employee members of two of the City of Chicago's four pension funds, the Municipal and Laborers' Funds. Its provisions were allowed to go into effect January 1, 2015, even though litigation was filed against the legislation in Cook County Circuit Court at the end of December 2014.

On July 24, 2015, Cook County Circuit Court Judge Rita Novak ruled the reforms violated the Illinois Constitution's protection of public pension benefits from being diminished or impaired. Judge Novak based her opinion on the Illinois Supreme Court's decision on May 8, 2015 that a 2013 pension reform law for four of the five State of Illinois funds was unconstitutional. The court ordered that the plaintiffs are entitled to, "recoup the benefits that would have been paid since January 1, 2015 but for Public Act 98-641."[11] Higher employee contributions made since January 1, 2015 have also been refunded.[12]

The City of Chicago appealed the Cook County Circuit Court's ruling to the Illinois Supreme Court and oral arguments in the case are set for November 2015, with a decision on the constitutionality of the reforms expected by the end of 2015.

The Municipal Fund had been projected to run out of money within 10 to 15 years and the Laborers' Fund in 15 to 20 years if P.A. 98-0641 had not passed the General Assembly, but the reform law was designed to increase the funded level of both funds to 90% by the end of 2055.

If the Municipal and Laborers' pension reforms are overturned in the Illinois Supreme Court, the City will actually see a budget savings. However, the pension funds will face an uncertain future as the overall funded ratios of the two funds will return to pre-reform levels and the funds will again face insolvency in the next 10 to 20 years if no changes to their funding are made.

Pending Litigation May Impact Retiree Health Care Savings

Litigation pending in the Cook County Circuit Court[13] may impact the City of Chicago's ability to continue to implement the transition of its retirees to the Affordable Care Act exchanges. An Illinois Supreme Court decision in July 2014 on changes made to retiree healthcare for state employees was struck down as a violation of the Illinois Constitution's protection of public

[11] Cook County Circuit Court. Case Nos. 14 CH 20027 and 14 CH 20668. Available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.
[12] Communication with the City of Chicago Office of Budget and Management, October 5, 2015.
[13] Case Number 2013-CH-17450.

pension benefits because the Court interpreted the subsidy of retiree healthcare as being part of the retiree's pension benefit.[14] While previous rulings on the *Korshak* case have taken place in federal court, the question of whether phasing out the City of Chicago's subsidy of retiree healthcare benefits violates the Illinois Constitution after the Illinois Supreme Court's decision on *Kanerva* was remanded to Illinois State courts.[15]

Hearings are ongoing in this case, but it is likely to be appealed to the Illinois Supreme Court and could significantly impact the City's ability to control its current and future retiree health care costs.

Increasing the General Homestead Exemption Will Shift the Tax Burden Onto Other Low-Income Residents and Taxpayers

The Civic Federation's position on homestead exemptions is that they should be limited and targeted to the lowest income homeowners and renters because property taxes in Cook County are a zero-sum game, meaning that tax relief provided to one property owner must be paid for by all other owners.[16] Although no formal legislation has been introduced to the Illinois General Assembly to increase the General Homestead Exemption for certain homes, the outlines of the Mayor's proposal to provide relief to residents with homes worth less than $250,000 have been made public. The Civic Federation does not support Mayor Emanuel's proposal to double the General Homestead exemption for the reason outlined above.

The Civic Federation understands that the disconnect between the value of real estate and annual income can put strain on some homeowners, especially those experiencing an income disruption due to unemployment or underemployment. Unlike business property owners, homeowners cannot pass on their costs to customers, owners or suppliers.[17] The Civic Federation believes that it is reasonable to provide property tax relief to low-income homeowners and renters.[18] Income level is the best criterion to use for property tax relief in order to target it to persons with the least ability to pay. Other criteria such as real estate value, age, disability, veteran's status, or length of time in the home give relief to some people who have more income than others and are thus not preferred criteria for relief.

The Civic Federation believes that the most effective way to target property tax relief to homeowners with the least ability to pay is a means-tested "circuit breaker" administered by the State of Illinois through the state income tax. A property tax circuit breaker is a program designed to provide relief when a person's property tax liability exceeds a certain percentage of

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[14] For more about the *Kanerva* decision, see Civic Federation Blog, "Court Ruling on Health Insurance Could Add to State of Illinois Budget Woes," July 9, 2014. https://www.civicfed.org/iifs/blog/court-ruling-health-insurance-could-add-state-illinois-budget-woes

[15] *Underwood v. City of Chicago*, 779 F.3d 461 (2015). Available at https://scholar.google.com/scholar_case?case=17907538468599288746&q=underwood+v.+city+of+chicago&hl=en&as_sdt=400006.

[16] Civic Federation, *Civic Federation Position on the Cook County Property Tax System*, p. 9. https://www.civicfed.org/sites/default/files/101220_CookCountyPropertyTaxPosition.pdf

[17] Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 10.

[18] Renters indirectly pay property taxes through their rent. Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 10.

their annual income.[19] As of 2008, 33 states including Illinois had programs that operated as circuit breakers but only 12 states provided the circuit breaker to people of all ages.[20] In Illinois, applicants needed to be at least 65 years old or disabled in order to apply for the income-based grant.[21] If the City of Chicago wishes to provide property tax relief to low-income residents, they should work with the Illinois General Assembly and Governor to implement a circuit breaker program that would apply to low-income residents of all ages rather than expand the General Homestead Exemption for all homeowners, no matter the value of their homes or their income.

Continued Borrowing for Operating Costs

The Civic Federation opposes the City of Chicago's use of long-term General Obligation bonds to pay for its current operating costs. Although the City has reduced this practice from recent years, in FY2015 a considerable amount of ongoing operating costs were paid for through the issuance of $1.1 billion in General Obligation bonds.

The following uses of bond proceeds are considered annual operating costs and should not be refinanced through long-term debt:

- $35 million for debt service related to the purchase of the Michael Reese Hospital campus;
- $62.4 million for payment of a legal judgement related to the long-term lease of the City's parking garages;
- $18.5 million related to contract claims against the City by the private operator of the City's parking meter system; and
- $2.4 million for the termination of the City's sale and lease back of the 311/911 Qualifies Technological Equipment (QTE).

Debt service costs associated with the Michael Reese Hospital Campus are reoccurring annually. The City also faces similar legal judgments and settlements on an annual basis. The issuance of debt, a one-time resource, to pay for these cost ensures ongoing budget deficits in subsequent years and adds significant interest cost to these expenditures.

Increasing Full-Time Equivalent Positions at a Time When the City Faces Financial Challenges

The Civic Federation is concerned that at a time when the City is facing growing unfunded pension liabilities and uncertainty surrounding reforms made to employee pensions and retiree health care benefits, this budget is proposing to increase the City's workforce in FY2016.

The proposed FY2016 budgeted FTE position count will rise from 32,635 FTEs in FY2015 to 33,066 FTEs in FY2016 across all local funds. This is a net increase of 431 FTE positions or 1.3%, 300 of which are proposed civilian hires in the Police Department to allow 300 sworn

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[19] John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," (Cambridge, MA: Lincoln Institute of Land Policy , 2009), p. 5.
[20] John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," Lincoln Institute of Land Policy (Cambridge, MA: Lincoln Institute of Land Policy , 2009), p. 8.
[21] 320 ILCS 25.

officers now performing administrative tasks be released to perform policing functions.[22] In the five-year period from FY2012 to FY2016, the City proposes to increase its Local Funds budgeted workforce by 1,172 FTEs, or 3.7%, from 31,894 FTEs in FY2012 to 33,066 FTEs proposed in FY2016.

Between FY2012 and FY2016, local fund budgeted appropriations for personnel services, which include salaries, health care, overtime pay, workers' compensation, pension payments and other benefits, increased by $339.3 million, or 10.6%, from $3.2 billion to $3.5 billion. Personnel services appropriations will increase by $72.2 million, or 2.1%, in FY2016 from FY2015 budgeted appropriations.

Personnel spending will continue to be a major portion of the budget in coming years. Continued spending pressures and a strained revenue base will require the City to thoroughly examine ways to reduce the size and cost of its workforce. Instead of increasing its workforce during a budget crisis, it would have been preferable for the City to further reduce headcount elsewhere in the budget to accommodate the public safety hires, if the 300 plus additional patrol officers were of the highest budget priority.

Ongoing Structural Deficit

In its *Annual Financial Analysis 2015*, the City projected that without changes to expenditures and revenues and without comprehensive pension reform, its Corporate Fund deficit, which does not include most pension contributions would grow to nearly $335 million in FY2017 and $436 million in FY2018. These projections assume that expenditures grow at an average annual rate of 5.3% and that revenues grow by 1.0% over the prior year in both 2016 and 2017.

The City has made considerable efforts to reform its operations through management efficiencies and innovative programs in the past four years. However, the imbalance between operating expenditures and recurring revenues has not been eliminated.

Growing Long-Term Liabilities

Total long-term obligations increased by 44.1%, or $6.0 billion, between FY2010 and FY2014, the most recent year for which data are available. Other long-term liabilities, which include net pension obligations,[23] lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 96.3%, or $4.9 billion. The single largest percentage and dollar increase over the five-year period was for pension and other post-employment benefit obligations, which increased by 110.7% or $4.7 billion. The steady increases in long-term obligations, particularly the large cumulative pension funding shortfalls, are a serious cause for concern absent a plan to address them.

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[22] City of Chicago, FY2016 Budget Overview, p. 12.
[23] Net pension obligations as reported in the audited financial statements are the cumulative difference between annual pension costs and the employer's contributions to its plans since reporting standards were modified per GASB Statement No. 27.

High Bonded Debt Burden

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

- Between FY2005 and FY2014, Chicago's total net direct debt rose by 62.8%, or $3.2 billion. This represents an increase from $5.1 billion in FY2005 to $8.3 billion 10 years later. During the same time period, direct debt per capita rose by 74.9% from $1,769 to $3,094.
- Between FY2005 and FY2014, combined direct debt from other overlapping governments increased by 33.5% at the same time City of Chicago debt rose by 62.8%. Total direct debt from all eight major governments including Chicago rose by 45.3%. The rate of increase in direct debt issued by Chicago outpaced the increase for the overlapping governments.
- Chicago's debt service appropriations in FY2016 are projected to be 22.9% of total local fund appropriations, or nearly $1.8 billion out of expenditures of $7.8 billion. Since FY2012 debt service appropriations have risen by 24.9%. Ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[24]

The sharp upward trend in debt burden over time is a serious cause for concern for the City of Chicago. It threatens to further erode the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential to account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees, materials and supplies, associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[25]

The City's budget does not have full cost data for its programs in its budget. Currently, the City typically budgets the following categories of appropriations for City Departments:

- Personnel Services;
- Contractual Services;
- Travel;

[24] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[25] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

- Commodities and Materials; and
- Specific Purposes.

The Personnel Services category of expenditures within operating departments only includes expenses related to salaries. Specifically it includes line item expenditures such as salaries and wages, salary adjustments and savings from unpaid time off. It does not include any fringe benefits or pensions. The City has a separate cost center for each fund called "Finance General" where a variety of costs are lumped together including the following items:

- Health Maintenance Premiums (HMO);
- Claims and Administration for Hospital and Medical Care;
- Term Life Insurance;
- Claims and Costs of Administration for Worker's Compensation; and
- Unemployment Insurance.

Corporate Fund personnel services included in Finance General are budgeted at $407.0 million for FY2016.[26] In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds.

Civic Federation Recommendations

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

Reform Police and Fire Pensions

While the City of Chicago awaits the Illinois Supreme Court's guidance on whether any pension benefit changes for current employees and retirees are allowed under the Illinois Constitution, there are still other reforms the City can pursue to reduce the Police and Fire funds' administrative costs.

Chief among these would be merging the Chicago Police and Fire funds with downstate police and fire funds into an Illinois Municipal Retirement Fund-like entity or the IMRF itself. There are over 600 local pension funds in Illinois, each with its own governing board, most of which are police and fire funds for individual municipalities. It is difficult to understand how the maintenance of over 600 public safety funds in Illinois is either beneficial to taxpayers or cost effective for Chicago or other suburban and downstate municipalities. The Federation believes that the overall investment performance and administrative efficiency would greatly improve and much duplication of effort could be eliminated if individual funds were consolidated.

Chicago Treasurer Kurt Summers' initiative to reduce investment fees charged to City pension funds by promoting cooperation and transparency among the funds is a good step toward the goal of making Chicago's obligations to its employees and retirees more sustainable and

[26] City of Chicago, FY2016 Budget Recommendations, p. 5.

affordable to taxpayers. If successful, the initiative could point toward further cooperation and demonstrate to the funds that consolidation is possible.[27]

Explore Establishing a Separate Fund to Account for Waste Removal Services

Many U.S. cities have established special revenue funds or enterprise funds to better account for the revenues and expenditures tied to household waste removal services. The FY2016 proposed budget estimates that the City will generate $62.7 million by implementing a $9.50 per month fee on households. The City estimates that it spends approximately $244 million a year on waste removal services.

The cities of Washington, D.C., Houston, Los Angeles, San Diego and San Jose account for solid waste by dedicating revenues generated from waste removal services to special revenue funds. The cities of Phoenix, San Antonio and Seattle account for the revenues and expenditures tied to waste removal services in an enterprise fund, similar to water and sewer funds.[28]

Establishing a separate fund to account for the revenues and expenditures tied to a government service can improve the financial transparency of city operations and protect garbage fees from being buried in the corporate fund and spent elsewhere in the budget.

Explore a Variable Rate Waste Removal Fee

The Civic Federation supports the decision to impose a waste removal fee of $9.50 per month on 600,000 residents currently receiving waste removal services provided by City of Chicago employees.

Once the new fee for waste removal is established, the City of Chicago should explore methods to more equitably impose the garbage fee to Chicago residents by possibly tying the fee to the number of units in each building or the volume of waste disposed of by each property classification. In a matter of fairness, a typical single-family household should not pay the same amount for waste removal services as a three-unit apartment building.

Provide Property Tax Relief Through a Means-Tested State-Level Circuit Breaker Program

The Civic Federation cannot support an increase in the General Homestead exemption for certain residences in the City of Chicago because it adds more complexity to the property tax system. There are now at least ten different property tax exemptions available in Cook County. The continuous addition of complicated exemptions is a serious problem because it makes the property tax system opaque to taxpayers, adds administrative costs, and makes modeling changes to the system prohibitively difficult, thus contributing to unintended consequences.

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[27] Meaghan Kilroy, "Chicago treasurer to launch database to facilitate aggregate fees for city pension funds," *Pensions and Investments*, September 1, 2015. http://www.pionline.com/article/20150901/ONLINE/150909990/chicago-treasurer-to-launch-database-to-facilitate-aggregate-fees-for-city-pension-funds

[28] Citizens Budget Commission, "A Better Way to Pay for Solid Waste Management," February 2015.

The Civic Federation believes that the most effective way to target property tax relief to homeowners with the least ability to pay is a means-tested "circuit breaker" administered by the State of Illinois through the state income tax. A property tax circuit breaker is a program designed to provide relief when a person's property tax liability exceeds a certain percentage of their annual income.[29] As of 2008, 33 states including Illinois had programs that operated as circuit breakers but only 12 states provided the circuit breaker to people of all ages.[30] In Illinois, applicants needed to be at least 65 years old or disabled in order to apply for the income-based grant.[31] If the City of Chicago wishes to provide property tax relief to low-income residents, they should work with the Illinois General Assembly and Governor to implement a circuit breaker program that would apply to low-income residents of all ages and find a source of revenue to offset the cost of the program rather than expand the General Homestead Exemption for all residents with homes valued at less than $250,000 without taking into account the homeowner's ability to pay.

Update the Debt Management Policy

The City of Chicago should update its debt management policy to ensure the most effective and fiscally prudent use of its long-term and short-term bonding authority.[32] The current debt management policy published in 2007 should be amended to prohibit the use of long-term refunding bonds to make current year principal payments, sometimes referred to as "scoop and toss" refinancing. The policy should also require level debt service payments for new bond issuances in order to prevent back-loading of principal that can greatly increase the cost of borrowing and the total debt service owed by the City.

The policy should also articulate the intended uses and strategy behind the City's short-term debt program including the total authorized amounts, cost and plan for repayment of commercial paper, lines of credit and other annual borrowings.

Although the Mayor has articulated a plan to end the use of "scoop and toss" refinancing by FY2019 and to annually reduce this unsustainable practice, this policy should be codified to ensure it is completed and not reinstituted without public vetting in the future.

In recent years, the City of Chicago has relied heavily on unsustainable debt refundings that balanced its current year operating budgets but also greatly increased its total long-term obligations. Over the last three budget years the City has reduced its principal debt service payments by refunding a total of $254.6 million due between FY2013 and FY2015, at a cost of $446.8 million in additional interest. The FY2015 budget accounts for more than half of these

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[29] John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," (Cambridge, MA: Lincoln Institute of Land Policy, 2009), p. 5.
[30] John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," Lincoln Institute of Land Policy (Cambridge, MA: Lincoln Institute of Land Policy , 2009), p. 8.
[31] 320 ILCS 25. The Circuit Breaker program was cancelled by the State of Illinois due to lack of funding in FY2013.
[32] City of Chicago, *Debt Management Policy for the City for Chicago*, September 4, 2007. http://www.cityofchicago.org/content/dam/city/depts/fin/Bonds/debt_mgmt_policy.pdf (last visited October 27, 2014).

refunded debt payments totaling $150.9 million with an associated new interest cost of $228.8 million.

By extending the life of these bonds for 30 years, the City reaped current year savings in order to balance its operating budgets. However, delaying the repayment of funds borrowed as long ago as 1993 for an additional 30 years greatly increases the total cost of the capital investments and operations originally funded through these bonds. The refunding of these principal payments also increases the annual interest owed and limits the City's future borrowing capacity.

In order to prepare for the spikes in principal payments in the final years of these refundings and to avoid additional extension of this debt further into the future, the City should consider establishing additional debt service reserves that are set aside annually in order to reduce the impact of the increase in debt service. This will allow the city to continue to issue the capital debt necessary to maintain and upgrade critical government infrastructure despite the future liabilities already incurred to pay for current operating costs.

By requiring level principal payment or reducing the amount of principal pushed off into the future, the City of Chicago would reduce the cost of its long-term debt while ensuring current expenses and capital expenses are not borne entirely by future generations. Although the structure leads to marginally higher debt service payments in the early years of new bond issuances, due to the earlier payment of principal the total interest cost is greatly reduced. The benefit of reducing the City's long-term obligations far outweighs the benefits of the modest annual budget savings in the early years when bonds are issued with back-loaded principal payments.

The State of Illinois is limited in its refinancing of bonds by a Constitutional provision barring "scoop and toss" structures that extend the life of outstanding principal and the City should adhere to the same standard.[33] Similarly, the State has a level debt service provision in the General Obligation Bond Act. The City should include a comparable requirement in its own debt management policy.[34]

The Government Finance Officers Association recommends that all state and local governments formally adopt a comprehensive written debt management policy and provides guidance on the minimum standards and development of these documents.[35]

Evaluate Reducing Public Safety Expenditures

With the City of Chicago continuing to face a persistent structural deficit and growing long-term liabilities and since the City is no longer pursuing public safety pension benefit reforms, the Civic Federation recommends that the City conduct a thorough evaluation of the public safety departments with the primary goal of rationalizing personnel costs. The evaluation should

[33] Illinois State Constitution, Article IX, Section 9, clause (e).
[34] 30 ILCS 330/9.
[35] Government Finance Officers Association, *Best Practices: Debt Management Policy (1993, 2003, 2012) (Debt)*, October 2012.

consider the following items, among others, which are based off of recommendations made in the Civic Federation's 2011 *Recommendations for a Financially Sustainable City of Chicago*[36]:

Police Department Recommendations

- Additional positions or functions that can be civilianized and/or consolidated with the Fire Department and Office of Emergency Management and Communications such as records management;
- Intergovernmental coordination between the City's Police Department and Cook County Sheriff's Department, Chief Judge and Circuit Court for reform of the criminal justice system that would lead to consolidation and rationalization of services; and
- Increased use of fuel-efficient vehicles for patrol and other departmental services.

Fire Department Recommendations:

- Optimal number of personnel per vehicle;
- Appropriate number and type of equipment and personnel dispatched to calls;
- Appropriate response time to different types of calls;
- Appropriate number and location of fire stations;
- Optimal number of cross-trained EMS and firefighters;
- Ways to reduce disability absences, such as use of light duty assignments;
- Additional positions that can be civilianized, including inspection and prevention; and
- Additional functions that can be outsourced or eliminated.

Additional ideas for reducing costs and improving efficiencies in public safety can be found in the Chicago Inspector General's Savings and Revenue Options reports.[37]

Implement a Formal Long-Term Financial Plan

The City faces significant increases to pension contributions and debt service payments in coming years. Having a long-term financial plan in place allows governments to better forecast revenues and expenditures by making assumptions about economic conditions, future spending scenarios and other changes and would allow the City to articulate how it plans to overcome its future fiscal challenges.

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice,

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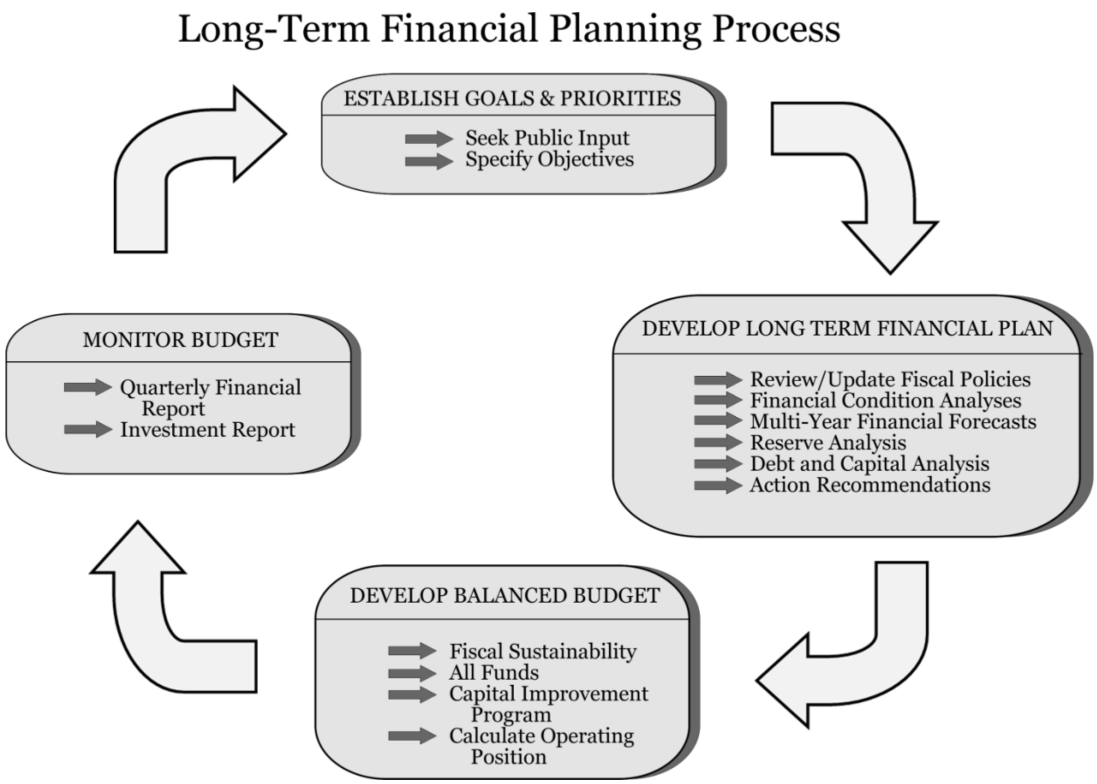
[36] Civic Federation's 2011 *Recommendations for a Financially Sustainable City of Chicago,* June 30, 2011. https://www.civicfed.org/sites/default/files/Recommendations%20for%20a%20Financially%20Sustainable%20City%20of%20Chicago.pdf

[37] http://chicagoinspectorgeneral.org/wp-content/uploads/2012/09/IGO-Savings-and-Revenue-Options-2012-Final.pdf (last accessed October 12, 2015).

such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[38]

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[39] First, the Mayor and his administration will articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan will evaluate financial and service data in order to determine how to accomplish the goals and priorities. It will include a review of the City's financial policies, a financial condition analysis that presents 10 years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced City of Chicago budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.



If the City chooses not to undertake a full long-term financial planning process, at a minimum the *Annual Financial Analysis* should be expanded to include:

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[38] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).
[39] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

Improve the Capital Improvement Plan Process

The City of Chicago has released a FY2015-FY2019 Capital Improvement Plan (CIP).[40] This is the fourth CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.
The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and provide an estimate of the size and timing of future debt issuance. The first year of a CIP is the capital budget for that fiscal year. Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

The Civic Federation reviewed Chicago's CIP processes based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and the Federation's budget analyses of local government budgets.[41] Our review found that Chicago's CIP meets many important best practice criteria. It includes a summary list of projects, expenditures per project, funding sources and the period for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

The Civic Federation recommends that Chicago improve its CIP processes by:

- Including a narrative discussion of the CIP development and adoption process;

[40] The FY2015-FY2019 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2015%20-%202019%20Capital%20Improvement%20Program.pdf
[41] National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.

- Providing information on the capital plan's prioritization process including a discussion of the criteria used to determine how projects are selected;
- Including information on how the capital program in general and projects in particular impact the City's operating budget;
- Providing opportunities for the public to provide input about the capital plan; and
- Requiring the CIP to be formally approved by the City Council.

Include Finance General Costs in City Department Budgets

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[42]

Improve Budget Format

The City has made several improvements to its budget books over the past few years including providing additional data in a searchable and downloadable format on its website. The Civic Federation offers the following recommendations to improve the transparency and usefulness of the City's budget documents.

Report Actual Expenditure and Personnel Data in the Budget Overview and Revenue Estimates

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.

Provide Revenue Data in an Electronic Format

The City began posting appropriations and personnel data sets on its data portal in a searchable and downloadable format in 2011. This was a significant step forward. The Civic Federation urges the City to also provide detailed revenue data sets in the future so that users may sort multiple years of data by revenue type and fund.

Consistently Report Full-Time Equivalent Positions

The budget documents do not consistently show the total number of full-time equivalent positions in all areas of the documents, including filled positions and vacancies. Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours

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[42] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

worked in a full-time position. The FTE count includes full-time, part-time, seasonal and hourly wage earners. The City made an important step by providing current and historical FTE counts in its FY2013 Budget Overview. However, the FY2016 Budget Recommendations, which is the document to be voted on by the City Council to become the FY2016 Appropriations Ordinance, still provides position count by full-time positions only (both filled and vacant). Meanwhile, the Budget Recommendations provide personnel services appropriations that reflect expenses for full-time equivalent positions, including personnel-related expenses such as pension and health care costs. As such, the number of employees per fund is not an entirely accurate reflection of the costs associated with their employment per fund. The Civic Federation recommends that the City revise its budget documents to accurately and consistently reflect the number of individuals employed by the City as well as the total number of full-time equivalent positions needed to provide City services across all departments, including grant-funded positions.

Report All Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and Chicago Public Schools. These levies are legal, but the transactions are not transparent. The City provides insufficient narrative information about the levies in its budget. City Colleges provides the amount of property taxes levied by the City on the District's behalf in its budget books.[43]

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 Chicago Public Schools in future budget documents.

[43] See City Colleges of Chicago's FY2016 Annual Operating Budget, p. 299.

ACKNOWLEDGMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Carole Brown and Office of Budget and Management (OBM) Director Alexandra Holt and their staffs to answer our questions about the budget.

FY2016 CORPORATE FUND BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago projected a $232.6 million budget deficit in the Corporate Fund which does not account for most pension contributions for FY2016 in its *Annual Financial Analysis 2015* released on July 31, 2015.[44] The deficit was the result of a projected $72.2 million, or 2.0%, decline in Corporate Fund revenues and a $160.7 million, or 4.5%, increase in Corporate Fund expenditures compared to the FY2015 year-end estimates.[45] In FY2015 the City did not plan to use fund balances to balance its FY2015 budget and does not plan to use those resources to balance the FY2016 budget.

Total revenue is down from the original FY2015 budget, due largely to decreases in non-tax revenues. The FY2016 budget proposes to increase the City's base property tax levy to nearly $1.3 billion; however, increases to pension funding through the property tax increase are not reflected in the Corporate Fund. The property tax only shows up in the Pension and Debt Service Funds. It is important to note that the City is also proposing an amendment to the FY2015 adopted budget which raises the gross levy for tax year 2015. The levy for the FY2015 Budget would increase by $318.2 million, or 36.7%, from $868.2 million to $1.2 billion. Additionally, the City has continued to focus on increasing revenue by increasing rates and fees, particularly at O'Hare and Midway. Total airport expenditures are increasing primarily because of pension payments. If passed, SB777 would lower the City's contribution to the Police and Fire pension funds by $220 million in FY2015. If P.A. 98-0641(the Municipal and Laborers' pension reform law) is upheld by the Supreme Court, the City will be required to fund the increase in its contribution to the Municipal and Laborer's pension funds that was included in the originally approved FY2015 budget and will increase according to the schedule in FY2016.[46] Salary and wage increases tied to collective bargaining agreements and health care costs are also contributing to increasing expenditures in FY2016.

Gap-Closing Measures

The primary means by which the City is proposing to close its budget gap are shown in the exhibit below. The City's FY2016 Budget Overview book states that the projected Corporate Fund budget gap of $232.6 plus $100.0 million in reduced "scoop and toss" debt refinancing will be closed with $129.1 million in expenditure reductions and government reforms and efficiencies, including $57.1 million in personnel savings, primarily through health care savings and approximately $56.3 million in non-personnel savings through the implementation of zero-based budgeting and other efficiencies. The remaining $203.5 million will come from revenue growth and enhancements, such as the new garbage collection fee that is estimated to bring in nearly $63.0 million and a rideshare/taxi surcharge that is projected to bring in an additional $48.6 million.[47]

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[44] The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap annually calculated by the City each summer. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.
[45] City of Chicago, 2015 Annual Financial Analysis, pp. 50-51.
[46] City of Chicago, 2015 Annual Financial Analysis, p. 51.
[47] City of Chicago, FY2016 Budget Overview, p. 17.

While the City has reduced its reliance on one-time revenue sources since the Daley administration, a significant percentage of the FY2016 budget gap will be closed with non-recurring resources including $4.8 million from the sale of excess land and $20.2 million from the sweeping of aging accounts. The City will also allocate approximately $22.0 million in tax increment financing (TIF) surplus. TIF surplus is excess money within the TIF districts' funds that is calculated annually after all obligations are met. The City declares the surplus and the funds are then distributed to the overlapping governments. TIF surplus has previously been a one-time source of revenue, but the City plans to declare annual surpluses, making it like a recurring source of revenue.

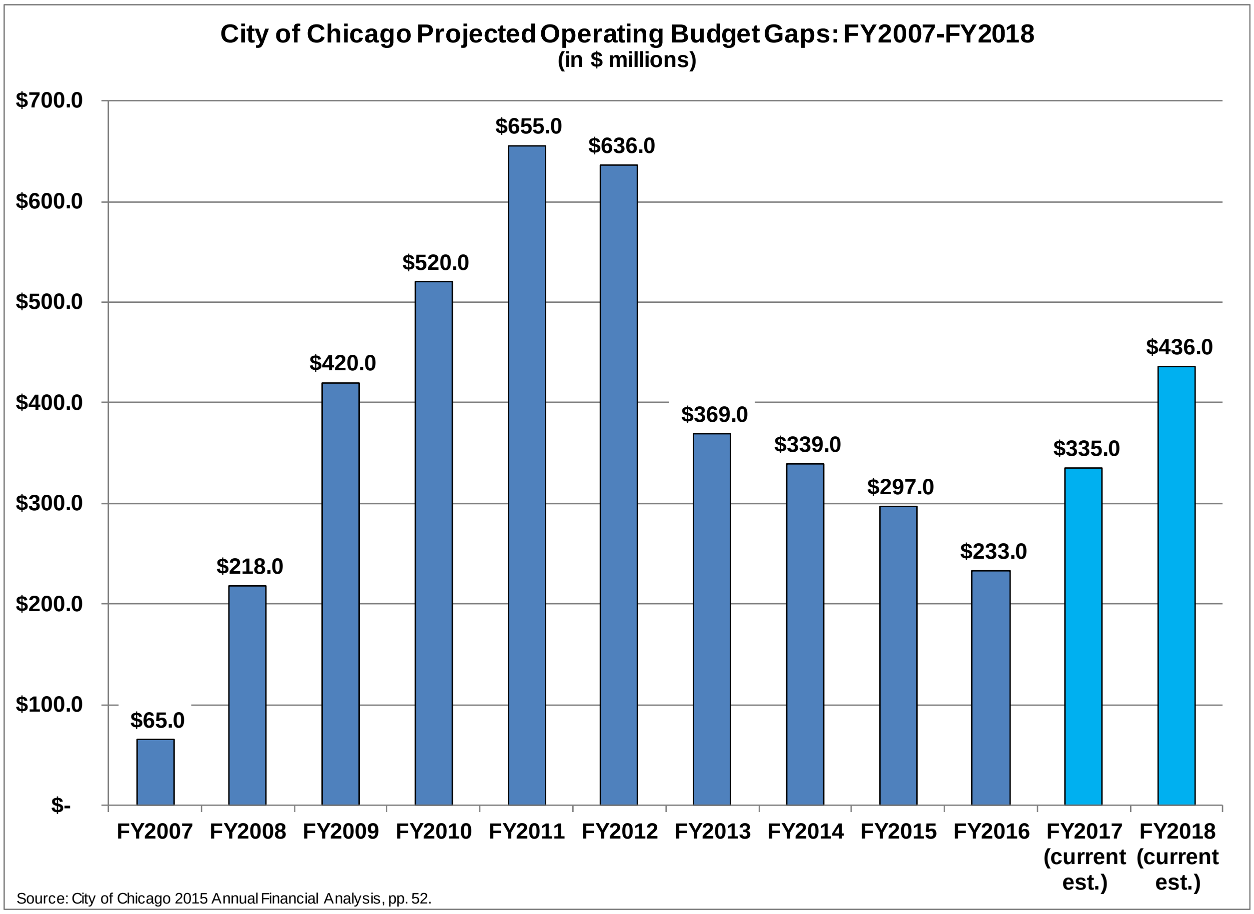
It should be noted that the exhibit does not account for the amount of General Obligation debt service that will be restructured through "scoop and toss" practices. The City's operating deficit would increase by an additional $125.0 million if debt service in FY2016 was not reduced by "scoop and toss."

City of Chicago FY2016 Corporate Fund Gap Closing Measures (in $ millions)		
Expenditure Reductions		
Non-Personnel Savings and Reforms	$	56.3
Personnel Savings and Reforms	$	57.1
Improved Fiscal Management	$	15.7
Total Expenditure Reductions	$	129.1
Revenue Increases		
Revenue Growth	$	7.8
Improved Debt Collection	$	23.4
Revenue Enhancements	$	172.3
Total Revenue Increases	$	203.5
Total	**$**	**332.6**

Source: City of Chicago FY2016 Budget Overview, p. 17; and information provided by the City of Chicago Office of Budget and Management, October 5, 2015.

Historical Trend of Projected Budget Gaps

The following exhibit shows the historical trend of projected budget gaps from FY2007-FY2018. The City of Chicago's projected budget gaps have fluctuated over the past 10 years from $65.0 million in FY2007 to $232.6 million for FY2016, with highs of $654.7 million for FY2011 and $635.7 million for FY2012. The City projects that the operating budget gap of $232.6 million will increase to $334.9 million in FY2017 and to $436.3 million in FY2018. These projections were made before the FY2016 budget, so they will be impacted by the actions taken in the budget. It is also important to note that the Corporate Fund deficit does not incorporate most pension expenditures.


City of Chicago Projected Operating Budget Gaps: FY2007-FY2018
(in $ millions)
$700.0
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0
$-
$65.0
$218.0
$420.0
$520.0
$655.0
$636.0
$369.0
$339.0
$297.0
$233.0
$335.0
$436.0
FY2007
FY2008
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017 (current est.)
FY2018 (current est.)
Source: City of Chicago 2015 Annual Financial Analysis, pp. 52.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2016 compared to adopted appropriations for FY2015 and adopted and actual expenditures when available for FY2012 through FY2014. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. Local funds include the Corporate Fund, Water Fund, Vehicle Tax Fund, Motor Fuel Tax Fund, Sewer Fund, Airport Funds (Chicago Midway and Chicago O'Hare Airport Funds), Pension Funds and All Other Local Funds.[48] Local funds do not include grant funds.

Historically the Civic Federation has provided a two-year and five-year trend analysis comparing the proposed budget and the prior year adopted and actual budgets, when available. However, because the City of Chicago is proposing to adopt an amended FY2015 budget in conjunction with the adoption of the proposed FY2016 budget, the Civic Federation will present the proposed amended FY2015 data in the tables, but will only analyze trends comparing the proposed FY2016 budget with the original FY2015 adopted budget in this section of the analysis. A two-year trend analysis by fund for local funds that compares the proposed FY2016 budget with the adopted FY2015 budget and proposed FY2015 amended budget is available in Appendix A.

Appropriation Trends by Fund for Local Funds

The FY2016 proposed budget projects that net appropriations for all funds will increase by 6.8% to approximately $7.8 billion from FY2015 originally adopted appropriations of just over $7.3 billion. Appropriations for the Corporate Fund will increase by 3.0%, or $98.4 million, from approximately $3.5 billion in FY2015 to $3.6 billion in FY2016. This is due in part to a change in the how pension fund payments are accounted for beginning with the FY2015 budget.

The Special Revenue Fund, which is used to account for revenue from specific taxes and other sources that are legally designated to finance particular functions, will decrease by 0.8% from FY2015 original adopted appropriations. Appropriations for the Pension Funds will increase by 88.0%, or $421.1 million from $557.1 million originally adopted in FY2015 to $978.3 million proposed for FY2016. The increase is primarily attributable to the increased pension payments to the police and fire pension funds and retroactive payments and salary increases under collective bargaining agreements.[49] Appropriations to the Pension Funds previously reflected changes in payroll from two years prior because, per state statute, the City's pension contributions were a multiple of employee payroll deductions made two years prior. However, starting in FY2015 the Municipal and Laborers Funds are being funded on a five-year ramp that started the City's 40-year plan to get the Funds to a 90% funded ratio.

Additionally, Public Act 96-1495, signed into law in 2010, created a new tier of benefits for public safety employees in Illinois. Public Act 96-1495 also significantly changed the City of Chicago employer contributions, requiring an increase in funding in 2016 of approximately $550 million, with a goal of 90% funded by 2040. Legislation passed by the Illinois General Assembly

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[48] See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2015 & FY2016* and *City of Chicago All Local Fund Appropriations by Fund: FY2012-FY2016* for further detail.

[49] City of Chicago, FY2016 Budget Overview, p. 31.

(SB 777) in May 2015, but not signed into law by the Governor, changes the funding schedule of the public safety pensions by creating a five-year ramp of steadily increasing employer contributions to the City's Police and Fire funds to reach a goal of 90% funded ratio by 2055 and reduces the City's police and fire pension payment in 2016 by approximately $220 million. Enterprise Fund appropriations, which fund business-type operations that are typically self-supporting and include the two airports, water and sewer operations, are increasing by 4.3%, or $99.5 million, over the two-year period. Approximately $10.4 million of the proposed $99.5 million increase is due to the proposed amendment to the FY2015 budget. As noted in the beginning of this section, the City of Chicago is proposing to amend the FY2015 budget to increase the property tax levy by $318 million, with an additional $10 million from the Enterprise Funds, to provide additional funding for police and fire pension payments.[50]

Net appropriations are projected to rise by 24.6%, or $1.5 billion, in the five-year period since FY2012. The City's Pension Funds will see the largest percentage increase since FY2012 of 105.4%. The Enterprise Funds will see the largest dollar increase over the same time period, at an increase of $547.3 million. The five-year 27.3% increase in Enterprise Fund appropriations is due in part to the increased pension payments, water and sewer repairs and upgrades funded with revenue from these rate increases and an increase in the O'Hare and Midway airport funds, which are set at a level necessary to pay debt service and support operations at the airports.[51] The following table outlines the appropriations by fund for FY2012-FY2016 and includes two-year and five-year trend analyses.

City of Chicago Appropriations by Fund for Local Funds: FY2012-FY2016 (in $ millions)

	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2015 Proposed Amended	FY2016 Proposed	Two-Year Adopted $ Change	Two-Year Adopted % Change	Two-Year Proposed Amended $ Change	Two-Year Proposed Amended % Change	Five-Year Adopted $ Change	Five-Year Adopted % Change
Corporate Fund	$ 3,095.7	$ 3,161.8	$ 3,290.2	$ 3,534.4	$ 3,534.7	$ 3,632.8	$ 98.4	2.8%	$ 98.1	2.8%	$ 537.2	17.4%
Special Revenue Funds	$ 473.2	$ 484.4	$ 523.0	$ 619.7	$ 619.7	$ 615.7	$ (3.9)	-0.6%	$ (4.0)	-0.6%	$ 142.6	30.1%
Pension Funds	$ 476.3	$ 479.4	$ 478.3	$ 557.1	$ 885.7	$ 978.3	$ 421.1	75.6%	$ 92.6	10.4%	$ 501.9	105.4%
Debt Service Funds	$ 646.6	$ 708.3	$ 797.4	$ 826.4	$ 826.4	$ 778.3	$ (48.1)	-5.8%	$ (48.1)	-5.8%	$ 131.7	20.4%
Enterprise Funds	$ 2,001.6	$ 2,108.0	$ 2,313.7	$ 2,449.4	$ 2,459.8	$ 2,548.9	$ 99.5	4.1%	$ 89.0	3.6%	$ 547.3	27.3%
Total Appropriations	**$ 6,693.3**	**$ 6,941.9**	**$ 7,402.6**	**$ 7,987.0**	**$ 8,326.3**	**$ 8,553.9**	**$ 566.9**	**7.1%**	**$ 227.6**	**2.7%**	**$ 1,860.6**	**27.8%**
Less Proceeds of Debt	$ (70.5)	$ (72.3)	$ (95.0)	$ (95.3)	$ (95.3)	$ (77.1)	$ 18.2	-19.1%	$ 18.2	-19.1%	$ (6.6)	9.3%
Less Internal Transfer	$ (330.3)	$ (324.5)	$ (316.0)	$ (552.2)	$ (562.6)	$ (638.8)	$ (86.6)	15.7%	$ (76.2)	13.5%	$ (308.5)	93.4%
Net Appropriation	**$ 6,292.4**	**$ 6,545.1**	**$ 6,991.6**	**$ 7,339.5**	**$ 7,668.4**	**$ 7,838.0**	**$ 498.5**	**6.8%**	**$ 169.6**	**2.2%**	**$ 1,545.6**	**24.6%**

Note 1: Excludes grant funds. FY2011-FY2014 adopted figures are used because year-end estimates or actuals are not available.
Note 2: Historically the Civic Federation has analyzed the two-year dollar and percent change between the current proposed budget and the previous year's adopted budget. However, this year the Civic Federation is presenting the two-year dollar and percent change between the FY2016 proposed budget and the FY2015 originally adopted budget because the Chicago City Council is scheduled to adopt a FY2015 supplemental appropriation in addition to the FY2016 proposed budget. For more information on the proposed amended FY2015 budget, please see the Property Tax Revenue section on pp. 40; and Appendix B.

Source: City of Chicago, Appropriation Ordinances, FY2012-FY2015; FY2016 Overview, pp. 139-140; and FY2016 Budget Recommendations, Summary F.

The following chart illustrates FY2016 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of total Corporate Fund appropriations.[52] Public Safety, which consists of the Police and Fire departments and the Office of Emergency Management and Communications, represents 56.9% of the Corporate Fund. Finance General appropriations represent 21.0% of the Corporate Fund and consist of employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[53]

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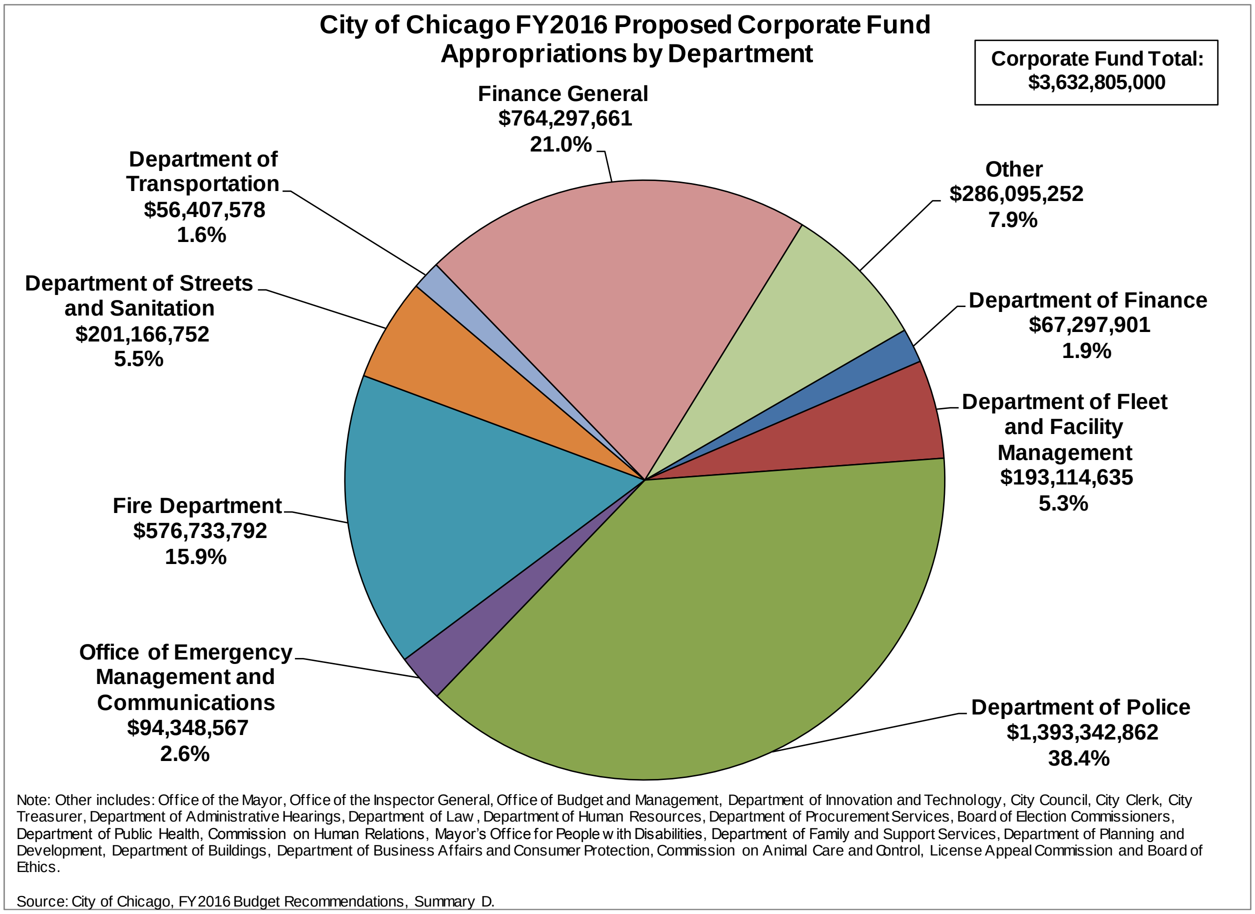
[50] City of Chicago, FY2016 Budget Overview, p. 31.
[51] City of Chicago, 2015 Annual Financial Analysis, p. 57.
[52] See note in pie chart above that lists the departments that are included in Other.
[53] City of Chicago, FY2016 Budget Overview, p. 127.



The following table shows five-year trends of Corporate Fund actual appropriations for FY2012-FY2014, FY2015 originally adopted appropriations and FY2015 proposed amended appropriations, and FY2016 proposed appropriations that have been allocated for Public Safety. Between FY2012 and FY2016, appropriations for Public Safety as a share of Corporate Fund appropriations will decline from 62.3% in FY2012 to 56.8% in FY2016. In the same period, appropriations for Police[54] will increase by $107.4 million, or 8.4%, while Fire Department appropriations will increase by $39.7 million, or 7.4%. Spending for the Office of Emergency Management and Communications will increase by 13.5% from $83.1 million in FY2012 to $94.3 million in FY2016. The increase in the Office of Emergency Management and Communications is primarily the result of the City of Chicago transitioning crossing guards from the Chicago Police Department to the Office of Emergency Management and Communications in FY2016.[55]

[54] Police includes the Chicago Police Board, the Independent Police Review Authority and the Chicago Police Department.
[55] City of Chicago, FY2016 Budget Overview, p. 13.

City of Chicago Corporate Fund Public Safety as % of Total Corporate Fund Appropriations: FY2012-FY2016 (in $ millions)										
Department	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2015 Proposed Amended	FY2016 Proposed	Two-Year Adopted $ Change	Two-Year Adopted % Change	Five-Year $ Change	Five-Year % Change
Police	$ 1,285.9	$ 1,319.0	$ 1,316.8	$ 1,383.1	$ 1,383.1	$ 1,393.3	$ 10.2	0.7%	$ 107.4	8.4%
Office of Emergency Management and Communications	$ 83.1	$ 82.1	$ 80.1	$ 79.2	$ 79.2	$ 94.3	$ 15.2	19.1%	$ 11.2	13.5%
Fire Department	$ 537.0	$ 524.9	$ 603.3	$ 554.1	$ 554.1	$ 576.7	$ 22.7	4.1%	$ 39.7	7.4%
All Other Departments	$ 1,152.4	$ 1,189.9	$ 1,246.7	$ 1,518.1	$ 1,518.3	$ 1,568.4	$ 50.0	3.3%	$ 416.0	36.1%
Total Corporate Fund Appropriations	**$ 3,058.4**	**$ 3,115.9**	**$ 3,246.9**	**$ 3,534.4**	**$ 3,534.7**	**$ 3,632.8**	**$ 98.1**	**2.8%**	**$ 574.4**	**18.8%**
Public Safety as % of Total	**62.3%**	**61.8%**	**61.6%**	**57.0%**	**57.0%**	**56.8%**	**-0.2%**	**-0.4%**	**-5.5%**	**-8.8%**
All Other Department as % of Total	**37.7%**	**38.2%**	**38.4%**	**43.0%**	**43.0%**	**43.2%**	**0.2%**	**0.5%**	**5.5%**	**14.6%**

Note: Police includes Police Board, Independent Police Review Authority and Department of Police.
Source: City of Chicago, FY2014-FY2016 Budget Recommendations, Summary F.

Appropriation Trends by Object

Appropriations by object categorizes similar line-item expenditures by group. In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures and proposed amended FY2015 expenditures by object were not available. The FY2016 City of Chicago budget proposes a net appropriation of $7.8 billion, excluding projected grant funds. This is an increase of 6.8%, or $498.5 million, from the FY2015 adopted appropriation of just over $7.3 billion. Permanent Improvement and Land appropriations will remain flat over the two-year period at $2.9 million.

Specific Items and Contingencies will rise by the greatest dollar amount over the two-year period, increasing by $503.0 million or 14.5%. This category includes pension payments, debt service payments, payments for torts and non-tort judgments, outside counsel expenses and subject matter expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams.

The City's efforts to reduce personnel costs by eliminating vacancies and making changes to retiree health care and the structure of the City's HMO have helped to offset normal health care inflation.[56] However, Personnel Services appropriations will increase by $71.7 million, or 2.1%, to just over $3.5 billion. This is due primarily to salary increases tied to collective bargaining agreements with most public safety and civilian employees.[57] It is important to note that pension payments are not accounted for in personnel services, but rather in Specific Items and Contingencies. Contractual Services will increase by 0.6%, or $4.4 million. These services include information technology costs, waste disposal fees, property rental, custodial services for City facilities and contracts for landscaping, engineering and other professional services.[58]

Appropriations for Travel, Commodities and Equipment will decrease by $0.2 million, or 11.9%, $10.7 million, or 4.2% and $1.2 million, or 7.3%, respectively. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies.[59]

[56] City of Chicago, FY2016 Budget Overview, p. 35.
[57] City of Chicago, FY2016 Budget Overview, p. 35.
[58] City of Chicago, FY2016 Budget Overview, p. 36.
[59] City of Chicago, FY2015 Budget Overview, p. 36.

Over the five-year period from FY2012 to FY2016, net appropriations will rise by $1,545.5 million, or 24.6%. Specific Items/Contingencies will experience the greatest increase in dollar amount and percentage change over the five-year period, rising by $1,392.8 million, or 53.8%, due primarily to increases in capital financing, debt service requirements and transfers between funds.[60]

Personnel Services appropriations will increase by $339.3 million, or 10.6%, over the same period. Contractual Services appropriations will increase by $110.8 million, or 17.0%, from $652.2 million in FY2012 to $763.0 million in FY2016. Travel appropriations, by contrast, will decline by 18.6%.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2012-FY2016 (in $ millions)

Object	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,204.1	$ 3,243.5	$ 3,350.5	$ 3,471.7	$ 3,543.3	$ 71.7	2.1%	$ 339.3	10.6%
Contractual Services	$ 652.2	$ 720.2	$ 747.8	$ 758.6	$ 763.0	$ 4.4	0.6%	$ 110.8	17.0%
Travel	$ 2.1	$ 1.9	$ 1.9	$ 1.9	$ 1.7	$ (0.2)	-11.9%	$ (0.4)	-18.6%
Commodities	$ 227.7	$ 233.0	$ 253.4	$ 255.3	$ 244.6	$ (10.7)	-4.2%	$ 16.9	7.4%
Equipment	$ 14.6	$ 15.1	$ 16.1	$ 17.0	$ 15.8	$ (1.2)	-7.3%	$ 1.2	8.0%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ -	0.0%	$ 0.1	3.0%
Specific Items and Contingencies	$ 2,589.6	$ 2,722.0	$ 3,029.8	$ 3,479.5	$ 3,982.5	$ 503.0	14.5%	$ 1,392.8	53.8%
Subtotal	**$ 6,693.3**	**$ 6,938.5**	**$ 7,402.6**	**$ 7,987.0**	**$ 8,553.9**	**$ 566.9**	**7.1%**	**$ 1,860.6**	**27.8%**
Less Internal Transfers	$ (330.3)	$ (324.5)	$ (316.0)	$ (552.2)	$ (638.8)	$ (86.6)	15.7%	$ (308.5)	93.4%
Less Proceeds of Debt	$ (70.5)	$ (72.3)	$ (95.0)	$ (95.3)	$ (77.1)	$ 18.2	-19.1%	$ (6.6)	9.4%
Total	**$ 6,292.4**	**$ 6,541.7**	**$ 6,991.6**	**$ 7,339.5**	**$ 7,838.0**	**$ 498.5**	**6.8%**	**$ 1,545.5**	**24.6%**

Note: Adopted appropriations were used because actual expenditures by object were not available. Some differences may appear due to rounding.

Source: City of Chicago, Appropriation Ordinances, FY2012-FY2015, Summary D; and FY2016 Budget Recommendation, Summary D.

Appropriation Trends by Program Area

In the City of Chicago budget, agencies are organized into nine functional program areas.[61] These areas are as follows:

- **Finance and Administration** departments manage the City's finances, personnel, legal and technology functions and day-to-day operations. These departments include the Office of the Mayor and the Departments of Finance, Law, Human Resources, Procurement Services, Fleet and Facility Management as well as City Clerk and Treasurer.
- **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 include the City's Department of Planning Development and Department of Cultural Affairs and Special Events, which handle community, economic, cultural and infrastructure development in the City.
- **Community Services** departments include the Chicago Public Library, Department of Public Health and the Mayor's Office for People with Disabilities. These 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.

[60] Information provided by City of Chicago Office of Budget and Management, October 31, 2014.
[61] City of Chicago FY2016 Budget Overview, pp. 54-56

- **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 Business Affairs and Consumer Protection, the Board of Ethics and the Office of the Inspector General.
- **Infrastructure Services** departments are responsible for the reconstruction of streets, sidewalks and bridges, the issuance of permits, the maintenance and repair of water and sewer infrastructure and the management of the two Chicago airports. These departments include Transportation, Streets and Sanitation, Water Management and Aviation.
- **General Financing Requirements** are pension and other employee benefits, long-term debt payments, and other cross-departmental expenses.

This section compares the FY2015 originally adopted appropriations to the FY2016 proposed appropriations. For a comparison of the FY2015 originally adopted appropriations to the FY2015 proposed amended appropriations and FY2016 proposed appropriations see Appendix A. In a comparison of FY2015 originally adopted appropriations and FY2016 proposed appropriations, spending by program area, including grant funding, will increase by $498.5 million, or 6.8%. Grant funds help provide services to City residents while relieving the operating budget. However, a government cannot be overly reliant on grants because grants are non-recurring revenue sources that are only available for fixed amounts of time. For program areas receiving grant funds, Public Safety will increase by the greatest dollar amount, by $52.1 million, or 2.3%, primarily due to an increase in local funds of $51.3 million, or 2.5%.

Appropriations for General Financing Requirements will increase significantly over the two-year period, growing by $504.6 million or 12.8%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, including increased pension contributions, funding for capital improvement projects for the City's water and sewer systems and airports, debt service payments and increasing Real Property Transfer Tax revenues, which are transferred to the Chicago Transit Authority. The increase in appropriations for General Financing Requirements is also the result of a rise in debt service payments. The General Financing Requirements for FY2016 includes a total of $978.3 million in employee and annuitant pension payments and a total of $1.9 billion for the payment of debt service. It also includes $449 million in employee benefit costs (excluding pension costs) for active employees and annuitants.[62]

Appropriations for Finance and Administration, Legislative and Elections, City Development, Infrastructure Services, and Public Service Enterprises will experience decreases ranging from $10.3 million to $29.1 million. The most significant decrease will occur in Finance and Administration as appropriations will decrease by $29.1 million, or 5.1%, due to a decline in both local funding and grant funding of $14.9 million and $14.2 million, respectively.

Estimated grant fund appropriations will decrease by $85.4 million, 5.4%, from $1.6 billion in FY2015 to $1.5 billion in FY2016. In both years, grants account for the majority of funding for City Development and Community Services.

[62] City of Chicago, FY2016 Budget Overview, p. 127.

City of Chicago All Funds Appropriations by Program Area FY2015 Adopted & FY2016 Proposed (in $ millions)					
	FY2015 Adopted	**FY2015 Proposed Amended**	**FY2016 Proposed**	**Two-Year Adopted $ Change**	**Two-Year Adopted % Change**
Finance and Administration					
Local Fund	$ 531.0	$ 531.0	$ 516.1	$ (14.9)	-2.8%
Grants	$ 43.9	$ 43.8	$ 29.7	$ (14.2)	-32.3%
Subtotal Finance and Administration	**$ 574.9**	**$ 574.8**	**$ 545.8**	**$ (29.1)**	**-5.1%**
Legislative and Elections					
Local Fund	$ 52.5	$ 52.5	$ 42.2	$ (10.3)	-19.6%
Grants	$ -	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 52.5**	**$ 52.5**	**$ 42.2**	**$ (10.3)**	**-19.6%**
City Development					
Local Fund	$ 70.8	$ 70.8	$ 72.1	$ 1.2	1.8%
Grants	$ 115.6	$ 115.7	$ 101.8	$ (13.9)	-12.0%
Subtotal City Development	**$ 186.4**	**$ 186.5**	**$ 173.8**	**$ (12.6)**	**-6.8%**
Community Services					
Local Fund	$ 147.6	$ 147.7	$ 152.7	$ 5.2	3.5%
Grants	$ 415.4	$ 415.4	$ 428.2	$ 12.8	3.1%
Subtotal Community Services	**$ 562.9**	**$ 563.1**	**$ 580.9**	**$ 18.0**	**3.2%**
Public Safety					
Local Fund	$ 2,082.5	$ 2,082.5	$ 2,133.8	$ 51.3	2.5%
Grants	$ 177.8	$ 177.8	$ 178.7	$ 0.9	0.5%
Subtotal Public Safety	**$ 2,260.3**	**$ 2,260.3**	**$ 2,312.5**	**$ 52.1**	**2.3%**
Regulatory					
Local Fund	$ 57.6	$ 57.6	$ 63.0	$ 5.3	9.2%
Grants	$ 11.1	$ 11.1	$ 7.7	$ (3.4)	-30.5%
Subtotal Regulatory	**$ 68.8**	**$ 68.7**	**$ 70.7**	**$ 1.9**	**2.8%**
Infrastructure Services and Public Service Enterprises					
Local Fund	$ 1,104.3	$ 1,104.3	$ 1,128.8	$ 24.5	2.2%
Grants	$ 804.2	$ 804.3	$ 736.6	$ (67.7)	-8.4%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,908.5**	**$ 1,908.6**	**$ 1,865.4**	**$ (43.2)**	**-2.3%**
General Financing Requirements					
Local Fund	$ 3,940.7	$ 4,280.0	$ 4,445.3	$ 504.6	12.8%
Grants	$ -	$ -	$ -	$ -	-
Subtotal General Financing Requirements	**$ 3,940.7**	**$ 4,280.0**	**$ 4,445.3**	**$ 504.6**	**12.8%**
Subtotal All Program Areas	**$ 9,555.1**	**$ 9,894.5**	**$ 10,036.5**	**$ 481.4**	**5.0%**
Less Internal Transfers	$ (552.2)	$ (562.6)	$ (638.8)	$ (86.6)	15.7%
Less Proceeds of Debt	$ (95.3)	$ (95.3)	$ (77.1)	$ 18.2	-19.1%
Less Grant Funds	$ (1,568.1)	$ (1,568.1)	$ (1,482.6)	$ 85.4	-5.4%
All Local Funds Total	**$ 7,339.5**	**$ 7,668.5**	**$ 7,838.0**	**$ 498.5**	**6.8%**

Note 1: FY2016 Recommendations, Summary G consolidates Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation consolidated FY2015 Public Service Enterprises and Infrastructure Services in this chart.
Note 2: Minimal differences may appear in chart due to rounding.
Note 3: For a two-year comparison of the FY2015 proposed amended budget and FY2016 proposed budget, see Appendix A.
Source: City of Chicago, FY2015 Appropriation Ordinance, Summary G; FY2016 Budget Overview, p. 37; and FY2016 Budget Recommendations, Summary G.

Between FY2012 and FY2016, appropriations by program area, including grant funds, will increase overall by $1.4 billion or 16.5%. Grant funding for all program areas will decrease by $439.0 million, or 22.8%, over the five-year span.

Finance and Administration, Legislative and Elections, Public Safety, Regulatory, Infrastructure Services and Public Service Enterprises and General Financing Requirements will experience increases in spending while City Development and Community Services will see appropriations reduced by $201.9 million, or 13.5% to $754.7 million. City Development will see the greatest decline of 49.9% or $172.8 million. The decrease is attributable to a large drop in grant funding from $285.0 million in FY2012 to $101.8 million in FY2016.
In FY2012 and FY2016, grants make up the majority of funding for City Development and Community Services. There were no grant funds for General Financing Requirements and

Legislative and Elections in FY2012 through FY2016; local fund appropriations will increase by $1,359.4 million, or 44.1%, and $1.5 million, or 3.6%, respectively, for these program areas over the five year period.

City of Chicago All Funds Appropriations by Program Area: FY2012 & FY2016 (in $ millions)	FY2012 Adopted	FY2016 Proposed	Five-Year $ Change	Five-Year % Change
Finance and Administration				
Local Fund	$ 463.7	$ 516.1	$ 52.3	11.3%
Grants	$ 56.8	$ 29.7	$ (27.1)	-47.7%
Subtotal Finance and Administration	**$ 520.5**	**$ 545.8**	**$ 25.3**	**4.9%**
Legislative and Elections				
Local Fund	$ 40.7	$ 42.2	$ 1.5	3.6%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 40.7**	**$ 42.2**	**$ 1.5**	**3.6%**
City Development				
Local Fund	$ 61.6	$ 72.1	$ 10.4	16.9%
Grants	$ 285.0	$ 101.8	$ (183.3)	-64.3%
Subtotal City Development	**$ 346.7**	**$ 173.8**	**$ (172.8)**	**-49.9%**
Community Services				
Local Fund	$ 93.3	$ 152.7	$ 59.4	63.7%
Grants	$ 516.6	$ 428.2	$ (88.5)	-17.1%
Subtotal Community Services	**$ 609.9**	**$ 580.9**	**$ (29.0)**	**-4.8%**
Public Safety				
Local Fund	$ 1,901.6	$ 2,133.8	$ 232.2	12.2%
Grants	$ 280.0	$ 178.7	$ (101.3)	-36.2%
Subtotal Public Safety	**$ 2,181.6**	**$ 2,312.5**	**$ 130.9**	**6.0%**
Regulatory				
Local Fund	$ 49.2	$ 63.0	$ 13.8	28.1%
Grants	$ 7.9	$ 7.7	$ (0.2)	-1.9%
Subtotal Regulatory	**$ 57.0**	**$ 70.7**	**$ 13.6**	**23.9%**
Infrastructure Services and Public Service Enterprises				
Local Fund	$ 997.3	$ 1,128.8	$ 131.6	13.2%
Grants	$ 775.3	$ 736.6	$ (38.7)	-5.0%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,772.5**	**$ 1,865.4**	**$ 92.9**	**5.2%**
General Financing Requirements				
Local Fund	$ 3,085.9	$ 4,445.3	$ 1,359.4	44.1%
Grants	$ -	$ -	$ -	
Subtotal General Financing Requirements	**$ 3,085.9**	**$ 4,445.3**	**$ 1,359.4**	**44.1%**
Subtotal All Program Areas	**$ 8,614.9**	**$ 10,036.5**	**$ 1,421.7**	**16.5%**
Less Internal Transfers	$ (330.3)	$ (638.8)	$ (308.5)	93.4%
Less Proceeds of Debt	$ (70.5)	$ (77.1)	$ (6.6)	9.4%
Less Grant Funds	$ (1,921.6)	$ (1,482.6)	$ 439.0	-22.8%
All Local Funds Total	**$ 6,292.4**	**$ 7,838.0**	**$ 1,545.5**	**24.6%**

Note: FY2016 Recommendations, Summary G consolidates Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation consolidated FY2012 Public Service Enterprises and Infrastructure.
Source: City of Chicago, FY2012 Appropriation Ordinance, Summary G and FY2016 Budget Recommendations, Summary G.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources including analyses of the property tax levy, all local funds and Corporate Fund revenue trends. The FY2016 budget proposes an increase in the City's base property tax levy to nearly $1.26 billion. It is important to note that the City is also proposing an amendment to the FY2015 adopted budget which raises the gross levy for tax year 2015. The levy for the FY2015 Budget would increase by $318.2 million, or 36.7%, from $868.2 million to nearly $1.2 billion.

Historically the Civic Federation has provided a two-year and five-year trend analysis comparing the proposed budget and the prior year adopted and actual budgets, when available. However, because the City of Chicago is proposing to adopt an amended FY2015 budget in conjunction with the adoption of the proposed FY2016 budget, the Civic Federation will compare the proposed FY2016 budget with the FY2015 adopted budget in this section of the analysis, but provide a two-year trend analysis comparing the proposed FY2016 budget with the adopted FY2015 budget and proposed FY2015 amended budget in Appendix B.

"All local funds" are the funds used by the City for its non-capital operations, including the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. They exclude grant funds.[63] However, grant funding is anticipated to be $1.48 billion in FY2016 and is included in the proposed budget which brings the total budget to $9.32 billion.[64] The Corporate Fund is the City's general fund for regular governmental operations.

This analysis examines proposed FY2016 revenue estimates, FY2015 approved budget figures, FY2015 proposed amendments and prior year actual revenues.

All Local Funds Trends

The City of Chicago's total resources are projected to increase by 6.5%, or $505.7 million, to over $8.3 billion in FY2016, due primarily to the increase in the property tax levy. However, if the FY2015 budget is amended to increase the property tax levy, total resources will only increase by 2.6%, or $207.4 million from the FY2015 originally adopted budget. The City's resources include estimated revenues across all funds, including $26.0 million in proceeds and transfers-in into the Corporate Fund. Transfers-in are resources such as funds captured from expiring tax increment financing (TIF) districts that are moved from other funds into the Corporate Fund.

The exhibit that follows presents the resources for all local funds by fund. Some of the resource highlights by fund include:

- Tax revenues in the Corporate Fund are expected to increase in FY2016 by 3.0% from the FY2015 originally adopted budget. Since FY2012 these revenues will have increased by $686.2 million or 23.5%. During the same five-year period, non-tax revenues in the

[63] City of Chicago, FY2015 Budget Overview, p. 144.
[64] City of Chicago, FY2016 Budget Overview, p. 21.

Corporate Fund will increase by $221.4 million, or 24.4%, from $907.7 million in FY2012 to a projected $1.1 billion in FY2016. In-depth analysis of the Corporate Fund will be presented later in this section;

- Revenues within the Special Revenue Funds will increase by $18.6 million, or 3.3%, to $582.7 million in FY2016 over the FY2015 adopted budget. The increase is largely driven by the creation of the new Affordable Housing Fund which is estimated to bring in $24.0 million of revenue from the City's density program and the Affordable Requirements ordinance;[65]
- The City is projecting an increase of $99.4 million, or 4.1%, in Enterprise Fund revenues for a total of $2.5 billion in FY2016 from the FY2015 originally adopted budget. Over the five-year period, enterprise revenues increase by $697.9 million, or 37.7%. Water & Sewer revenues are increasing due to water rate increases and Aviation revenues are established at each airport on an ongoing basis;
- Resources allocated for the pension funds will increase by $421.1 million, or 75.6%, from the FY2015 adopted budget to $978.2 million in FY2016. Pension revenues will have increased by $519.2 million, or 113.1%, over the past five years. The increase is due in large part to the required contributions to the Police and Fire Pension funds proposed by the State in SB777.[66] The City is also required to increase its contributions to the Municipal and the Laborers' pension funds as a result of SB1922, which will be addressed by the Illinois Supreme Court later this year;[67]
- For more information on the pension funds, see page 57 of this report;
- The City is projecting to use approximately $775.4 million of its resources toward debt service in FY2016. This represents a $49.5 million, or 6.0%, decrease from the FY2015 approved budget and a $149.1 million, or 23.8%, increase from FY2012; and
- The City is not projecting to use unreserved Corporate Fund fund balance. For more information on the City's fund balance levels, see the Reserve Funds section on page 54.

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[65] City of Chicago, FY2016 Budget Overview, p. 29. For more information, see. http://www.cityofchicago.org/city/en/depts/dcd/supp_info/affordable_housingrequirementsordinance.html.

[66] City of Chicago, FY2016 Budget Overview, p. 31. SB777 would amend the Chicago Police and Chicago Firefighter pension payment requirements. For more information, see http://www.ilga.gov/legislation/BillStatus.asp?DocTypeID=SB&DocNum=777&GAID=13&SessionID=88&LegID=85970.

[67] City of Chicago, FY2016 Budget Overview, p. 31. SB1922 would amend the Chicago Municipal and Chicago Laborers' pension funds. For more information, see http://www.ilga.gov/legislation/BillStatus.asp?DocNum=1922&GAID=12&DocTypeID=SB&SessionID=85&GA=98.

City of Chicago All Local Funds Resources by Fund: FY2012-FY2016 (in $ millions)										
	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2015 Proposed Amended	FY2016 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate Fund										
Tax Revenues	$ 2,012.9	$ 2,101.0	$ 2,178.2	$ 2,355.9	$ 2,355.9	$ 2,477.7	$ 121.8	5.2%	$ 464.8	23.1%
Non-Tax Revenues	$ 907.7	$ 929.4	$ 998.0	$ 1,145.4	$ 1,145.4	$ 1,129.1	$ (16.3)	-1.4%	$ 221.4	24.4%
Total Corporate Fund Revenue	**$ 2,920.6**	**$ 3,030.4**	**$ 3,176.2**	**$ 3,501.3**	**$ 3,501.3**	**$ 3,606.8**	**$ 105.5**	**3.0%**	**$ 686.2**	**23.5%**
Special Revenue Funds										
Vehicle & Motor Fuel Taxes	$ 219.7	$ 230.2	$ 266.8	$ 242.0	$ 242.0	$ 248.0	$ 6.0	2.5%	$ 28.3	12.9%
Library	$ 81.3	$ 83.6	$ 83.6	$ 85.6	$ 85.6	$ 98.7	$ 13.1	15.3%	$ 17.4	21.4%
Emergency Communication	$ 64.2	$ 68.4	$ 74.8	$ 122.9	$ 122.9	$ 96.1	$ (26.8)	-21.8%	$ 31.9	49.7%
Special Events and Hotel Tax	$ 37.2	$ 39.6	$ 39.8	$ 40.1	$ 40.1	$ 42.1	$ 2.0	5.1%	$ 4.9	13.2%
CTA Real Estate Transfer Tax	$ 40.8	$ 56.1	$ 63.1	$ 63.4	$ 63.4	$ 63.3	$ (0.1)	-0.2%	$ 22.5	55.1%
Affordable Housing Fund	$ -	$ -	$ -	$ -	$ -	$ 24.0	N/A	N/A	N/A	N/A
TIF Administration	$ 4.4	$ 5.4	$ 5.9	$ 10.2	$ 10.2	$ 10.5	$ 0.4	3.4%	$ 6.1	138.6%
Total Special Revenue Funds Revenue	**$ 447.6**	**$ 483.3**	**$ 534.0**	**$ 564.1**	**$ 564.1**	**$ 582.7**	**$ 18.6**	**3.3%**	**$ 135.1**	**30.2%**
Enterprise Funds										
Water & Sewer	$ 835.2	$ 894.8	$ 1,007.3	$ 1,150.4	$ 1,150.4	$ 1,149.0	$ (1.4)	-0.1%	$ 313.8	37.6%
Aviation	$ 1,015.7	$ 1,078.4	$ 1,169.0	$ 1,299.0	$ 1,309.4	$ 1,399.8	$ 100.8	7.8%	$ 384.1	37.8%
Total Enterprise Funds Revenue	**$ 1,850.9**	**$ 1,973.2**	**$ 2,176.3**	**$ 2,449.4**	**$ 2,459.8**	**$ 2,548.8**	**$ 99.4**	**4.1%**	**$ 697.9**	**37.7%**
Pension Funds										
Municipal	$ 163.9	$ 151.8	$ 164.3	$ 242.7	$ 242.7	$ 277.7	$ 35.0	14.4%	$ 113.8	69.4%
Laborers'	$ 16.0	$ 13.9	$ 14.8	$ 24.0	$ 24.0	$ 28.5	$ 4.5	18.7%	$ 12.5	78.1%
Police	$ 189.8	$ 196.1	$ 193.8	$ 194.1	$ 420.0	$ 464.0	$ 269.9	139.0%	$ 274.2	144.5%
Fire	$ 89.3	$ 83.1	$ 110.6	$ 96.3	$ 199.0	$ 208.0	$ 111.7	116.0%	$ 118.7	132.9%
Total Pension Funds Revenue	**$ 459.0**	**$ 444.9**	**$ 483.5**	**$ 557.1**	**$ 885.7**	**$ 978.2**	**$ 421.1**	**75.6%**	**$ 519.2**	**113.1%**
Debt Service Funds										
Bond Redemption and Interest	$ 626.3	$ 579.5	$ 791.0	$ 824.9	$ 824.9	$ 775.4	$ (49.5)	-6.0%	$ 149.1	23.8%
Total Debt Service Funds Revenue	**$ 626.3**	**$ 579.5**	**$ 791.0**	**$ 824.9**	**$ 824.9**	**$ 775.4**	**$ (49.5)**	**-6.0%**	**$ 149.1**	**23.8%**
Total Revenues	**$ 6,304.4**	**$ 6,511.3**	**$ 7,161.0**	**$ 7,896.8**	**$ 8,235.8**	**$ 8,491.9**	**$ 595.1**	**7.5%**	**$ 2,187.5**	**34.7%**
Corporate Fund Proceeds & Transfers In	**$ 86.6**	**$ 21.0**	**$ 39.7**	**$ 32.8**	**$ 32.8**	**$ 26.0**	**$ (6.8)**	**-20.8%**	**$ (60.6)**	**-70.0%**
Corporate Fund Prior Year Unrestricted Fund Balance	**$ 72.3**	**$ 77.2**	**$ 33.8**	**$ -**	**$ -**	$ -	**$ -**	**-**	**$ (72.3)**	**N/A**
Other Funds Prior Year Unrestricted Fund Balance	**$ 40.9**	**$ 52.3**	**$ 70.8**	**$ 79.4**	**$ 79.4**	**$ 20.3**	**$ (59.1)**	**-74.4%**	**$ (20.6)**	**-50.4%**
Total Resources	**$ 6,504.2**	**$ 6,661.8**	**$ 7,305.3**	**$ 8,009.0**	**$ 8,348.1**	**$ 8,538.2**	**$ 529.2**	**6.6%**	**$ 2,034.0**	**31.3%**

Note: Minor differences may appear due to rounding.

Sources: City of Chicago FY2015 Budget Ordinance, Summary A and B, pp. 1-2 and FY2016 Budget Overview, pp. 132-139.

Corporate Fund Resources Trends

The Corporate Fund is the City's general operating fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 2.8%, or $98.4 million increase in Corporate Fund resources in FY2016 from the FY2015 adopted budget.

Corporate Fund tax revenues over the two-year period are projected to increase by 5.2% in FY2016, rising $121.8 million to approximately $2.5 billion. The increase is due primarily to a 27.9%, or $52.4 million, increase in transportation taxes due to increases in ground transportation taxes and a 4.6%, or $29.9 million, increase in sales and use taxes due in part to growing consumer confidence and wage increases.[68] Additionally, the City anticipates a 5.6%, or $18.3 million, increase in transaction taxes due to continued growth in the housing and commercial markets and a 6.3%, or $13.0 million, increase in recreation taxes as a result of the proposed elimination of the partial exemption from the amusement tax for cable companies, as well as a proposed elimination of the partial exemption applied to skybox sales at sporting events. Collectively, these four tax sources will generate nearly $1.5 billion in FY2016, an increase of $113.5 million, or 8.3%, from the FY2015 adopted budget. The new e-cigarette tax will fall under the umbrella of the recreation tax and is estimated to generate $1.0 million in new revenue.[69] Business tax revenues are expected to increase in FY2016 and will generate $113.9 million in FY2016, a $3.0 million increase from the FY2015 approved budget. The increase is

[68] City of Chicago, FY2016 Budget Overview, pp. 24-26.
[69] City of Chicago, FY2016 Budget Overview, pp. 25-26.

the result of higher hotel occupancy rates and the capture of revenues from online resellers of hotel rooms.[70]

Non-tax revenues are expected to decrease by $16.6 million, or 1.4%, to $1.1 billion. The majority of this decline is due to a $38.0 million, or 8.19%, loss in reimbursements, interest and other revenue sources, which consist of amounts transferred to the corporate fund for central office services; a $19.0 million, or 5.1%, decrease in fines and forfeitures as a result of lost fines associated with the reduction of automated red light cameras; and a $12.1 million, or 8.8%, decrease in the sale of licenses and permits because of the two-year cycle of business and alcohol dealer licensing.[71]

Over the five-year period beginning in FY2012, all tax and non-tax revenues are expected to increase except for utility tax & franchise fees. The largest dollar increase over the five years occurs with income taxes (including PPRT), which are projected to increase by $152.9 million or 54.1%, primarily due to a change in the way the City budgets PPRT revenue, all of which began to flow into the corporate fund in 2015.[72] This budget reflects an overall improving economy and the City's efforts to eliminate certain tax credits provided to companies purchasing fuel or supplies outside city limits.[73]

The City's Corporate Fund resources include $26.0 million of proceeds and transfers-in, including $15.0 million in interest income from the Skyway long-term reserve fund and $3.0 million in interest income from the parking meter long-term reserve fund.[74]

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[70] City of Chicago, FY2016 Budget Overview, p. 26.
[71] City of Chicago, FY2016 Budget Overview, p. 26-27.
[72] City of Chicago, FY2015 Budget Overview, p. 12.
[73] City of Chicago, FY2016 Budget Overview, p. 12.
[74] City of Chicago, FY2016 Budget Overview, p. 27. These transfers-in come from interest generated on the long-term reserves established with the lease transactions of the parking meters and the Skyway.

City of Chicago Corporate Fund Resources: FY2012-FY2016 (in $ millions)									
Tax Revenue	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Sales & Use Taxes	$ 572.2	$ 583.7	$ 620.3	$ 647.9	$ 677.8	$ 29.9	4.6%	$ 105.6	18.5%
Utility Tax & Franchise Fees	$ 462.5	$ 456.9	$ 473.5	$ 451.8	$ 441.0	$ (10.8)	-2.4%	$ (21.5)	-4.6%
Income Taxes (Incl. PPRT)	$ 282.8	$ 308.9	$ 278.1	$ 420.0	$ 435.7	$ 15.7	3.7%	$ 152.9	54.1%
Transaction Taxes	$ 241.1	$ 288.4	$ 316.2	$ 326.4	$ 344.7	$ 18.3	5.6%	$ 103.6	43.0%
Transportation Taxes	$ 177.9	$ 182.5	$ 185.1	$ 188.0	$ 240.4	$ 52.4	27.9%	$ 62.5	35.1%
Recreation Taxes	$ 163.2	$ 169.1	$ 193.7	$ 205.0	$ 218.0	$ 13.0	6.3%	$ 54.8	33.6%
Business Taxes	$ 108.3	$ 105.7	$ 104.8	$ 110.9	$ 113.9	$ 3.0	2.7%	$ 5.6	5.2%
Other Intergovernmental	$ 5.0	$ 5.9	$ 6.5	$ 5.7	$ 6.2	$ 0.5	8.8%	$ 1.2	24.0%
Total Tax Revenue	**$ 2,013.0**	**$ 2,101.1**	**$ 2,178.2**	**$ 2,355.9**	**$ 2,477.7**	**$ 121.8**	**5.2%**	**$ 464.7**	**23.1%**
Non-Tax Revenue									
Fines & Forfeitures	$ 290.8	$ 313.5	$ 338.3	$ 369.5	$ 350.5	$ (19.0)	-5.1%	$ 59.7	20.5%
Licenses & Permits	$ 117.6	$ 123.6	$ 119.9	$ 136.9	$ 124.8	$ (12.1)	-8.8%	$ 7.2	6.1%
Charges for Services	$ 124.6	$ 119.9	$ 134.6	$ 132.3	$ 175.3	$ 43.0	32.5%	$ 50.7	40.7%
Leases, Rentals & Sales	$ 14.7	$ 19.0	$ 24.1	$ 30.2	$ 36.0	$ 5.8	19.3%	$ 21.3	144.9%
Municipal Parking	$ 8.4	$ 6.4	$ 7.3	$ 6.4	$ 10.1	$ 3.7	57.3%	$ 1.7	20.2%
Reimbursement,Interest,Other	$ 351.6	$ 346.9	$ 373.8	$ 470.4	$ 432.4	$ (38.0)	-8.1%	$ 80.8	23.0%
Total Non-Tax Revenue	**$ 907.7**	**$ 929.3**	**$ 998.0**	**$ 1,145.7**	**$ 1,129.1**	**$ (16.6)**	**-1.4%**	**$ 221.4**	**24.4%**
Prior Year Unrestricted Fund Balance	**$ 72.3**	**$ 77.2**	**$ 33.8**	**$ -**	**$ -**	**$ -**	**N/A**	**$ (72.3)**	**N/A**
Proceeds & Transfers In	**$ 86.6**	**$ 21.0**	**$ 39.7**	**$ 32.8**	**$ 26.0**	**$ (6.8)**	**-20.8%**	**$ (60.6)**	**-70.0%**
Total Corporate Resources	**$ 3,079.6**	**$ 3,128.6**	**$ 3,249.7**	**$ 3,534.4**	**$ 3,632.8**	**$ 98.4**	**2.8%**	**$ 553.2**	**18.0%**

Source: City of Chicago Appropriations Ordinance 2015, pp. 150-156 and FY2016 Budget Overview, pp. 132-133.

Property Tax Levy

In order to better understand the City of Chicago property tax proposals contained in the FY2016 budget, it is necessary to provide a brief description of the levy and billing processes. The following section provides some key terms and explanations about the property tax.

For most taxing districts, the amount of available property tax revenue is an important consideration as they develop their annual budgets. The governing body of a unit of local government typically makes decisions about property taxation during its annual budget process and presents property tax revenues along with other revenue sources in its budget proposal.

The amount of property tax revenue a taxing district requests from taxpayers is the levy. A levy must be filed with the County Clerk by a certain date each year so that the Clerk has sufficient time to calculate tax rates for that tax year, **payable in the following calendar year**. So the property tax levy for the current fiscal year, which is FY2015, is payable in the next year, which is 2016. In order to make the additional $318.2 million in pension payments to the Police and Fire pension funds in that are due in tax year 2015, but payable in 2016, the levy which had previously been approved by the City Council at a lower level has to be amended for FY2015. The chart in the next section highlights the changes from the adopted FY2015 budget property tax levy and the proposed amended FY2015 budget property tax levy. Property taxes increase in the proposed amended FY2015 budget from $868.2 million in the FY2015 adopted budget to $1.26 billion, or 27.6%. If the City Council passes the proposed amendment, the FY2015 property tax levy will actually increase by $326.9 million, or 38.0%, over FY2014. This is in addition to the FY2016, FY2017 and FY2018 levies which will also be considered by the City Council with the FY2016 budget.

Property Tax Revenues

The City of Chicago's proposed FY2016 net property tax levy for City government purposes is nearly $1.26 billion, which is an increase of $427.7 million, or 51.4%, from the adopted FY2015 levy. The *increase* in the levy is solely dedicated to paying Police and Fire pensions. The proposed 2016 levy includes $89.9 million of property taxes levied for the Chicago Public Library, which is a department of city government.[75] However, the chart indicates only $84.7 million, because it does not include the library levy for pensions. A portion, $5.3 million, of the library levy is for pensions, while another 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 taxes. The FY2016 Budget Overview indicates that $390.0 million of the property tax levy will be used for debt service. Taxes levied for FY2016 will not be collected until 2017 and any increase appears on the second installment of tax bills due to be sent in the summer of 2017.

The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Property taxes were previously levied for pensions as a direct result of payroll 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. Amended property taxes levied for FY2015 and for FY2016 for pension contributions are now based on actuarially calculated statutory funding formulas, rather than the previous multiple of employee contributions 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.[76] The following chart exhibits the dollar amounts dedicated to pensions, debt services and libraries.

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008 the levy was increased by 11.7%, or $83.4 million, to $796.9 million.[77] The 2008 levy increase exceeded the City's self-imposed limit on property tax increases by 7.9%. As a home rule unit of government, the City of Chicago is exempt from State legal limits on property tax extension 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.[78] 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 levy remained at $796.9 million from FY2008 to FY2011.

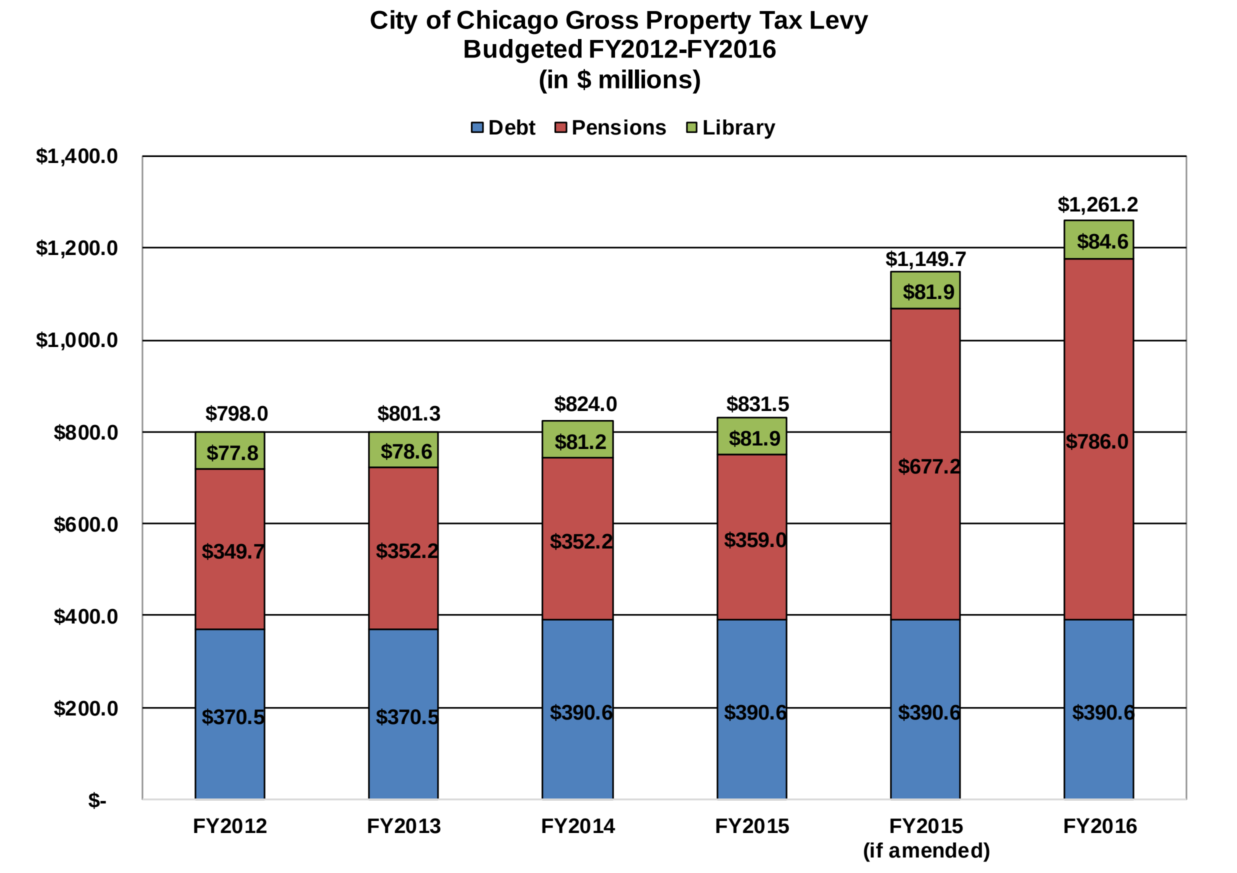
In FY2012 the property tax levy increased to $798.0 million in order to capture revenue from three expiring tax increment financing (TIF) districts.[79] The FY2012 proposed budget noted that going forward, as TIF districts expire, the City intends to shift property taxes from the districts back to the general property tax levy. These additional property tax revenues would be allocated

[75] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[76] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[77] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[78] 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."
[79] Note: This is not a tax increase, but rather a shift in taxes paid from the TIFs to the City.

to the pension fund levies, thus freeing up the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments for general Corporate Fund use.[80] The FY2015 property tax levy increased to $831.5 million, reflecting an increase of $7.5 million captured from expiring and terminated TIF districts.[81]

Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed FY2016 property tax levy for City government purposes, including the library, is $1.26 billion. The graph below indicates only slight increases in the property tax levy over the four-year period between the FY2012 and adopted FY2015 levies. It should be noted that the City will vote to violate its self-imposed property tax cap this year, which would amend the FY2015 budget to raise the property tax levy by $318.2 million and raise the levy in FY2016 by another $111.5 million.



Note: Excludes levy for City Colleges.
Source: FY2012-FY2016 Budget Recommendations, Summary B.

There are three significant additional uses of property tax revenue levied by the City: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools and Tax

[80] Information provided by City of Chicago Office of Budget and Management, November 1, 2011. City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 51.
[81] City of Chicago, 2015 Budget Overview, p. 18.

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.

These three additional property tax uses are described here because it is important for property taxpayers to have an accurate description of the total amount of property taxes they actually pay as well as which governments receive those 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.[82]

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.[83] 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.[84] This arrangement results in no net increase for property taxpayers, 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.

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 to $36.6 million in FY2008.[85] It will remain at $34.6 million for FY2016.

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 largely absent from the budget narrative and budget totals where the City's property tax levy is described.[86] When the FY2016 gross levy of $36.6 million for City Colleges is added it brings the total levy to $1.3 billion, which is the amount reflected in the City's property tax rate.

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[82] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php.
[83] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[84] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[85] 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
[86] The City Colleges levy appears in the City's FY2016 Budget Recommendations book (p. 32) but is absent from the property tax discussion in the FY2016 Budget Overview book (p. 33).

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 approved on October 1, 1997 and has been used to fund and refund several bond issuances.[87] 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 (SFA), 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.[88] The SFA levied its final property tax in tax year 2007, payable in 2008.

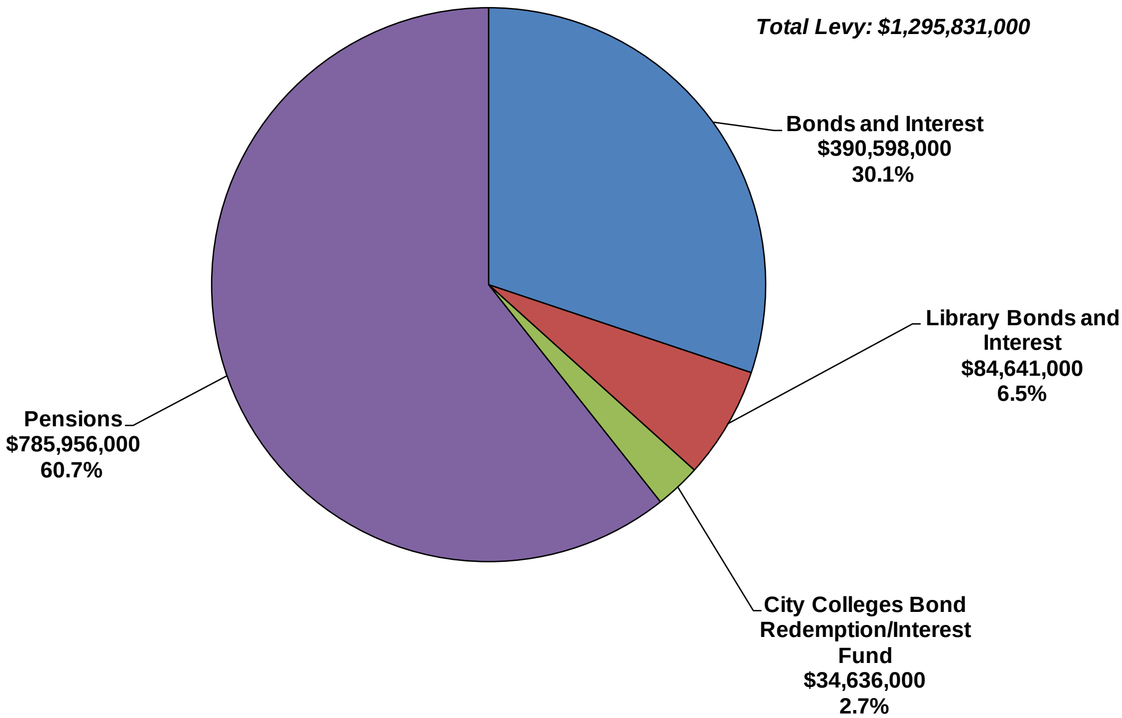
According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million annually through 2018.[89] The intergovernmental agreement is not 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.[90]

The following pie chart illustrates the distribution of the City's gross proposed property tax levy for 2016 (taxes payable in 2017). Approximately 2.7% of the City's proposed FY2016 property tax levy is for City Colleges bonds and 6.5% is for the library. Roughly 60.7% is dedicated to pension payments and 30.1% of the levy is for the debt service on City bonds. The bonds issued

[87] 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.
[88] 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
[89] 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.
[90] City of Chicago, FY2016 Budget Recommendations, pp. 132-138.

per the intergovernmental agreement with the Chicago Public Schools are included in this latter amount but are not itemized. The total City levy is nearly $1.3 billion.

City of Chicago 2016 Gross Property Tax Levy Distribution



Source: City of Chicago FY2016 Budget Recommendations Summary B., p. 2.

Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for tax increment financing (TIF) 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 will be 147 active TIFs in Chicago in FY2016.[91]

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 other extensions to the incremental EAV growth in a TIF district.[92] 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 2014 rates, paid in

[91] City of Chicago, FY2016 Budget Overview, p. 40. The FY2016 Budget Recommendations document contains a summary of TIF expenditures in 2014.

[92] 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-.

2015.[93] The following table exhibits TIF revenues for FY2010-FY2014. For tax year 2014, the City of Chicago will collect $371.8 million in TIF revenue, down 11.9% from the $422.1 million collected in 2013. The decrease in overall TIF revenue comes after the first increase in 2012 followed three years of decline including an 11.0% decrease in 2011 and 2% drop in 2010.

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[94] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[95] On November 8, 2014, Mayor Emanuel issued Executive Order No. 2013-3 establishing a practice of annually identifying and declaring a TIF surplus.[96] Most recently, Mayor Emanuel announced that he would freeze seven downtown TIF districts that would generate nearly $250 million over the next five years.[97]

The following table exhibits the gross property tax levy and TIF revenue for FY2010-FY2014, for which the most recent data is available. 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 2014 property tax revenues totaled $1.2 billion. This was a decline of $112.2 million from FY2010.

City of Chicago FY2010-2014 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2010	FY2011	FY2012	FY2013	FY2014
City Government Funds	$ 796,862	$ 796,862	$ 797,972	$ 801,272	$ 824,039
City Colleges Bond Redemption/Interest Fund	$ 36,632	$ 36,637	$ 36,632	$ 36,632	$ 35,470
TIF Property Tax Revenues	$ 509,971	$ 453,672	$ 457,007	$ 422,065	$ 371,791
GRAND TOTAL	**$ 1,343,465**	**$ 1,287,171**	**$ 1,291,611**	**$ 1,259,969**	**$ 1,231,300**

Source: City of Chicago, FY2010-FY2014 Appropriations Ordinance, Summary B and Cook County Clerk TIF Reports 2010-2014.

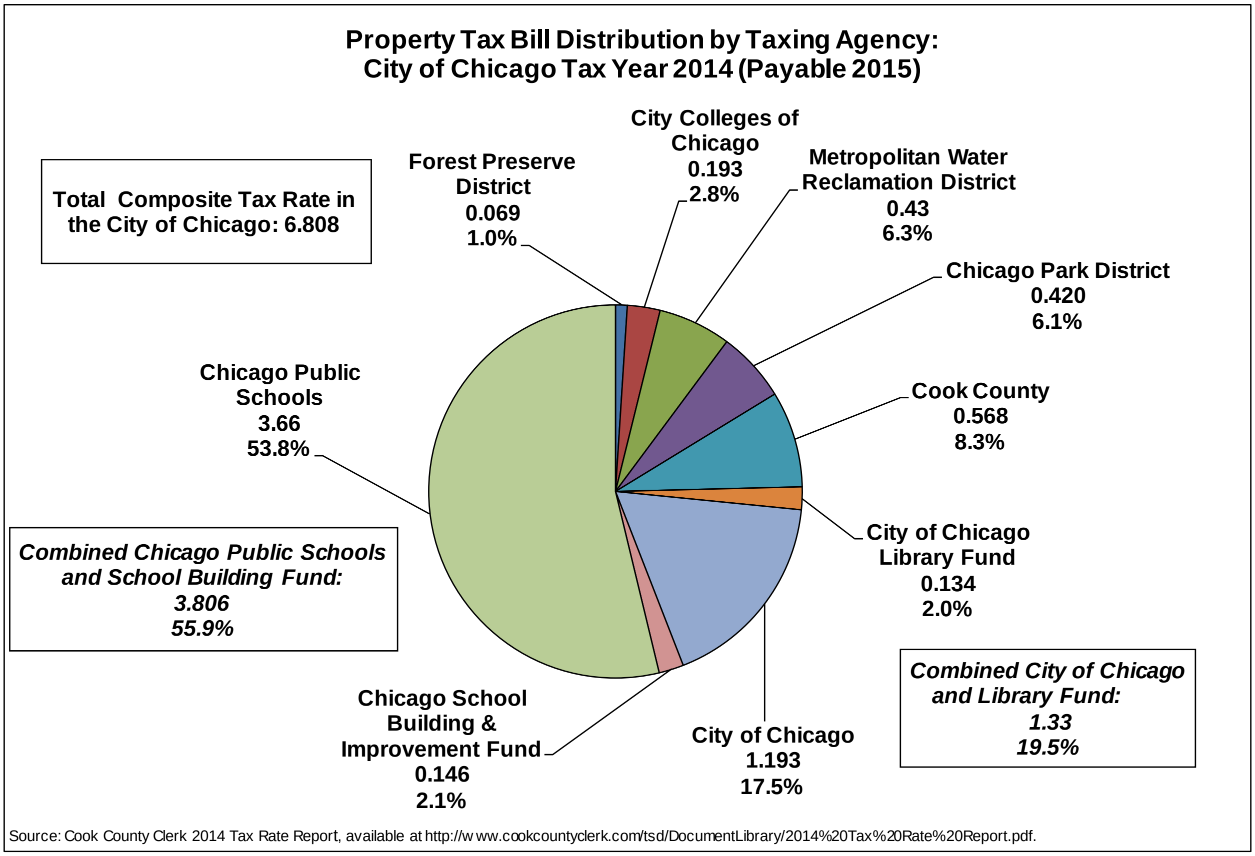
Transparency and Accountability Issues

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 information showing the distribution

93 Available on the Cook County Clerk's website at www.cookcountyclerk.com.
94 See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
95 City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.
96 City of Chicago, Office of the Mayor, October 13, 2013, available at http://docs.chicityclerk.com/exec/MayorEmanuel/20131108-executive-order-2013-3-tif-surplus-funds.pdf.
97 Fran Spielman, "Chicago to get $250 million as Emanuel winds down 7 downtown TIF districts." http://chicago.suntimes.com/news/7/71/765492/chicago-get-250-million-emanuel-winds-7-downtown-tif-districts.

of the City of Chicago tax bill among the different governments.[98] The 2014 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 19.5% of a typical City property tax bill is for the City of Chicago, including the library, and 55.9% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, 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. The following chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



There has been a discrepancy in some years 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 tables below show the City's 2010-2014 gross property tax levies as reported by the Cook County Clerk and by the City Budget Appropriation Ordinances from 2014-2014. Some of the differences 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. Property taxpayers collectively owe the full amount as reported by the Cook County Clerk, not the amount reported by the City, and the final City tax rate is calculated based on the total levy reported by the Clerk.

[98] Cook County Clerk 2014 Tax Rate Report, p. v., available at http://www.cookcountyclerk.com/tsd/DocumentLibrary/2014%20Tax%20Rate%20Report.pdf.

Fund #	Fund Name	2010	2011	2012	2013	2014
City of Chicago Gross Property Tax Levy: Tax Year 2009-2013 As Reported in the Cook County Clerk Agency Tax Rate Reports						
3	Bonds & Interest	$ 405,045,033	$ 407,105,446	$ 407,116,767	$ 407,115,466	$ 407,115,368
120	Police Pension	$ 140,165,000	$ 143,785,000	$ 143,865,000	$ 138,146,000	$ 136,680,000
121	Fire Pension	$ 64,323,000	$ 66,125,000	$ 65,461,000	$ 81,518,000	$ 81,363,000
122	Municipal Pension	$ 126,831,000	$ 121,297,000	$ 123,438,000	$ 116,766,000	$ 117,939,000
125	Laborers Pension	$ 13,714,000	$ 11,759,000	$ 11,202,000	$ 10,486,000	$ 10,934,000
	Subtotal City	**$ 750,078,033**	**$ 750,071,446**	**$ 751,082,767**	**$ 754,031,466**	**$ 754,031,368**
3	Bonds & Interest	$ 4,338,906	$ 4,339,922	$ 4,340,234	$ 4,341,536	$ 4,343,529
128	Library Municipal Pension	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,300,000	$ 5,300,000
259	Library Note Redemption	$ 73,377,000	$ 73,377,000	$ 73,481,000	$ 74,231,000	$ 76,948,000
	Subtotal Library	**$ 83,415,906**	**$ 83,416,922**	**$ 83,521,234**	**$ 83,872,536**	**$ 86,591,529**
	GRAND TOTAL City + Library	**$ 833,493,939**	**$ 833,488,368**	**$ 834,604,001**	**$ 837,904,002**	**$ 840,622,897**

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, available at http://www.cookcountyclerk.com/tsd/taxagencyreports/pages/default.aspx.

Fund #	Fund Name	2010	2011	2012	2013	2014
City of Chicago Gross Property Tax Levy: Tax Year 2010-2014 As Reported in the City of Chicago Appropriation Ordinances						
509	Note Redemption and Interest Fund	$ -	$ -	$ -	$ -	$ 20,113,000
510	Bond Redemption and Interest Fund	$ 368,419,000	$ 370,485,000	$ 370,485,000	$ 370,485,000	$ 370,485,000
512	Note Redemption and Interest Fund	$ -	$ -	$ -	$ -	$ -
516	Library Bond Redemption Fund	$ 4,333,000	$ 4,334,000	$ 4,340,000	$ 4,340,000	$ 4,277,000
521	Library Note Redemption and Interest Fund	$ 73,377,000	$ 73,377,000	$ 73,481,000	$ 74,231,000	$ 76,948,000
681	Municipal Pension	$ 132,531,000	$ 126,997,000	$ 129,138,000	$ 122,066,000	$ 123,239,000
682	Laborers' Pension	$ 13,714,000	$ 11,759,000	$ 11,202,000	$ 10,486,000	$ 10,934,000
683	Police Pension	$ 140,165,000	$ 143,785,000	$ 143,865,000	$ 138,146,000	$ 136,680,000
684	Fire Pension	$ 64,323,000	$ 66,125,000	$ 65,461,000	$ 81,518,000	$ 81,363,000
	Subtotal City Government Funds	**$ 796,862,000**	**$ 796,862,000**	**$ 797,972,000**	**$ 801,272,000**	**$ 824,039,000**
549	City Colleges Bond Redemption/Interest Fund	$ 36,632,000	$ 36,637,000	$ 36,632,000	$ 36,632,000	$ 35,470,000
	GRAND TOTAL	**$ 833,494,000**	**$ 833,499,000**	**$ 834,604,000**	**$ 837,904,000**	**$ 859,509,000**

Source: City of Chicago, FY2010-FY2014 Appropriations Ordinances, Summary B. The levy for Special Service Area #1 is excluded.

PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, a full-time equivalent (FTE) position count and Corporate Fund personnel service appropriations. The FY2016 Budget Recommendations, which will be voted on by the City Council to become the FY2016 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted FTE positions and include personnel related expenses such as pension and health care costs.[99] The actual number of full-time equivalent positions is not available; therefore, for the purposes of this analysis, the Civic Federation presents *budgeted* FTE positions from the FY2012 through FY2015 appropriation ordinances and FY2016 proposed budget.

All Local Funds Personnel Services and Full-Time Equivalent Positions

The personnel summaries in the City of Chicago FY2016 Budget Overview book describe personnel for all local funds, which include the Corporate Fund, special revenue funds and enterprise funds, but exclude grant funds. The City proposes to increase its workforce from 32,635 FTEs in FY2015 to 33,066 FTEs in FY2016 across all local funds. This is an increase of 431 FTEs or 1.3%.

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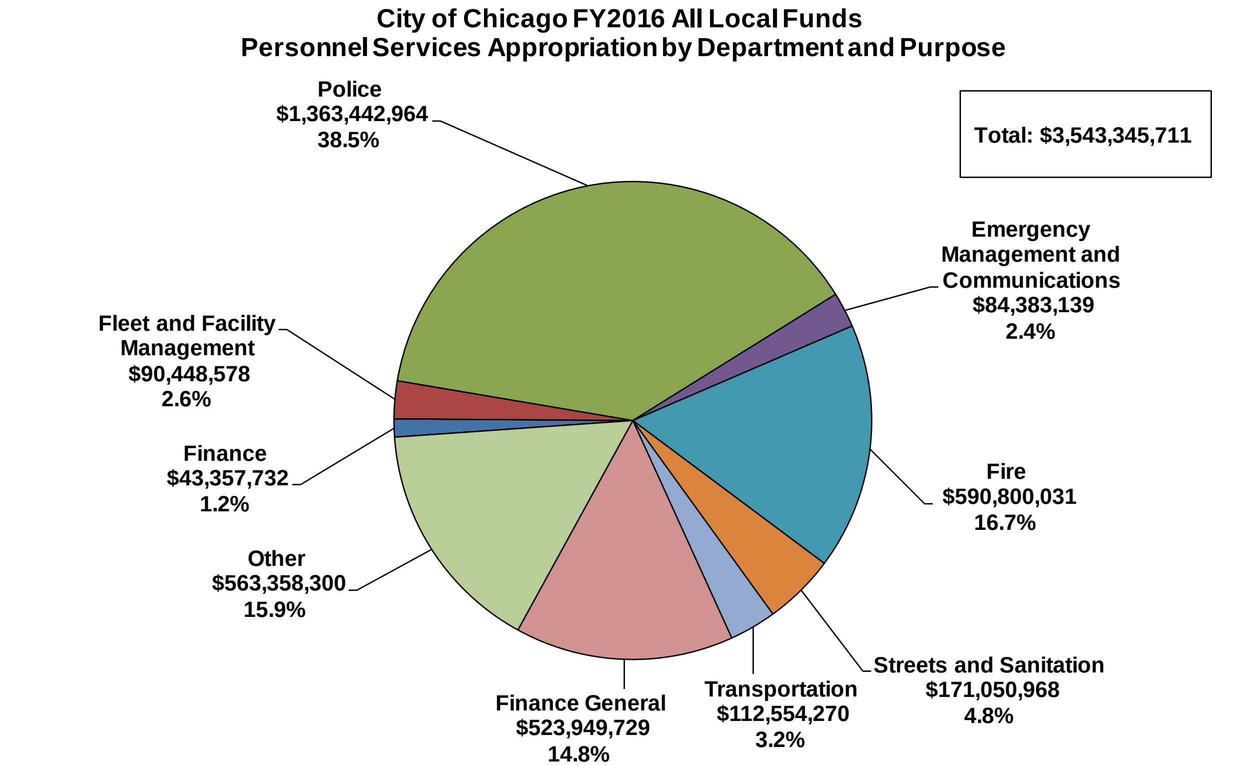
[99] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position.

The City of Chicago proposes to appropriate just over $3.5 billion for personnel services across all local funds in FY2016. Approximately $2.0 billion, or 57.5%, of all local funds personnel services appropriations will be allocated to public safety.[100] This appropriation is a slight increase from FY2015 approved appropriations when public safety represented 57.3% of all local funds personnel services expenses. The next largest percentage is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee health care for employees across all departments. Finance General represents 14.8%, or approximately $524 million, of all local funds for FY2016. The following chart illustrates the City's personnel services appropriation for all local funds by department.

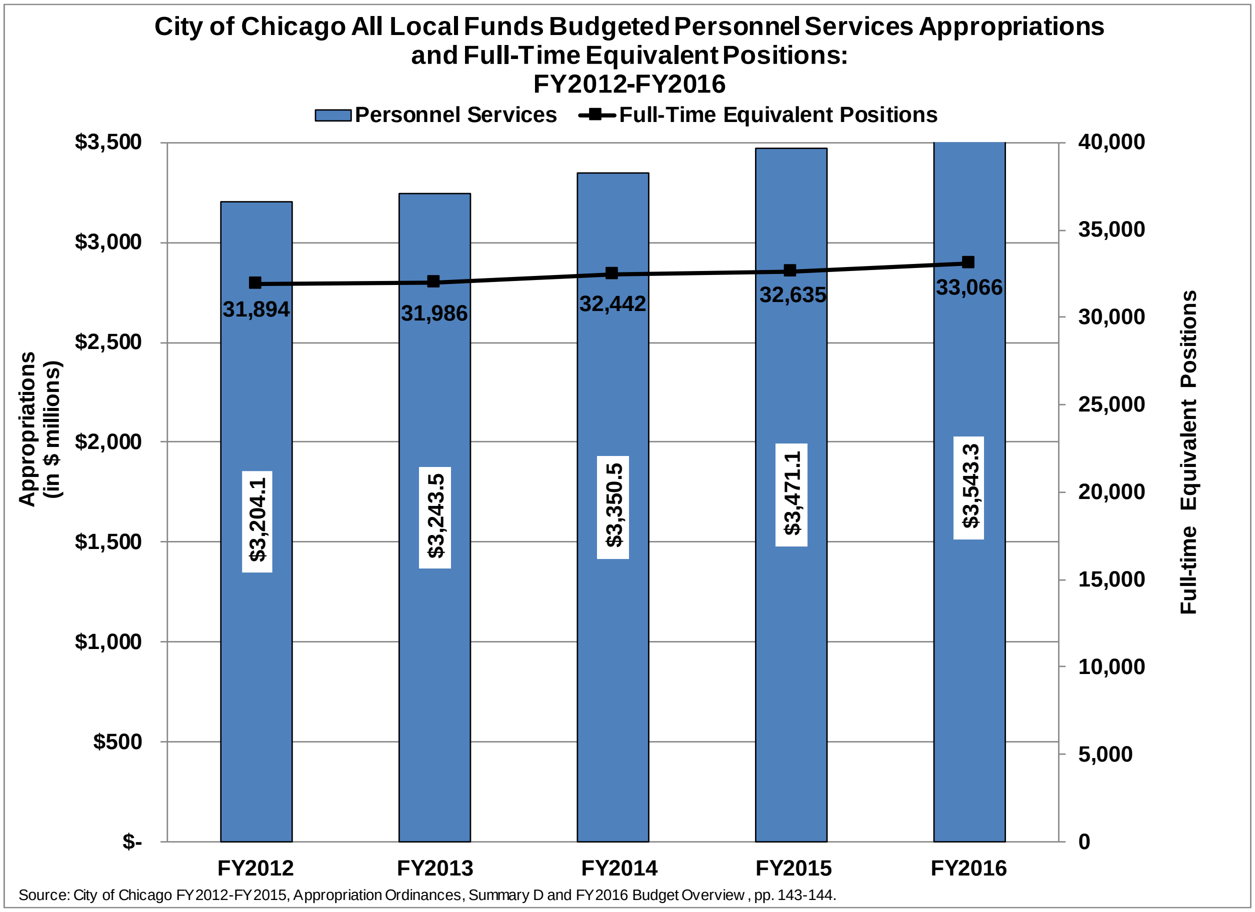


Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
Source: City of Chicago, FY2016 Budget Recommendations, Summary D.

The following chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2012 and FY2016, local fund budgeted appropriations for personnel services, which include salaries, health care, overtime pay, workers' compensation, pension payments and other benefits, increased by $339.3 million, or 10.6%, from $3.2 billion to $3.5 billion. Personnel services appropriations will increase in FY2016 from FY2015 budgeted appropriations by $72.2 million, or 2.1%. The growth in personnel appropriations over the five-year period from FY2012 to FY2016 is attributable to increases in salaries and wages under collective bargaining agreements as unions represent most of the City's public safety and civilian

[100] Public Safety includes the Police Board, Independent Police Review Authority, Police Department, Office of Emergency Management & Communication and Fire Department.

employees.[101] In contrast to previous years, costs for employee benefits across all funds are down slightly, as changes to retiree health care and the structure of the City's HMO offset health care inflation.[102]



Budgeted FTE position count will rise from 32,635 FTEs in FY2015 to 33,066 FTEs in FY2016 across all local funds. This is a net increase of 431 FTE positions or 1.3%. Most departments will stay relatively flat in terms of FTEs. Public Safety will see the greatest increase in FTEs, growing from 20,455 FTEs in FY2015 to 20,730 FTEs in FY2016, an increase of 275 FTEs or 1.3%. Infrastructure Services will see the next largest increase in FTEs, rising by 58 FTEs, increasing from 3,588 FTEs in FY2015 to 3,646 FTEs in FY2016.

The following table shows the City's FTE counts for all local funds by function. In the five-year period from FY2012 to FY2016, the City proposes to increase its budgeted workforce by 1,172 FTEs, or 3.7%, from 31,894 FTEs in FY2012 to 33,066 FTEs proposed in FY2016. Over the same period, the most significant increase in personnel count occurred in the infrastructure services departments increasing from 3,232 FTEs in FY2012 to 3,646 FTEs proposed for FY2016. The next largest increase in FTEs will occur in the public safety departments, which will see an increase of 376 FTEs primarily attributable to the FY2016 budget initiative placing

[101] City of Chicago, FY2016 Budget Overview, p. 35.
[102] City of Chicago, FY2016 Budget Overview, p. 35.

300 police officers that are currently performing administrative duties back to patrolling Chicago neighborhoods.[103]

City of Chicago All Local Funds Budgeted Full-Time Equivalent Positions by Function: FY2012-FY2016									
Function	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,623	2,589	2,647	2,673	2,722	49	1.8%	99	3.8%
Legislative and Elections	360	355	358	358	357	-1	-0.3%	-3	-0.8%
City Development	235	245	246	248	247	-1	-0.4%	12	5.1%
Community Services	1,029	1,023	1,054	1,112	1,124	12	1.1%	95	9.2%
Public Safety	20,354	20,396	20,429	20,455	20,730	275	1.3%	376	1.8%
Regulatory	539	566	564	566	569	3	0.5%	30	5.6%
Infrastructure Services	3,232	3,283	3,465	3,588	3,646	58	1.6%	414	12.8%
Public Service Enterprise	3,522	3,529	3,679	3,635	3,671	36	1.0%	149	4.2%
Total	**31,894**	**31,986**	**32,442**	**32,635**	**33,066**	**431**	**1.3%**	**1,172**	**3.7%**

Note: The full-time positions presented above do not include grant-funded positions.
Source: City of Chicago, FY2016 Budget Overview, pp. 143-144.

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $48.8 million, or 1.8%, from $2.58 billion in the adopted FY2015 budget to $2.82 billion in FY2016. The FY2016 appropriation represents 77.7% of the Corporate Fund budget of over $3.6 billion. Personnel service appropriations by department include salaries and wages. However, personnel benefits such as health care, overtime pay, workers' compensation, unemployment compensation and pension contributions are appropriated in the Finance General area.[104]

Personnel spending in the All Other category will decrease by $1.1 million, or 0.8%, over the two-year period. Finance General will see the largest two-year decline, decreasing 1.7% or $7.0 million from FY2015 budgeted levels. The most significant two-year increase in terms of dollars in personnel services will occur in the public safety departments. Personnel spending in the Streets and Sanitation Department will see a $5.1 million, or 3.7% increase, over the two-year period. The majority of the remaining departments will each increase only slightly, rising by less than $2.0 million.

Between FY2012 and FY2016, personnel services appropriations in the Corporate Fund will increase by $241.7 million or 9.4%. During the five-year period, personnel services appropriations for public safety departments will increase by $219.5 million or 12.5%. This increase in public safety personnel expenditures is tied to salary increases under collective bargaining agreements reached during the course of 2014 with unions representing most of the City's public safety and civilian employees, which are reflected in the proposed FY2016 budget.[105] Personnel services appropriations will decrease 6.1%, or $26.6 million for Finance General expenses, declining from $433.7 million in FY2012 to $407.7 million in FY2016. The remaining departments will see increases ranging from $0.8 million to $16.7 million, over the five-year period.

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[103] City of Chicago, FY2016 Budget Overview, p. 36.
[104] City of Chicago, FY2016 Budget Overview, p. 56.
[105] City of Chicago, FY2016 Budget Overview, p. 35.

The percentage of Corporate Fund appropriations earmarked for personnel services will decrease from 83.4% in FY2012 to 77.7% in FY2016.

City of Chicago Corporate Fund Personnel Services: FY2012-FY2016 (in $ millions)

Department	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 1,925.3	$ 1,970.2	$ 44.9	2.3%	$ 219.5	12.5%
Streets and Sanitation	$ 127.8	$ 141.2	$ 139.8	$ 139.4	$ 144.5	$ 5.1	3.7%	$ 16.7	13.1%
Fleet and Facility Management	$ 62.1	$ 67.2	$ 65.9	$ 67.9	$ 69.8	$ 1.9	2.8%	$ 7.8	12.5%
Transportation	$ 31.8	$ 30.8	$ 31.4	$ 33.4	$ 35.2	$ 1.9	5.6%	$ 3.4	10.7%
City Council	$ 19.7	$ 19.7	$ 19.9	$ 20.0	$ 20.5	$ 0.5	2.6%	$ 0.8	4.1%
Finance	$ 30.4	$ 32.9	$ 33.7	$ 34.7	$ 36.7	$ 2.1	5.9%	$ 6.3	20.8%
Office of the Mayor	$ 5.1	$ 5.4	$ 5.5	$ 5.6	$ 6.0	$ 0.4	7.5%	$ 0.8	16.0%
Finance General	$ 433.7	$ 419.7	$ 438.0	$ 414.0	$ 407.1	$ (7.0)	-1.7%	$ (26.6)	-6.1%
All Other	$ 120.3	$ 117.8	$ 120.9	$ 134.5	$ 133.4	$ (1.1)	-0.8%	$ 13.0	10.8%
Total Personnel Services	**$ 2,581.7**	**$ 2,612.2**	**$ 2,680.7**	**$ 2,774.7**	**$ 2,823.4**	**$ 48.8**	**1.8%**	**$ 241.7**	**9.4%**
Total Corporate Fund	**$ 3,095.7**	**$ 3,158.6**	**$ 3,290.2**	**$ 3,534.4**	**$ 3,632.8**	**$ 98.4**	**2.8%**	**$ 537.1**	**17.4%**

*Public Safety includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

Source: City of Chicago, FY2012-FY2015 Appropriation Ordinances, Summary D and FY2016 Budget Recommendations, Summary D.

The following chart displays Corporate Fund appropriations by object classification and separates out public safety appropriations from non-public safety appropriations. Between the FY2015 adopted budget and FY2016 proposed budget, public safety appropriations will increase by $47.7 million, or 2.4%, while appropriations for non-public safety departments will increase by $50.6 million or 3.3%. In the two-year period, Personnel Services appropriations for public safety and non-public safety will increase by $44.9 million, or 2.3% and $3.9, or 0.5%, respectively. Specific Items and Contingencies, which include personnel-related legal and medical expenses, will remain flat for public safety departments, while non-public safety departments will see an increase of $38.0, or 23.7%. Appropriations for Contractual Services will increase by $3.5 million, or 12.0% for public safety departments, In contrast, appropriations for Contractual Services in non-public safety departments will decrease by $7.6 million, or 2.6%. Appropriations for Travel, Commodities and Equipment will decrease for public safety departments by 7.6%, or $0.7 million, but will increase for non-public safety departments by 23.4% or $16.4 million.

Over the five-year period between FY2012 and FY2016, Personnel Services appropriations will increase for all public safety departments by $219.5 million, or 12.5%. Personnel Services appropriations for non-public safety departments will increase $22.2 million or 2.7%. In public safety departments, spending for Contractual Services and Travel, Commodities and Equipment will decline over the five-year period by $3.0 million and $0.2 million, respectively. Appropriations for Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both public safety and non-public safety departments, the latter of which will see a $219.7 million or 157.1% increase.

City of Chicago Corporate Fund Appropriations by Object: FY2012-FY2016 (in $ millions)									
Object Classification	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*									
Personnel Services	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 1,925.3	$ 1,970.2	$ 44.9	2.3%	$ 219.5	12.5%
Contractual Services	$ 36.0	$ 29.9	$ 30.5	$ 29.5	$ 33.1	$ 3.5	12.0%	$ (3.0)	-8.2%
Travel, Commodities and Equipment	$ 8.6	$ 7.9	$ 8.18	$ 9.09	$ 8.40	$ (0.7)	-7.6%	$ (0.2)	-2.5%
Specific Items and Contingencies**	$ 48.7	$ 47.0	$ 52.0	$ 52.7	$ 52.7	$ -	0.0%	$ 4.0	8.2%
Sub-Total Public Safety	**$ 1,844.1**	**$ 1,862.3**	**$ 1,916.2**	**$ 2,016.6**	**$ 2,064.4**	**$ 47.7**	**2.4%**	**$ 220.3**	**11.9%**
Non-Public Safety									
Personnel Services	$ 831.0	$ 903.2	$ 855.09	$ 849.37	$ 853.24	$ 3.9	0.5%	$ 22.2	2.7%
Contractual Services	$ 230.3	$ 289.4	$ 288.78	$ 288.56	$ 280.96	$ (7.6)	-2.6%	$ 50.6	22.0%
Travel, Commodities and Equipment	$ 50.4	$ 70.2	$ 69.91	$ 58.34	$ 74.70	$ 16.4	23.4%	$ 24.3	48.2%
Specific Items and Contingencies**	$ 139.8	$ 165.2	$ 160.25	$ 321.51	$ 359.53	$ 38.0	23.7%	$ 219.7	157.1%
Sub-Total Non-Public Safety	**$ 1,251.6**	**$ 1,428.0**	**$ 1,374.0**	**$ 1,517.8**	**$ 1,568.4**	**$ 50.6**	**3.3%**	**$ 316.9**	**25.3%**
Total Corporate Fund	**$ 3,095.7**	**$ 3,290.3**	**$ 3,290.2**	**$ 3,534.4**	**$ 3,632.8**	**$ 98.4**	**2.8%**	**$ 537.2**	**17.4%**

*Includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

**Includes payments for tort and non-tort judments, outside counsel expenses and expert costs, as approved by the Corporation Counsel; for cost and administration of hospital and medical expenses for employees injured on duty who are not covered under Workers Compensation Act; and for physical exams.

Source: City of Chicago, Appropriation Ordinances, FY2012-FY2015, Summary D and FY2016 Budget Recommendations, Summary D.

RESERVE FUNDS

Reserve funds or fund balance, are terms commonly used to describe the net assets of a governmental fund.[106] Fund balance is an important financial indicator for local governments and serves as a measure of financial resources. It represents the difference between the assets and liabilities in a governmental fund. Fund balance is more a measure of liquidity than of net worth and can be thought of as the savings account of the local government.[107] It should be noted that the City does have Skyway funds dedicated to its operating budget, but those funds are not reserves.

This section discusses four aspects of the City's reserve funds: recent changes to fund balance reporting, fund balance policy and definitions, a presentation of historical audited fund balance data and a presentation of the City's long-term asset lease reserves.

Recent Changes to Fund Balance Reporting

Starting with the FY2011 audited financial statements for the City of Chicago, a modification in fund balance reporting was implemented, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[108]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on

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106 Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
107 Stephen J. Gauthier, *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.
108 Stephen J., Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.

the use of the fund balance by the government itself for planning purposes or to earmark funds.[109]

Current Components of Fund Balance

GASB Statement No. 54 creates five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[110]

Historically, the focus of the Civic Federation fund balance analysis has been on the unreserved general fund balance, or in other words, how much is left in the savings account, not how much is being withdrawn. Given the new components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government's unrestricted fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are synonymous.[111]

A ten-year trend analysis of the City's fund balance ratio including the most recent FY2014 numbers is not possible because the data has been classified differently with implementation of GASB No. 54. In the interest of government transparency, the Civic Federation recommends that all local governments, if possible, provide ten years of fiscal data in the GASB No. 54 format in the statistical section of their audited financial statements. Each government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

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[109] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[110] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[111] Gauthier, Stephen J., *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

Fund Balance Policy

On October 22, 2013, Mayor Emanuel signed an executive order that provides a mechanism to build the City's unrestricted Corporate Fund reserves.[112] For every budget, the order instructs the City's Budget Director to identify the amount of the previous year's Corporate Fund fund balance, and then calls for the transfer of at least 10% of that balance into the City's Corporate Fund reserves for unanticipated future needs.

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%.[113] 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 may be appropriate for the largest governments.[114]

The City's FY2014 unrestricted Corporate Fund fund balance is $116.8 million, or 3.6% of its operating expenditures. To meet the GFOA standard of two months of operating expenditures, the City would need approximately $538.5 million. As noted above, according to the GFOA a large government with a diverse revenue base and home-rule authority may effectively maintain a smaller ratio.

Audited Fund Balance

The exhibit below shows ten years of the unreserved City's Corporate Fund fund balance and its ratio to general fund expenditures.

Between FY2001 and FY2010, the City of Chicago Corporate Fund unreserved fund balance fluctuated between a high of $81.2 million in FY2010 and a low of just $226,000 in FY2008. The fund balance ratios for these years were 2.67% and 0.01%, respectively.

[112] Executive Order No. 2013-2 (Rainy Day Fund).
[113] Previously, the GFOA had recommended a general fund balance of 5 to 15%.
[114] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

City of Chicago Unreserved Corporate Fund Fund Balance Ratio: FY2001-FY2010			
	Unreserved Corporate Fund Balance	Operating Expenditures	Ratio
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%
FY2010	$ 81,151,000	$ 3,033,941,000	2.67%

Source: City of Chicago, Comprehensive Annual Financial Reports, FY2001-FY2010.

The following chart presents unrestricted fund balance between FY2011 and FY2014. In this exhibit, the City's net resources including self-imposed constraints amount to $116.8 million, or 3.6% of Corporate Fund expenditures in FY2014. These resources include an assigned portion of $65.2 million and an unassigned portion of fund balance of $51.6 million. The unassigned portion is made up of the City's net resources without constraints, self or externally imposed, and represents 1.6% of Corporate Fund expenditures.[115]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2014			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%
FY2013	$ 142,269,000	$ 3,109,074,000	4.6%
FY2014	$ 116,780,000	$ 3,231,258,000	3.6%

Source: City of Chicago, Comprehensive Annual Reports, FY2011-FY2014

PENSION FUNDS

The Civic Federation analyzed four indicators of the fiscal health of the City of Chicago's pension funds: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the City's pension benefits.

[115] City of Chicago, FY2014 Comprehensive Annual Financial Report, pp. 34 and 36.

Plan Descriptions

The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborers' Funds. Each plan is a single-employer defined benefit pension plan for a specific group of City employees. The provisions of the plans can be amended only by the Illinois General Assembly.

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[116] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

The Policemen's Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for police service employees of the City of Chicago and their dependents.[117] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[118] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[119] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

Pension Benefits

The following section describes the pension benefits provided by each of the City's four funds and describes recent changes to those benefits enacted in 2010 and 2014 and subsequent litigation.

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[116] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2014, p. 9.

[117] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2014, p. 5.

[118] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2014, p. 31. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.

[119] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2014, p. 7.

Municipal and Laborers' Funds

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Chicago Municipal and Laborers' pension funds.[120] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 hires" as those persons hired on or after January 1, 2011.

Tier 1 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 63 year-old employee in the Municipal Fund with 23 years of service and a $53,000 final average salary could retire with a $29,256 annuity: 23 x $53,000 x 2.4% = $29,256.[121] The annuity increases according to the provisions of Public Act 98-0641, described below, unless the law is struck down by the Illinois Supreme Court. 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 Tier 1 employee benefits to Tier 2 employee 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 four year average to the highest eight year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

[120] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

[121] The average FY2014 benefit at retirement for Municipal Fund participants was $29,775; the average age at retirement was 62.5 and the average years of service at retirement was 23.35. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2014, p. 54. The average FY2014 benefit at retirement for the Laborers' Fund participants was $47,940; the average age at retirement was 60.5 and the average years of service at retirement was 27.89. Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2014, p. 50.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (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 Reduction	0.25% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Annuity Automatic Increase 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").

Source: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2014; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2014; and Public Act 96-0889.

Public Act 98-0641

Public Act 98-0641, signed into law on June 9, 2014, makes changes to pension benefit levels for current retirees and employee members of two of the City of Chicago's four pension funds, the Municipal and Laborers' Funds. Its provisions were allowed to go into effect January 1, 2015, even though litigation was filed against the legislation in Cook County Circuit Court at the end of December 2014. On July 24, 2015, Cook County Circuit Court Judge Rita Novak ruled the reforms violated the Illinois Constitution's protection of public pension benefits from being diminished or impaired. Judge Novak based her opinion on the Illinois Supreme Court's decision on May 8, 2015[122] that a 2013 pension reform law for four of the five State of Illinois pension funds was unconstitutional. The court ordered that the plaintiffs are entitled to, "recoup the benefits that would have been paid since January 1, 2015 but for Public Act 98-641."[123] The Municipal and Laborers' funds refunded the increased contributions from active employees that began January 1, 2015 to the City of Chicago and the City disbursed the refunds to the active employee members of the funds.[124] The active employees' ongoing contributions as a percentage of their salaries have been reduced to the levels in place prior to the implementation of P.A. 98-0641.

According to communications from the Municipal and Laborers' Funds to their members, both funds were expected to make a one-time payment to all retirees to restore the 3% compounded

[122] *IN RE PENSION REFORM LITIGATION*, No. 118585 (Ill. May 8, 2015).
[123] *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago* and *Johnson v. Municipal Employees' Annuity and Benefit Fund of Chicago and Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago*, Nos. 14 CH 20027 and 14 CH 20668 (Cook County Cir. Ct. 2015). Decision available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.
[124] Communication with the City of Chicago Office of Budget and Management, October 5, 2015.

automatic annual increase to their annuities that was reduced to 0.85% simple interest by the provisions of P.A. 98-0641. Going forward, retirees' monthly checks will include the 3% compounded automatic annual increase.[125]

The City of Chicago appealed the Cook County Circuit Court's ruling to the Illinois Supreme Court and oral arguments in the case are set for November 2015, with a decision on the constitutionality of the reforms expected by the end of 2015.[126] The actuaries for the Municipal and Laborers' Funds issued their analyses of the FY2014 performance of the funds before the court's ruling and the valuations therefore reflect the impact of the provisions of the legislation in reducing the unfunded liabilities of the Funds and increasing their funded ratios. The higher employer contributions to the funds, as described below, are being held in escrow pending the Illinois Supreme Court's ruling.[127]

The Municipal Fund was projected to run out of money within 10 to 15 years and the Laborers' Fund in 15 to 20 years if P.A. 98-0641 had not passed the General Assembly. The major provisions of the law include increases to the employer contribution and employee contribution and changes to the automatic annual increase for current retirees and Tier I employees. The plan is projected to increase the funded level of both funds to 90% by the end of 2055.

Major Provisions of Public Act 98-0641

Before P.A. 98-0641 went into effect, employer contributions for the Municipal and Laborers' funds were set at 1.25 and 1.0 times employee contributions two years prior, respectively. These multiples have not been sufficient for the actuarial needs of either fund since FY2003 for the Municipal Fund and since FY2004 for the Laborers' Fund. The employer contribution shortfalls have contributed significantly to the fall in each fund's funded ratio over the past 10 years.

Under the provisions of the new law, the multiples contributed by the City for each fund increase gradually over five years starting in 2016 (tax year 2015) until in 2021 the city will begin to annually contribute an amount that will increase funding to 90% by the end of 2055. If the City fails to make the required contributions, the Illinois Comptroller will withhold State fund transfers to the City. This provision is similar to the intercept described below for the Police and Fire Funds that was enacted as part of Public Act 96-1495. The increase in contributions for FY2015 (payable in FY2016) was $89 million and is, again, being held in escrow pending the outcome of litigation at the Illinois Supreme Court.[128]

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[125] Municipal Employees' Annuity and Benefit Fund of Chicago, "Public Act 98-0641 – Update," September 21, 2015. http://www.meabf.org/announcements.php. Laborers' & Retirement Board Employees' Annuity & Benefit Fund of Chicago, "What the Public Act 98-0641 Ruling Means For You." http://www.labfchicago.org/what-the-public-act-98-0641-ruling-means-for-you/.
[126] Staff, "Illinois Supreme Court to quickly hear Chicago pension appeal," *Chicago Tribune*, August 13, 2015.
[127] Communication with the City of Chicago Office of Budget and Management, October 5, 2015. http://www.chicagotribune.com/news/local/politics/ct-chicago-pension-appeal-supreme-court-met-0814-20150813-story.html
[128] City of Chicago, *Annual Financial Analysis 2015*, p. 89 and Communication with the City of Chicago Office of Budget and Management, October 5, 2015.

The following chart summarizes the benefit changes and increases to employee contributions included in the pension reform package.

Summary of Chicago Municipal Fund Pension Benefit Changes Under Public Act 98-0641		
Plan Components	**Current Funding Plan**	**Reform Plan**
COLA Rate (Tier 1) 3% compounded	3% compounded	3% or 50% of CPI (whichever is less); simple interest
COLA pause years	None	2017, 2019, 2025
COLA delays	Varies for Tier 1 & Tier 2 - delayed until January 1 at least	1 additional year delay for both Tiers
Retirement Age	50-60 for Tier 1 depending on years of service; 67 for Tier 2	No change for Tier 1; Reduced to 65 for Tier 2
Employee Contributions	8.5% of payroll	1/2% increases in 2015-2019 for total increase of 2.5%; and total of 11%*

Source: Public Act 98-0641

* Tier 1 members with an annual annuity of less than $22,000 will receive at least 1% AAI every year, including the skip years.

The following chart shows the impact of the benefit changes on the funding status of the Municipal Fund between December 31, 2013 and December 31, 2014.

Impact of Pension Benefit Changes in Public Act 98-0641 on the Municipal Fund Unfunded Actuarial Accrued Liability							
	(1) December 31, 2013	**(2) December 31, 2014 Results Before P.A. 98-0641**	**(3) December 31, 2014 Results After P.A. 98-0641**	**(3)-(1) $ Change**	**(3)-(1) % Change**	**(3)-(2) $ Change**	**(3)-(2) % Change**
Municipal	$8,742,285,563	$9,275,997,933	$7,285,291,571	-$1,456,993,992	-16.67%	-$1,990,706,362	-21.46%

Source: FY2014 Municipal Fund Actuarial Valuation, pp. iv-v.

If the benefit changes had not been made, the unfunded liability would have increased in FY2014 by $533.7 million over year-end 2013. Instead, the unfunded liability fell by nearly $1.5 billion by the end of FY2014 from year-end 2013. Thus, the total impact of the benefit changes passed for the Municipal fund was a decrease of nearly $2.0 billion or 21.5% in the unfunded liability in FY2014 from what it would have been without the changes.

The funded ratio also increased as a result of the benefit changes. The actuarial funded ratio as of December 31, 2013 was 36.9% and would have fallen to 35.2% in FY2014 if the benefit changes had not been made. Instead, the 2014 year-end results show an increase in the funded ratio after the benefit changes to 40.9%.[129] The entire reform package is intended to raise the funded ratio of the Municipal Pension Fund to 90% by 2055.

Police and Fire Funds

Tier 1 members of the Chicago Police and Fire Funds are eligible for full retirement benefits once they reach age 50 with at least 20 years of service, or age 63 and 10 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

[129] Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2014, p. iv. Similar analysis was not provided by the actuary for the Laborers' Fund in the actuarial valuation.

last 10 years of service. The maximum annuity amount is 75% of final average salary. For example, a 57 year-old firefighter with 30 years of service and a $110,000 final average salary could retire with a $82,500 annuity: 30 x $110,000 x 2.5% = $82,500.[130]

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[131] The major benefit changes are an increase in full retirement age from 50 to 55, reduction of final average salary from the highest four-year average to the highest eight-year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and change in the automatic annual increase from 1.5% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[132]

[130] The FY2014 average final average salary at retirement for Fire fund participants was $108,255; the average age at retirement was 57.4; and the average years of service at retirement was 30.5. Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation, December 31, 2014, p. 40. The FY2014 average final average salary at retirement for Police Fund participants was $92,097; the average age at retirement was 57.6; and the average years of service at retirement was 26.2. Policemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ended December 31, 2014, p. 42.

[131] Public Act 96-1495 also applies to members of the Illinois Municipal Retirement Fund's Sheriff's Law Enforcement Program, but not to Cook County sheriff's employees or university public safety employees. See http://www.civicfed.org/civic-federation/blog/senate-bill-3538-police-and-fire-pension-reforms.

[132] This is the change for Chicago Police and Fire Funds. Most other public safety funds' first tier benefits provide a 3% compounded automatic cost of living adjustment.

Major City of Chicago Police and Fire Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 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	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
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	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase 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%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

* There are several variations and alternative benefit provisions for current employees. Benefits shown in this table are simplified descriptions of major benefit provisions.

**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.

Source: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2014; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2014; Public Act 96-1495.

Public Act 96-1495 does not change employee contributions but it does change employer contributions for the Chicago Police and Fire Funds. The City of Chicago will be required to begin making contributions in tax year 2015, payable in 2016, that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials have estimated that it will represent a $549 million contribution increase in 2015.[133] If the City fails to make its required contributions within 90 days of the due date, the Illinois Comptroller must deduct and deposit into the pension fund the certified amounts or a portion of these amounts from the following proportions of State revenue transferred to the City (not to exceed total amount of delinquency): one-third of total State funds to the City in 2016, two-thirds of total State funds to the City in 2017 and 100% of State funds to the City in 2018 and thereafter.

Prior to the enactment of Public Act 96-1495, the Fire Fund was projected to run out of assets during 2021 and the Police Fund was projected to run out of assets during 2025.[134]

[133] City of Chicago, Annual Financial Analysis 2015, p. 90.

[134] Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, pp. 46 and 108.

Public Act 96-1495 also requires that the Police and Fire Funds' actuarial value of assets be reset at market value on March 30, 2011 and will be calculated thenceforth using five-year smoothing.[135]

In the FY2016 budget and revised FY2015 budget, Chicago is not basing its projected contribution for 2015, payable in 2016, and beyond on the provisions of Public Act 96-1495, but instead is using the revised payment schedule set out in Senate Bill 777, which was passed by the Illinois General Assembly on May 31, 2015, but has not been sent to the Governor to be signed into law.[136] Senate Bill 777, as amended in the House, lays out five years of steadily increasing payments to the City's public safety funds until it reaches a level where it starts to contribute enough to raise the funded level to 90% over 35 years for a total 40-year funding plan. This five-year ramp to a 35-year plan to 90% funded is similar to the funding plan included in pension reform legislation passed in 2014 for the City's other two pension funds. The amount the City must contribute each year to each fund between FY2016 and FY2020 is specified in dollar amounts in the legislation. Projections of the contributions that will be made under the actuarial calculations in budget year 2021 (tax year 2020) and beyond have not been made available.[137] If Senate Bill 777 does not become law, Chicago will be forced to make the higher required contribution under Public Act 96-1495.

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.

Members

In FY2014 there were 49,826 employees participating in the four pension funds. The Municipal Fund constitutes 60.5% of total active employee membership. However, roughly half of the 30,160 active Municipal Fund members are not City employees, but are non-teacher employees of Chicago Public Schools.[138]

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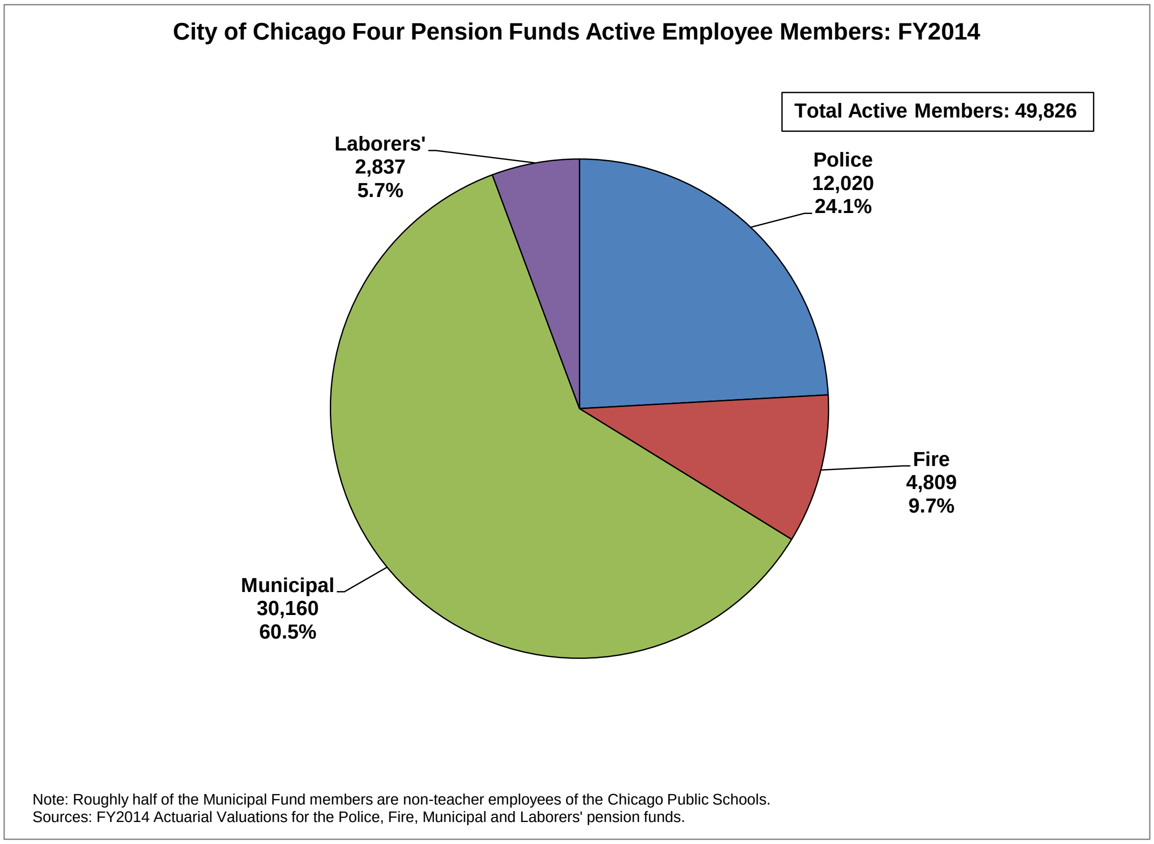
[135] GASB Statements 25 and 27 allow governments and pension funds to report assets on a smoothed or market value basis. GASB Statements 67 and 68, approved in July 2012, which revised government pension and pension fund reporting requirements, will only allow reporting at market value when they go into effect in fiscal year 2014 and 2015, respectively.

[136] City of Chicago FY2016 Budget Overview, p. 31.

[137] Civic Federation Blog, "Chicago Police and Fire Employer Pension Funding Changes Passed in Illinois General Assembly," June 5, 2015. https://www.civicfed.org/civic-federation/blog/chicago-police-and-fire-employer-pension-funding-changes-passed-illinois-gener.

[138] As of December 31, 2013, 55.8%, or 17,095 of the 30,647 active members of the Municipal Fund were employees of Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014*, p. 71.



Funded Ratios – Actuarial and Market Value of Assets

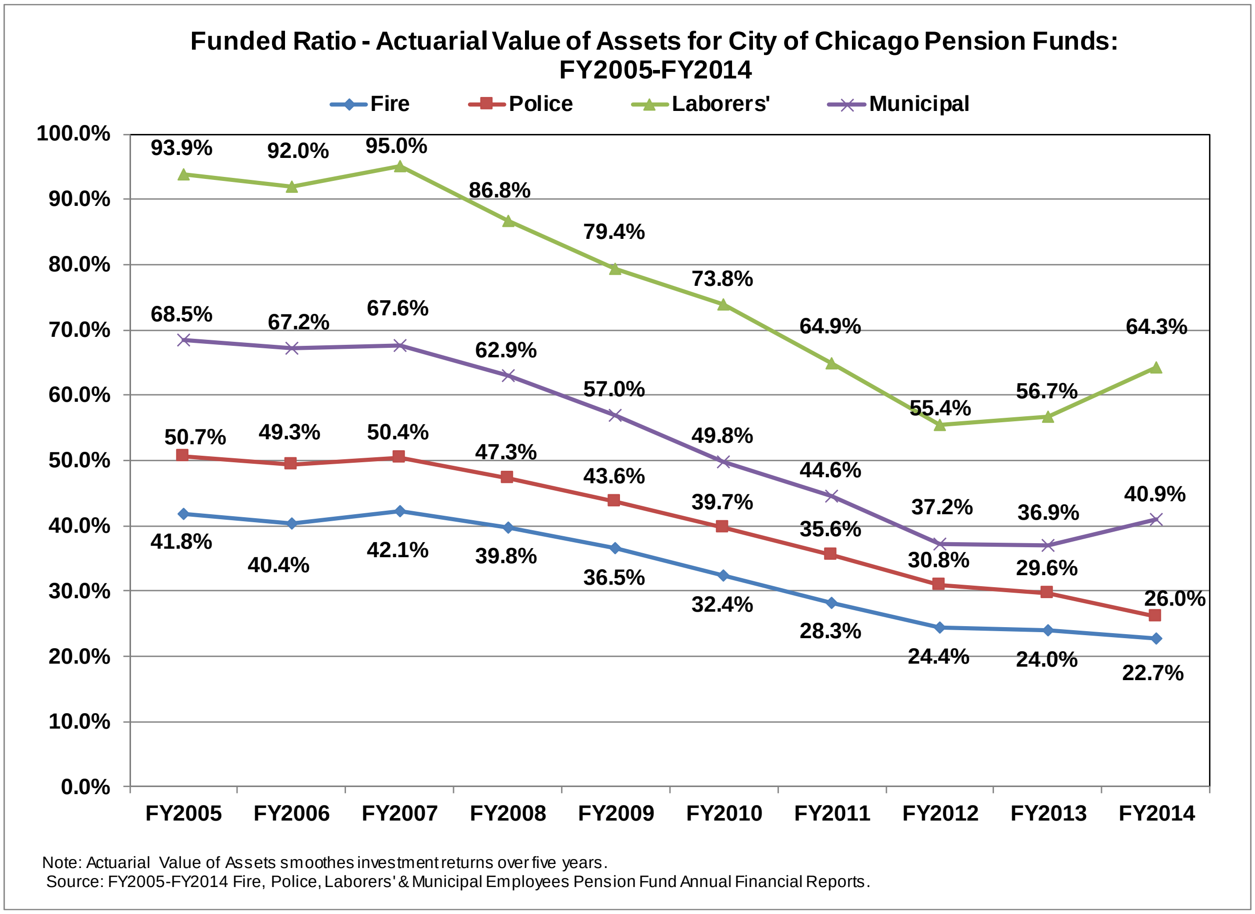
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[139] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for two of the four City pension funds declined in FY2014. The Fire Fund fell to 22.7% and the Police Fund fell to 26.0%. The funded ratio for the Municipal and

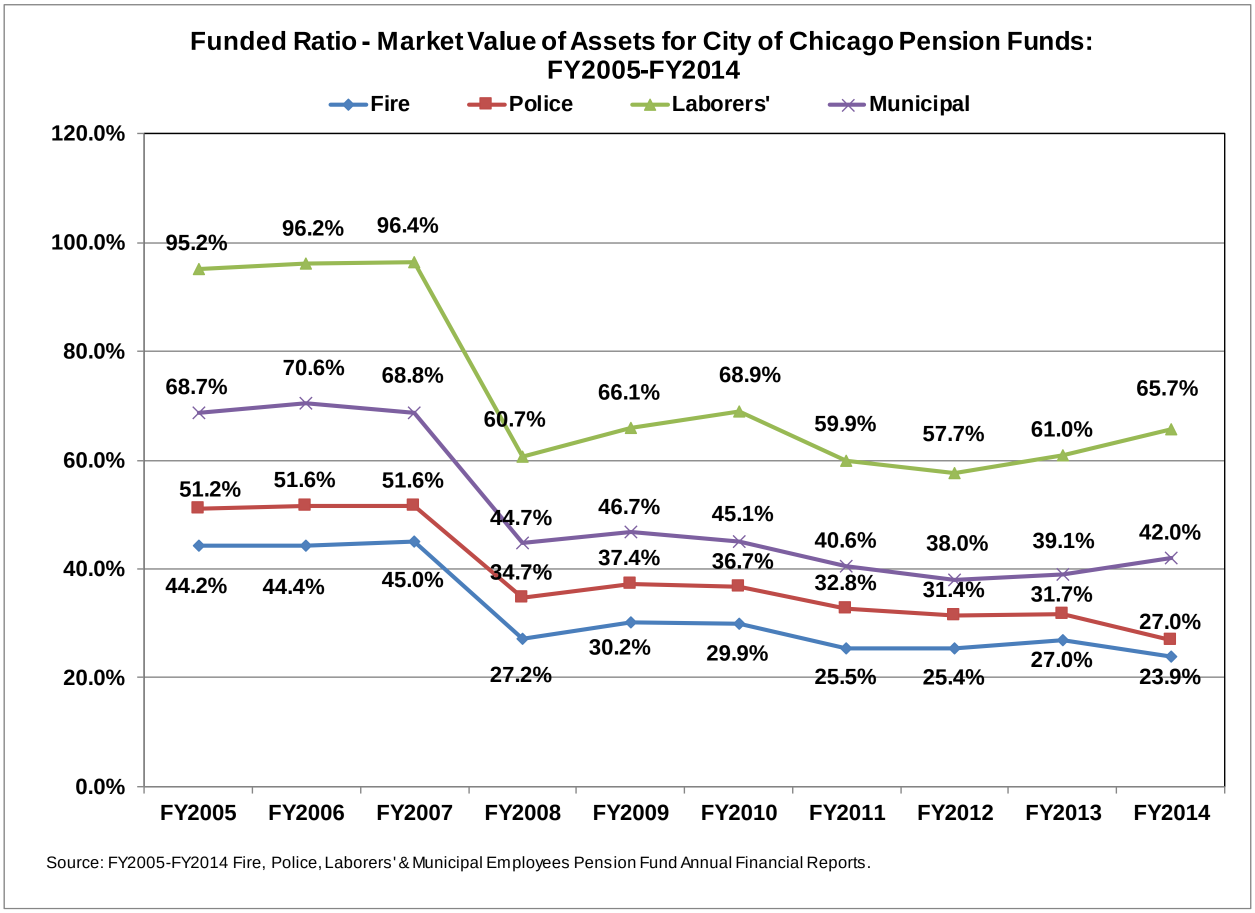
[139] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

Laborers' Funds rose significantly to 40.9% and 64.3%, respectively. As described above, the Municipal and Laborers' funded ratios increased due to the incorporation of benefit reductions passed by the State of Illinois for those funds in 2014. The Police Fund funded ratio fell by more than the Fire Fund because the Police Fund made changes to its actuarial and demographic assumptions, including lowering its expected rate of return on investment to 7.5% from 7.75%.[140] A low funded ratio is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.



The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios for two of the four funds rose in FY2014. As noted above, the liabilities of the Municipal and Laborers' Funds declined due to the benefit reductions included in Public Act 98-0641, leading to a higher funded ratio. The Police and Fire Funds' market value funded ratios declined because of increased liabilities.

[140] Policemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ended December 31, 2014, p. 3.



Unfunded Liabilities

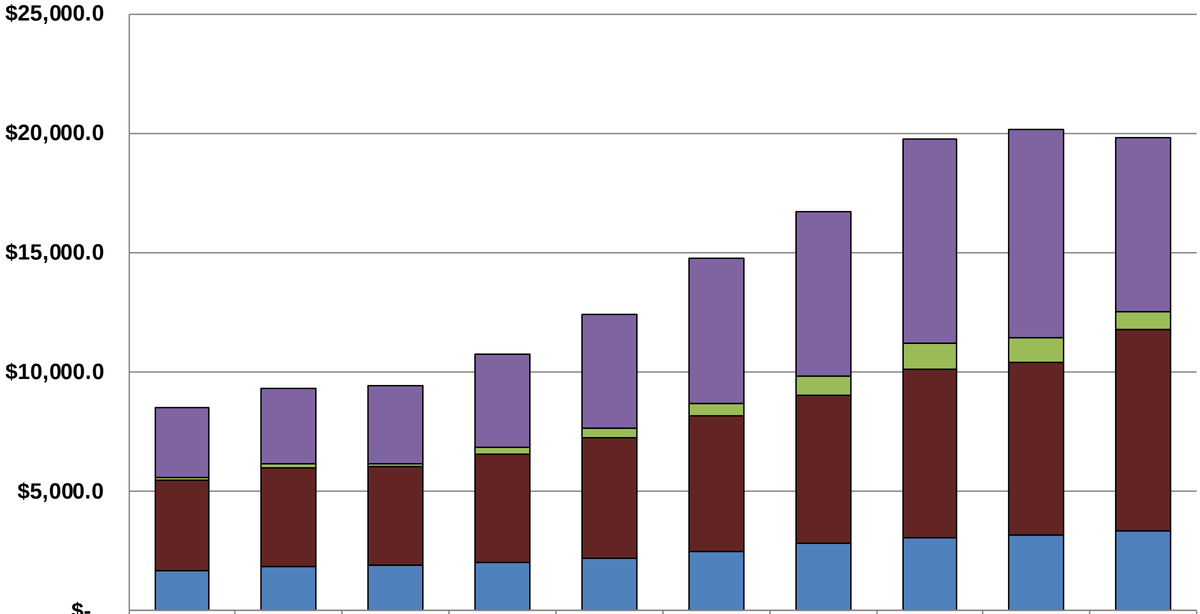
Unfunded actuarial accrued liabilities (UAAL) are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by nearly $11.3 billion, or 132.5%. The total unfunded liabilities dropped slightly to $19.8 billion in FY2014 from $20.2 billion in FY2013, due to the reductions in the UAAL of the Municipal and Laborers' Funds from the benefit reforms in Public Act 98-0641.

A summary of the ten-year changes in unfunded liabilities by fund is shown below:

- Fire Pension Fund: 99.8% increase, or $1.7 billion;
- Police Pension Fund: 120.6% increase, or $4.6 billion;
- Laborers' Pension Fund: 606.9% increase, or $647.5 million;[141] and
- Municipal Pension Fund: 149.7% increase, or $4.4 billion.

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

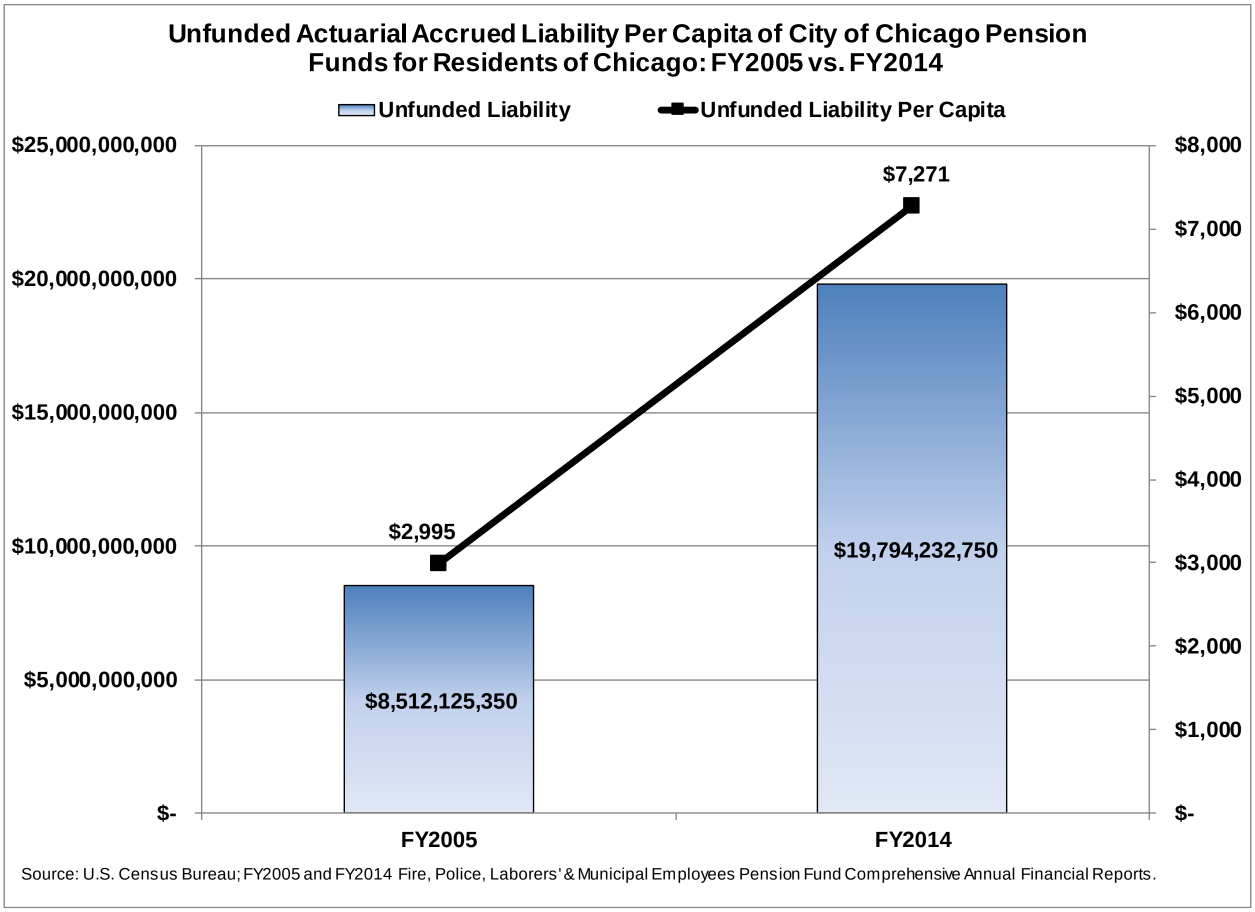
Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2005-FY2014 (in $ millions)



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Municipal	$2,917.8	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8	$6,903.9	$8,564.1	$8,742.3	$7,285.3
Laborers'	$106.7	$145.2	$92.0	$259.0	$416.1	$542.0	$768.8	$1,058.9	$1,036.3	$754.3
Police	$3,808.3	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9	$6,243.7	$7,071.7	$7,256.8	$8,399.2
Fire	$1,679.3	$1,868.6	$1,888.0	$2,022.9	$2,207.5	$2,505.1	$2,797.2	$3,073.1	$3,145.2	$3,355.4
TOTAL	$8,512.1	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,751.9	$16,713.5	$19,767.8	$20,180.6	$19,794.2

Source: FY2005-FY2014 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports,.

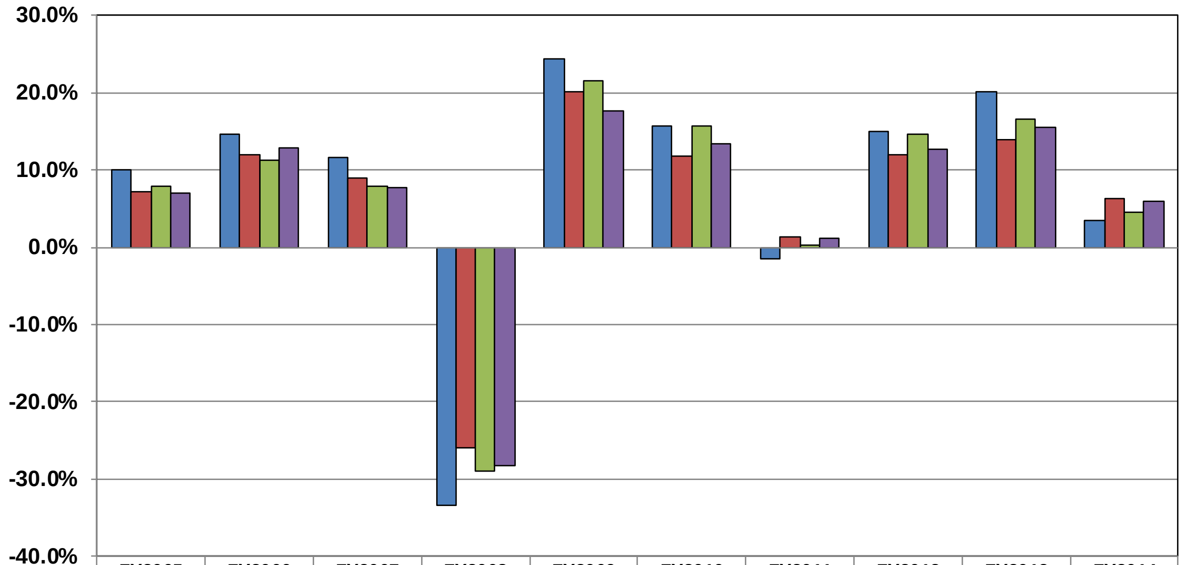
Between FY2005 and FY2014, total unfunded liabilities per resident of Chicago grew from $2,995 per capita to $7,271 per capita. This is an increase of 142.8%.



Investment Rates of Return

In FY2014 all four City pension funds experienced returns less than their expected rates of return on their investments, ranging from 3.5% for the Fire Fund to 6.3% for the Police Fund. This was the first year since FY2011 that the funds did not meet their investment targets. The FY2014 investment assumptions were 7.5% for the Municipal, Laborers' and Police funds and 8.0% for the Fire fund.

Investment Rate of Return - City of Chicago Pension Funds: FY2005-FY2014



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Fire	10.0%	14.6%	11.6%	-33.3%	24.4%	15.6%	-1.5%	15.0%	20.2%	3.5%
Police	7.2%	12.0%	9.0%	-25.9%	20.1%	11.9%	1.3%	12.0%	14.0%	6.3%
Laborers'	7.9%	11.3%	7.8%	-29.1%	21.6%	15.7%	0.3%	14.6%	16.7%	4.6%
Municipal	7.0%	13.0%	7.7%	-28.3%	17.7%	13.4%	1.1%	12.8%	15.5%	6.0%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2005-FY2014 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

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 until the fiscal years beginning after June 15, 2013 required disclosure of an Annual Required Contribution (ARC), which was 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.[142] 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

[142] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure. No substitute measure of a government's annual pension funding adequacy was proposed by the GASB.

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

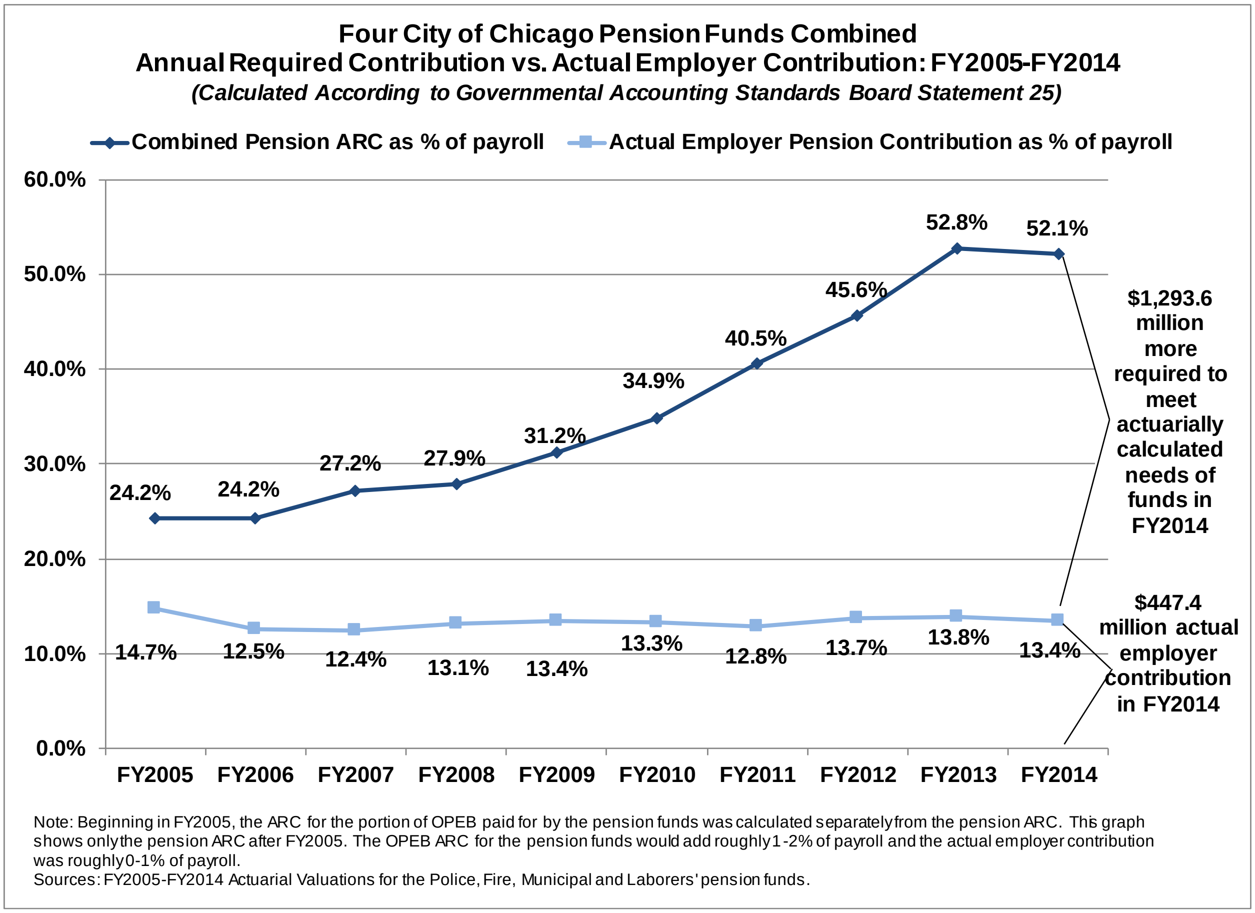
ARC was a financial reporting requirement but not a funding requirement. The statutorily required City of Chicago contributions to its pension funds are set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator of how well a public entity is actually funding its pension plan.[143]

Even though public pension funds are not required to report an ARC after their FY2013 actuarial valuations, a final year of FY2014 ARCs for the City of Chicago's four funds were calculated in the FY2013 valuations. In the FY2014 valuations, a different calculation, the Actuarially Determined Contribution (ADC), which is based on the pension plan's own actuarial funding policy (if it has one) will be required to be reported. If the plan's funding policy does not conform to Actuarial Standards of Practice, as is the case for all four Chicago Funds in FY2014, then the fund is required to report an ADC that incorporates a normal cost payment and an amortization payment. All four funds reported their FY2014 ADC based on a level dollar 30-year open amortization payment. In order to provide a consistent ten-year trend, the Civic Federation uses FY2014 ARC data, not ADC data, in the following section.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $7.3 billion shortfall. In FY2014 the combined ARC for the four funds was nearly $1.7 billion or more than three times the actual employer contribution of $447.4 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 a shortfall in FY2005 of 9.5 percentage points, or $274.7 million, to a gap of 38.7 percentage points in FY2014. 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 38.7% of payroll, or $1.3 billion, in FY2014.

[143] See Appendix C on page 107 for more historical data on the four City of Chicago pension funds' annual required contributions.



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 for the Municipal Fund and 1.00 for the Laborers' Fund. However, these amounts have been less than the ARC for the last ten years. The pension fund actuaries estimate that in order to contribute an amount sufficient to meet the ARC in FY2014, the City would need to contribute a multiple of 6.45 for the Fire Fund, 5.44 for the Police Fund, 6.53 for the Municipal Fund and 7.20 for the Laborers' Fund.[144]

[144] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2013, p. 19; Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2013, p. 19; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2013, p. 87; and Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2013, p. 94.

FY2014 Statutory Multiple for Employer Contribution vs. Annual Required Multiple			
	Unfunded Actuarial Accrued Liability Amortization Method Used for Financial Reporting	**Annually Required Multiple (Normal Cost + UAAL Amortization)**	**Statutory Multiple**
Fire	level dollar, open	**6.45**	2.26
Police*	level % of payroll, open	**5.44**	2.00
Municipal	level dollar, open	**6.53**	1.25
Laborers'	level dollar, open	**7.20**	1.00

*Police Fund also computes that the FY2014 annual required multiple using a level dollar amortization would be 7.60. See Police Fund FY2013 Actuarial Valuation p. 18.

Source: Respective Pension Fund FY2013 Actuarial Valuations.

Employer Contributions for Chicago Public Schools Members of the Municipal Fund

Roughly half of the Municipal Fund members are not City employees but are non-teacher employees of Chicago Public Schools. CPS has not traditionally made an employer contribution to the Municipal Fund for these employees, beyond transferring associated federal grant revenue to the City for those Municipal Fund participants that are paid through federal grants. The City makes the full statutory Municipal Fund employer contribution through its property tax levy and other sources of revenue.[145] It is important to note that Chicago Public Schools employees who are members of the Municipal Fund are subject to the changes to benefits and contributions under Public Act 98-0641, described above.

CPS estimates that the FY2016 Municipal Fund contribution from the City (recorded as revenue) will be approximately $55.0 million.[146] CPS budgeted $4.7 million to be reimbursed to the City for the employer pick-up of employees funded by federal grants for FY2016.[147]

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administered a retiree benefit health care plan under the terms of a settlement agreement that expired on June 30, 2013.[148] Under the agreement, the four City of Chicago pension funds additionally all subsidized the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The pension funds provided $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants. The City's contribution was roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[149]

[145] City of Chicago, FY2016 Budget Overview, p. 31.
[146] Chicago Public Schools FY2016 Proposed Budget, p. 27.
[147] CPS FY2016 Interactive Proposed Budget, Revenues and Expenditures, available at cps.edu/budget.
[148] The most recent version of the settlement was dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/rhbc_report_to_mayor.html.
[149] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.

The settlement agreement called for the creation of a Retiree Health care Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree health care benefits, their related cost trends and issues affecting the offering of any retiree health care benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[150]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, the members of which met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree health care benefits and make recommendations.[151] Members of the Commission included former City of Chicago Comptroller Amer Ahmad; Leemore Dafney, Associate Professor of Management and Strategy, and the Herman Smith Research Professor in Hospital and Health Services at the Kellogg School of Management at Northwestern University; Will Irving, Laborers Union, Local 1001; and Michael Knitter, Executive Director of Compensation and Benefits at the University of Chicago.[152]

The Commission finished its work in January 2013 and released its report on January 11, 2013.[153] The report did not make any specific recommendations as to how the City should proceed regarding retiree health care, but instead offered a series of options with their projected cost to the City. These proposed options included: 1) continuing to provide retiree health care benefits at current support levels; 2) continuing to provide benefits at reduced support levels; and 3) eliminating City support for retiree health care benefits and placing non-Medicare eligible retirees on the Affordable Care Act exchanges. The report additionally gave background on the City's history of the court case arising from the City of Chicago's provision of other post employment benefits (OPEB), as well as an analysis of current enrollment and costs.

On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013.[154] First, it would continue subsidies at current levels for all retirees through December 31, 2013. Second, annuitants retired before August 23, 1989, many of whom do not qualify for Medicare, will continue to receive current subsidy levels. Third, due to substantial projected increases in the cost of the plan, annuitants retired on or after August 23, 1989 will see a phase-out of the city's subsidy of benefits with an end to the plan by the beginning of 2017. Non Medicare-eligible retirees would then be able to access health care and federal subsidies

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[150] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, Settlement Agreement, p. 8-10.
[151] Retiree Health care Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_health carebenefitscommissionmeeting.html.
[152] Retiree Health care Benefits Commission, June 22, 2012 Meeting Minutes. Available at http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/retiree_health carebenefitscommissionjune222012.html. The Chicago City Council passed an ordinance on March 14, 2012 to indemnify the non-City employee members of the RHBC against lawsuits arising from their participation as members of the Commission. Ordinance O2012-1422.
[153] Retiree Health care Benefits Commission, Report to the Mayor's Office on the State of Retiree Health care, January 11, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.
[154] City of Chicago Department of Finance, "Annuitant Notice," May 15, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/Annuitant_Notice_May_15_2013.pdf.

through the federal Affordable Care Act exchanges. On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree health care plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[155]

On October 9, 2013, the City released the details for FY2014 for the previously announced reduction to retiree health care subsidies for those retired on or after August 23, 1989.[156] It is important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive health care coverage pursuant to their collective bargaining agreements will see no change to their coverage unless it is negotiated through collective bargaining.[157] The reductions to other affected retirees during FY2014 were announced as follows:

- For those who retired on or after August 23, 1989 and before July 1, 2005:
    - The City will provide up to a 41.25% subsidy toward these retirees' health care benefits. The previous subsidy is 55%.
- For those who retired after July 1, 2005 through the present, the City subsidy will vary depending on years of City service. The City subsidy for FY2014 was as follows for the following groups of retirees:
    - 20-plus years was up to 37.5%. (Currently 50 percent.)
    - 15 through 19 years was up to 33.75%. (Currently 45 percent.)
    - 10 through 14 years was up to 30%. (Currently 40 percent.)[158]

Mayor Emanuel expected these changes to save the City approximately $24 million in FY2014 and FY2015 and the additional changes that go into effect for FY2016 and are expected to save $30 million.[159]

Litigation pending in the Cook County Circuit Court[160] may impact the City of Chicago's ability to continue to implement the transition of its retirees to the Affordable Care Act exchanges. An Illinois Supreme Court decision in July 2014 on changes made to retiree healthcare for state employees was struck down as a violation of the Illinois Constitution's protection of public pension benefits because the Court interpreted the subsidy of retiree healthcare as being part of

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[155] Public Act 98-0043.

[156] Chicago Mayor Rahm Emanuel's Press Office, "City Informs Retirees of Health care Adjustments For 2014," October 9, 2013. Available at http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2013/october_2013/city_informs_retireesofhealth careadjustmentsfor2014.html.

[157] A new collective bargaining agreement for city firefighters includes a provision that will require retirees not yet eligible for Medicare to contribute a portion of their annuity to defray the cost of their health care starting January 1, 2015. See Fran Spielman, "Council passes firefighters contract with ambulance upgrade," July 30, 2014. http://politics.suntimes.com/article/chicago/council-passes-firefighters-contract-ambulance-upgrade/wed-07302014-1217pm. Reportedly, a new tentative collective bargaining agreement for police officers may include the same provision. See Fran Spielman, "Police contract with retro pay a political coup for Emanuel," September 4, 2014. http://politics.suntimes.com/article/chicago/police-contract-retro-pay-political-coup-emanuel/thu-09042014-123pm.

[158] "City of Chicago 2014 Retiree Health care Plan – Questions and Answers." Available at http://ward32.org/wp-content/uploads/2013/10/Retiree_health care_fact_sheet_10.08.13.pdf.

[159] City of Chicago, FY2014 Budget Overview, p. 2; FY2015 Budget Overview, p. 2; FY2016 Budget Overview, p. 10; Communication with City of Chicago Office of Budget and Management, October 5, 2015.

[160] Case Number 2013-CH-17450.

the retiree's pension benefit.[161] While previous rulings on the *Korshak* case have taken place in federal court, the question of whether phasing out the City of Chicago's subsidy of retiree healthcare benefits violates the Illinois Constitution after the Illinois Supreme Court's decision on *Kanerva* was remanded to Illinois State courts.[162]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree health care plan totaled $1.0 billion in FY2014. As described above, the City pays for a portion of the non Medicare-eligible retiree health care premiums, but the pension funds also subsidize part of the employee portion of the premium through December 31, 2016. 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, but in the FY2014 CAFR it did split the City obligation to show the amount of liability associated with the settlement plan and that associated with the special public safety retiree health care program. The City's financial statements reported an FY2014 unfunded OPEB liability of $45.8 million for the portion subsidized by the pension funds and an unfunded OPEB liability as of December 31, 2013 of $964.6 million for the portion subsidized by the City.[163] 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 $1.0 billion.

City of Chicago OPEB Unfunded Liabilities for Settlement Plan and CBA Special Benefits (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Settlement Plan Unfunded Liability: Pension Funds	$ 17,495	$ 4,593	$ 18,762	$ 4,995	**$ 45,845**
Settlement Plan Unfunded Liability: City					**$ 498,205**
CBA Special Benefits Unfunded Liability: City					**$ 466,421**
TOTAL					**$ 1,010,471**

Sources: FY2014 Pension Fund CAFRs; FY2014 City of Chicago CAFR, pp. 88 and 91.City OPEB unfunded liabilities as of 12/31/2013.

[161] For more about the *Kanerva* decision, see Civic Federation Blog, "Court Ruling on Health Insurance Could Add to State of Illinois Budget Woes," July 9, 2014. https://www.civicfed.org/iifs/blog/court-ruling-health-insurance-could-add-state-illinois-budget-woes

[162] *Underwood v. City of Chicago*, 779 F.3d 461 (2015). Available at https://scholar.google.com/scholar_case?case=17907538468599288746&q=underwood+v.+city+of+chicago&hl=en&as_sdt=400006.

[163] City of Chicago, FY2014 Comprehensive Annual Financial Report, pp. 88 and 91. The FY2014 financial statements state that December 31, 2013 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.

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 included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2014, which is the most recent financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest:* Includes interest due on deposits payable by the City in the next fiscal year;
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;[164]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and other unspecified liabilities;
- *Claims Payable*: Monies owed for claims against the City; and
- *Line of credit and commercial paper*:[165] Lines or letters of credit are commitments issued by a bank or other financial institution to provide a short-term loan for certain purposes.[166] Commercial paper is a type of short-term borrowing whereby a government issues a security that can be traded by the lender to other parties.[167]

[164] City of Chicago FY2014 Comprehensive Annual Financial Report, p. 54.
[165] Information about the City of Chicago's use of letters of credit and commercial paper in FY2014 can be found in the FY2014 Comprehensive Annual Financial Report, p. 58.
[166] A. John Vogt. Capital Budgeting and Finance: A Guide for Local Governments (Washington, D.C.: ICMA, 2004), p. 389.
[167] Steven A. Finkler. Financial Management for Public, Health, and Not-for-Profit Organizations (Upper Saddle River, Prentice Hall, 2001), p. 552.

The following chart shows short-term liabilities by category and the percent change between FY2010 and FY2014. During the five-year period of this review, total short-term liabilities increased by 59.7%, rising from nearly $1.4 billion to nearly $2.2 billion. The large five year increase was primarily due to three items:

- A $110.5 million increase in voucher warrants payable[168];
- A $301.2 million increase in amounts due to other funds;[169] and
- A total of $297.3 million for short-term debt in the form of lines of credit and commercial paper obligations.

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2010 - FY2014 (in $ thousands)

Type	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 454,162	$ 428,259	$ 564,952	$ 443,046	$ 564,629	$ 121,583	27.4%	$ 110,467	24.3%
Accrued Interest	$ 144,935	$ 177,026	$ 210,413	$ 209,399	$ 225,459	$ 16,060	7.7%	$ 80,524	55.6%
Due to Other Funds	$ 525,993	$ 580,254	$ 735,495	$ 945,701	$ 827,180	$ (118,521)	-12.5%	$ 301,187	57.3%
Accrued & Other Liabilities	$ 199,324	$ 283,313	$ 145,803	$ 149,540	$ 245,613	$ 96,073	64.2%	$ 46,289	23.2%
Line of Credit & Commercial Paper	$ -	$ -	$ -	$ -	$ 297,309	$ 297,309	--	$ 297,309	---
Claims Payable	$ 36,505	$ 12,554	$ 37,685	$ 29,487	$ 13,326	$ (16,161)	-54.8%	$ (23,179)	-63.5%
Total	**$ 1,360,919**	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 2,173,516**	**$ 396,343**	**22.3%**	**$ 812,597**	**59.7%**

Source: City of Chicago FY2010-FY2014 Comprehensive Annual Financial Report Balance Sheets Governmental Funds.

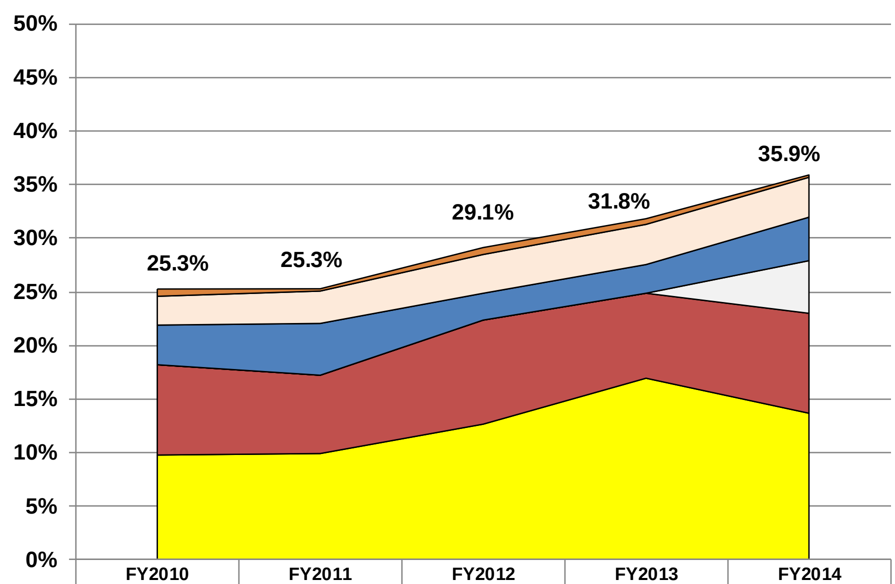
Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[170] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (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 following graph shows the five-year trend in the City's short-term liabilities by category. The ratio has increased between FY2010 and FY2014, rising from 25.3% to 35.9%. The average ratio during this period was 29.5%.

[168] The increase in voucher warrants payable between FY2013 and FY2014 is due to increased construction and acquisition activity for TIF-funded projects and grant-funded projects during the fourth quarter of FY2014 over the fourth quarter of FY2013, resulting in a higher volume of vouchers pending payment. Information provided by City of Chicago Office of Budget and Management, October 7, 2015.

[169] Of the $827.2 million reported in FY2014 in the due to other funds category, $276.8 million was due to the Corporate Fund and $296.2 million was due to federal, state and local grant funds. See Note 6: Interfund Balances and Transfers, City of Chicago FY2014 Comprehensive Annual Financial Report, p. 67.

[170] 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), pp. 77 and 169.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2010-FY2014



	FY2010	FY2011	FY2012	FY2013	FY2014
Claims Payable	0.7%	0.2%	0.6%	0.5%	0.2%
Accrued Interest	2.7%	3.0%	3.6%	3.8%	3.7%
Accrued & Other Liabilities	3.7%	4.8%	2.5%	2.7%	4.1%
Line of Credit & Com Paper	0.0%	0.0%	0.0%	0.0%	4.9%
Voucher Warrants Payable	8.4%	7.3%	9.7%	7.9%	9.3%
Due to Other Funds	9.8%	9.9%	12.6%	16.9%	13.7%

Note: As of FY2014, the City has reclassified lines of credit and commercial paper as short-term obligations.
Source: City of Chicago, FY2010-FY2014 Comprehensive Annual Financial Reports.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[171]

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a municipality, including:

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Cash and Investments with Escrow Agent*: Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;

[171] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations.* (Upper Saddle River, NJ, 2001), pp. 476.

- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *Due from other funds or governments*: Receivables from those sources that are outstanding at the end of the fiscal year; and
- *Inventories:* The value of materials or supplies that will be used to provide goods or services within a one-year period.

Chicago's current ratio was 2.5 in FY2014, the most recent year for which data is available. In the past five years, the City's current ratio averaged 3.4, far above the preferred benchmark of 2.0 and thus demonstrated a healthy level of liquidity. Between FY2010 and FY2014, the current ratio steadily declined, falling from 4.2 to 2.5. This is due to a 5.2% or $294.8 million **decrease** in current assets versus a 39.6% or $538.5 million **increase** in current liabilities.

City of Chicago Current Ratio in the Governmental Funds: FY2010-FY2014
(in $ thousands)

	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 1,594,798	$ 664,643	$ 729,095	$ 695,927	$ 537,665	$ (158,262)	-22.7%	$ (1,057,133)	-66.3%
Investments	$ 950,161	$ 1,869,980	$ 1,626,647	$ 1,307,700	$ 1,563,515	$ 255,815	19.6%	$ 613,354	64.6%
Cash and Investments with Escrow Agent	$ 457,748	$ 498,483	$ 499,754	$ 462,837	$ 411,085	$ (51,752)	-11.2%	$ (46,663)	-10.2%
Receivables (Net of Allowances): Property Taxes	$ 1,423,922	$ 1,350,049	$ 1,258,648	$ 1,207,362	$ 1,150,682	$ (56,680)	-4.7%	$ (273,240)	-19.2%
Receivables (Net of Allowances): Accounts	$ 318,331	$ 309,947	$ 285,918	$ 295,894	$ 242,233	$ (53,661)	-18.1%	$ (76,098)	-23.9%
Due from Other Funds	$ 504,225	$ 518,329	$ 644,731	$ 870,080	$ 724,769	$ (145,311)	-16.7%	$ 220,544	43.7%
Due from Other Governments	$ 417,476	$ 526,139	$ 639,312	$ 743,251	$ 735,640	$ (7,611)	-1.0%	$ 318,164	76.2%
Inventories	$ 18,180.00	$ 24,055	$ 20,885	$ 24,788	$ 24,498	$ (290)	-1.2%	$ 6,318	34.8%
Total Current Assets	**$ 5,684,841**	**$ 5,761,625**	**$ 5,704,990**	**$ 5,607,839**	**$ 5,390,087**	**$ (217,752)**	**-3.9%**	**$ (294,754)**	**-5.2%**
Current Liabilities									
Voucher Warrants Payable	$ 454,162	$ 428,259	$ 564,952	$ 443,046	$ 564,629	$ 121,583	27.4%	$ 110,467	24.3%
Accrued Interest	$ 144,935	$ 177,026	$ 210,413	$ 209,399	$ 225,459	$ 16,060	7.7%	$ 80,524	55.6%
Due to Other Funds	$ 525,993	$ 580,254	$ 735,495	$ 945,701	$ 827,180	$ (118,521)	-12.5%	$ 301,187	57.3%
Accrued & Other Liabilities	$ 199,324	$ 283,313	$ 145,803	$ 149,540	$ 245,613	$ 96,073	64.2%	$ 46,289	23.2%
Line of Credit & Commercial Paper	$ -	$ -	$ -	$ -	$ 297,309				
Claims Payable	$ 36,505	$ 12,554	$ 37,685	$ 29,487	$ 13,326	$ (16,161)	-54.8%	$ (23,179)	-63.5%
Total Current Liabilities	**$ 1,360,919**	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 2,173,516**	**$ 396,343**	**22.3%**	**$ 538,467**	**39.6%**
Current Ratio	**4.2**	**3.9**	**3.4**	**3.2**	**2.5**	**-**	**-21.4%**	**-**	**-40.6%**

Source: FY2010-FY2014 City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds.

Accounts Payable as a Percentage of Operating Revenues

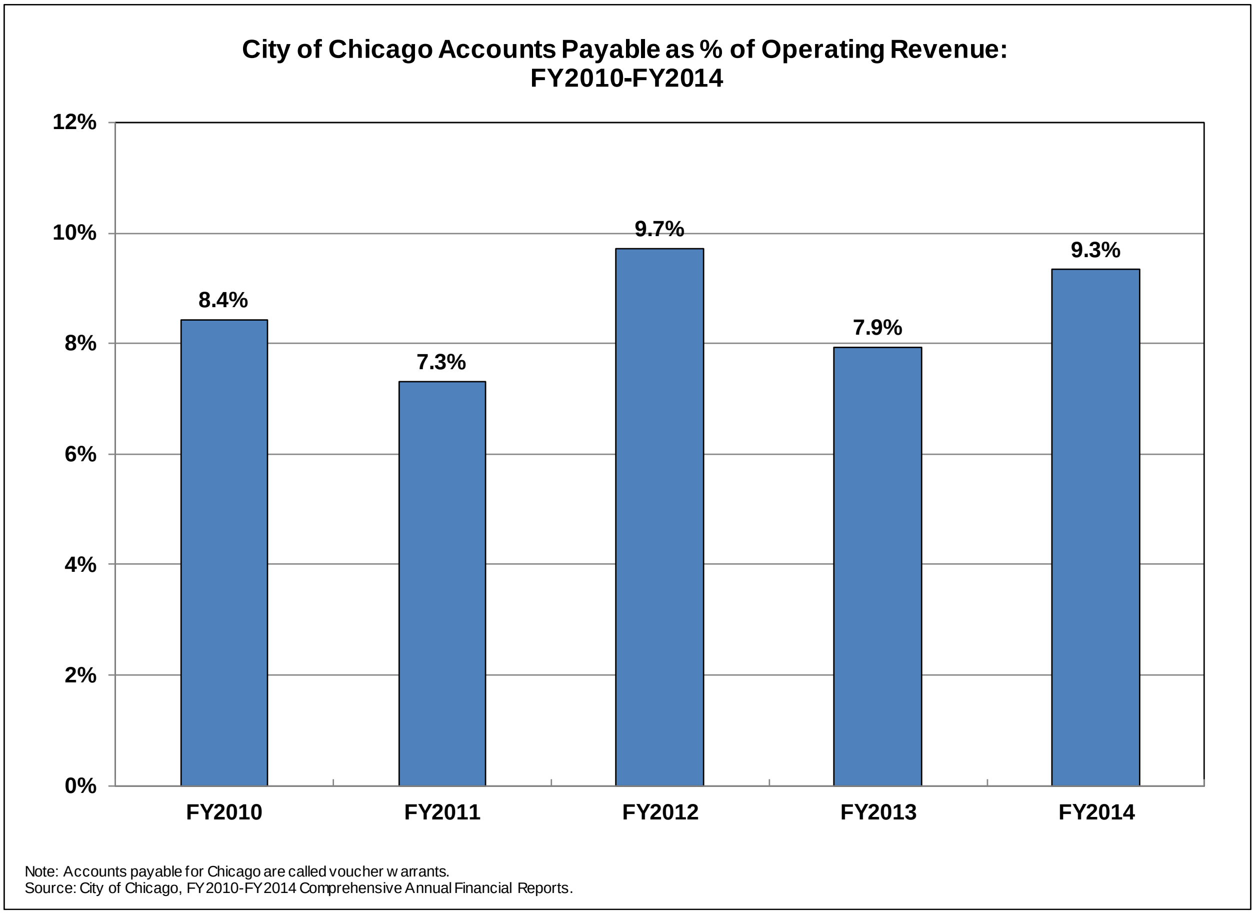
Over time, rising amounts of accounts payable may indicate that a government is having difficulty controlling expenses or keeping up with spending pressures. As noted previously, in the Chicago CAFR, accounts payable are referred to as voucher warrants payable.

The following graph shows the ratio trend between FY2010 to FY2014.The City of Chicago's ratio of accounts payable to operating revenues has fluctuated over the past five years, rising and falling in successive years. Between FY2011 and FY2012, the ratio rose sharply from 7.3% to 9.7%. The City reports that this increase is due to an aggressive process of identifying and recording FY2012 year-end accruals that had been received but not yet paid. The majority of these accruals were related to capital improvement related expenses.[172] In FY2013, however, the ratio fell to 7.9% before rising again to 9.3% in FY2014.

The increase in voucher warrants payable between FY2013 and FY2014 is due to increased construction and acquisition activity for TIF-funded projects and grant-funded projects during the fourth quarter of FY2014 over the fourth quarter of FY2013, resulting in a higher volume of vouchers pending payment.[173]

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 8.5%, which is equal to slightly more than one month's worth of outstanding bills. This is not considered to be a cause for concern.

[172] Information provided by City of Chicago Office of Budget and Management, November 11, 2013.
[173] Information provided by City of Chicago Office of Budget and Management, October 7, 2015.


City of Chicago Accounts Payable as % of Operating Revenue:
FY2010-FY2014
12%
10%
8%
6%
4%
2%
0%
8.4%
7.3%
9.7%
7.9%
9.3%
FY2010
FY2011
FY2012
FY2013
FY2014
Note: Accounts payable for Chicago are called voucher w arrants.
Source: City of Chicago, FY2010-FY2014 Comprehensive Annual Financial Reports.

LONG-TERM LIABILITIES

This section of the analysis examines trends in City of Chicago long-term liabilities. It includes a review of trends in Chicago's total long-term governmental activities liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. Long-term liabilities include:

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension and other post employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt.
- *Lease Obligations*: The amount reported annually is the present value of minimum future lease payments for a sale and lease back arrangements with third parties that the City entered into regarding the City-owned portion of a rapid transit line with a book value of $430.8 million in 2005.[174]
- *Claims and Judgments*: Claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. The amount reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[175]
- *Pollution Remediation*: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[176]

Total long-term liabilities rose by 10.4% or $1.8 billion, from FY2013 to FY2014. The five-year increase in these liabilities between FY2010 and FY2014 was 44.1%. This was a nearly $6.0 billion increase. In the same five-year period, total long-term debt (bonds, notes and certificates payable) rose by 13.1%, from roughly $8.5 billion to $9.6 billion. Other liabilities, which include pension and lease obligations, pollution remediation liabilities and claims and judgments increased at a much faster rate, rising by 96.3% or $4.9 billion. The single largest percentage and dollar increase over the five-year period was for pension and other post employment benefit obligations, which increased by 110.7% or $4.7 billion. The steady increase in long-term obligations, particularly the large pension and OPEB obligation increase, is a serious cause for concern.

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[174] City of Chicago, FY2014 Comprehensive Annual Financial Report, p. 70.
[175] City of Chicago, FY2014 Comprehensive Annual Financial Report, p. 56.
[176] City of Chicago, FY2014 Comprehensive Annual Financial Report, pp. 93-94.

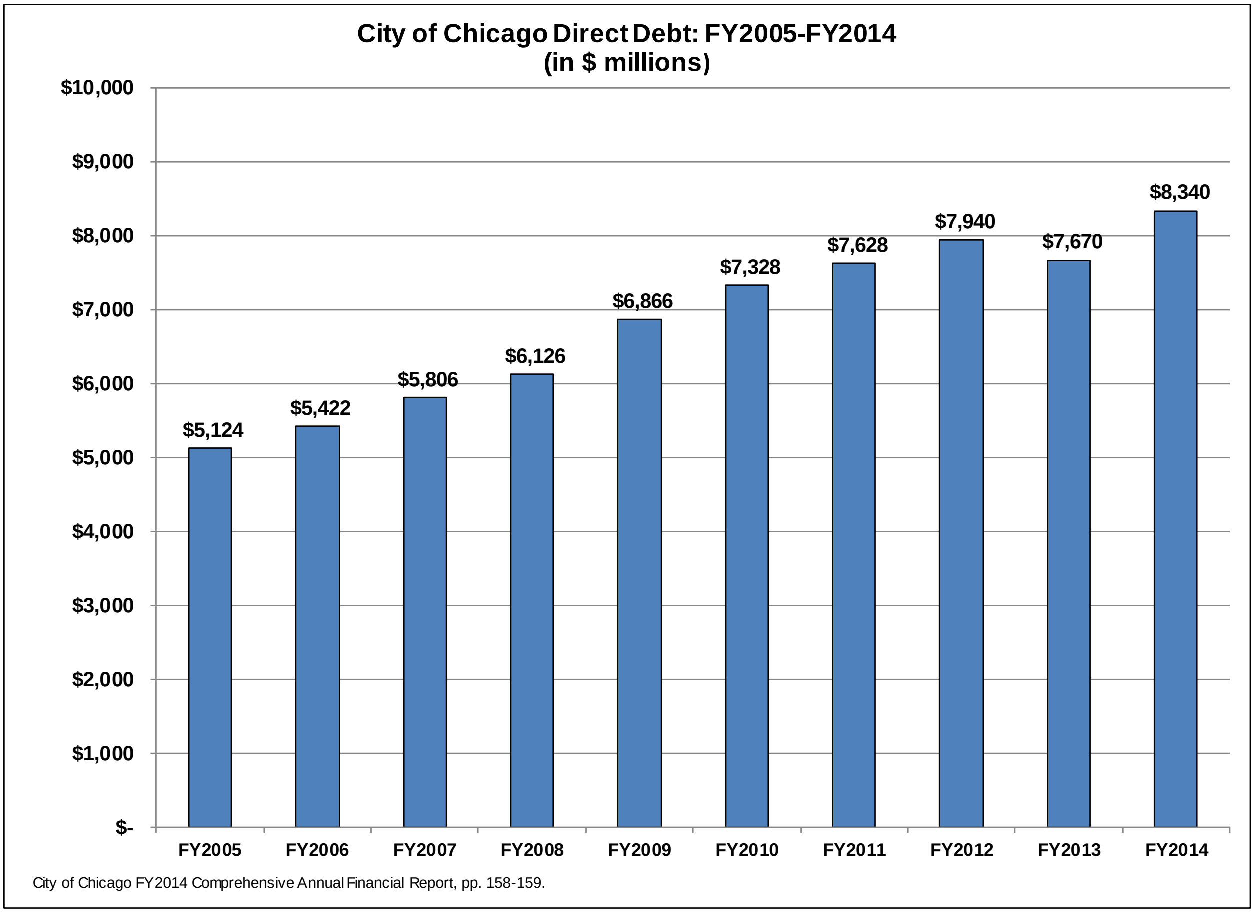
City of Chicago Long Term Liabilities for Governmental Activities FY2010 - FY2014 (in $ thousands)									
	FY2010	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**Two-Year Change**	**Two-Year % Change**	**5-Year Change**	**5-Year % Change**
General Obligation Debt	$ 7,504,739	$ 7,777,667	$ 8,011,830	$ 7,730,178	$ 8,335,506	$ 605,328	7.8%	$ 830,767	11.1%
Installment Purchase Agreement	$ 1,200	$ -	$ -	$ -	$ -	$ -	--	$ (1,200)	-100.0%
Tax Increment	$ 163,578	$ 131,561	$ 112,151	$ 88,397	$ 74,395	$ (14,002)	-15.8%	$ (89,183)	-54.5%
Revenue	$ 559,417	$ 776,027	$ 770,312	$ 753,162	$ 743,795	$ (9,367)	-1.2%	$ 184,378	33.0%
Subtotal Bonds, Notes and Certificates Payable	**$ 8,228,934**	**$ 8,685,255**	**$ 8,894,293**	**$ 8,571,737**	**$ 9,153,696**	**$ 581,959**	**6.8%**	**$ 924,762**	**11.2%**
Less unamortized debt refunding transactions	$ (171,150)	$ (166,065)	$ -	$ -	$ -	$ -	---	$ 171,150	---
Add unamortized premium	$ 198,730	$ 196,637	$ 175,820	$ 160,014	$ 154,767	$ (5,247)	-3.3%	$ (43,963)	-22.1%
Add accretion of capital appreciation bonds	$ 235,412	$ 264,402	$ 283,010	$ 293,789	$ 298,012	$ 4,223	1.4%	$ 62,600	26.6%
Less converted portion of conversion bonds	$ -	$ -	$ -	$ -	$ -	$ -	---	$ -	---
Total Bonds, Notes and Certificates Payable	**$ 8,491,926**	**$ 8,980,229**	**$ 9,353,123**	**$ 9,025,540**	**$ 9,606,475**	**$ 580,935**	**6.4%**	**$ 1,114,549**	**13.1%**
Pension & OPEB Obligations	$ 4,216,250	$ 5,386,668	$ 6,364,927	$ 7,589,929	$ 8,884,304	$ 1,294,375	17.1%	$ 4,668,054	110.7%
Lease Obligations	$ 177,011	$ 166,787	$ 163,013	$ 171,674	$ 116,858	$ (54,816)	-31.9%	$ (60,153)	-34.0%
Pollution Remediation	$ 14,263	$ 11,235	$ 8,373	$ 8,598	$ 8,532	$ (66)	-0.8%	$ (5,731)	-40.2%
Claims and Judgments	$ 641,762	$ 667,650	$ 888,593	$ 879,768	$ 900,616	$ 20,848	2.4%	$ 258,854	40.3%
Total Other Liabilities	**$ 5,049,286**	**$ 6,232,340**	**$ 7,424,906**	**$ 8,649,969**	**$ 9,910,310**	**$ 1,260,341**	**14.6%**	**$ 4,861,024**	**96.3%**
Grand Total	**$ 13,541,212**	**$ 15,212,569**	**$ 16,778,029**	**$ 17,675,509**	**$ 19,516,785**	**$ 1,841,276**	**10.4%**	**$ 5,975,573**	**44.1%**

Note: Beginning in FY2013 commercial paper and lines of credit are no longer included in the general obligation line item. They have been reclassified as short-term debt.

Source: City of Chicago FY2010-FY2014 Comprehensive Annual Financial Reports. Note 10: Long-Term Obligations.

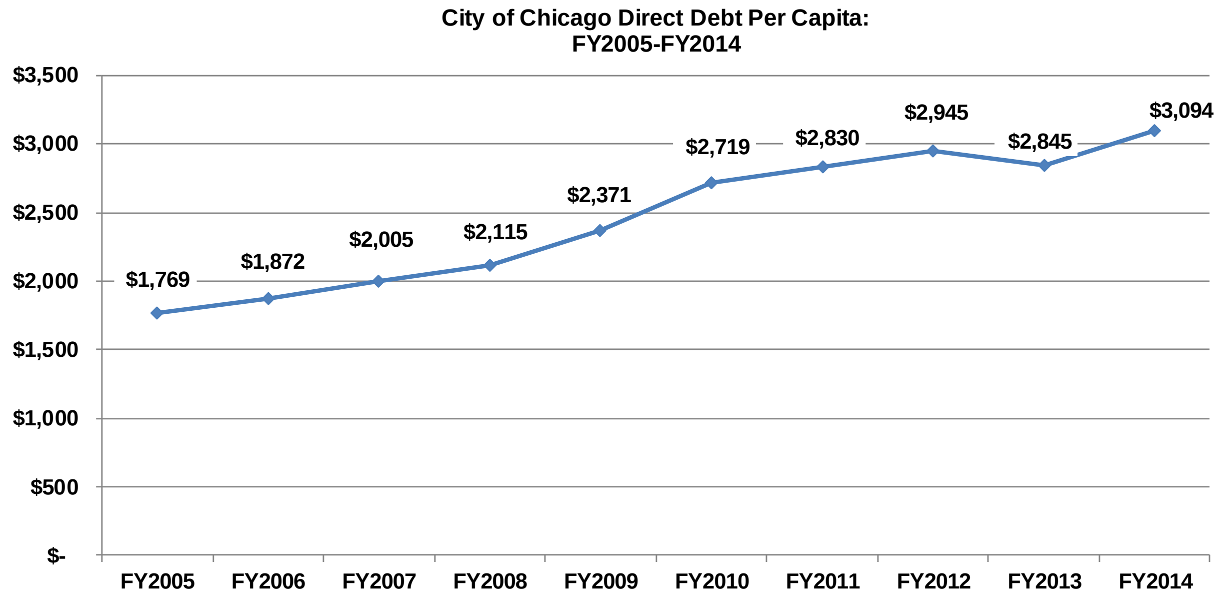
Long-Term Direct Debt Trends

Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 62.8%, or $3.2 billion. This represents an increase from $5.1 billion in FY2005 to $8.3 billion ten years later. Long term debt did decline by 3.4% between FY2012 and FY2013. However, it then rose by 8.7% or $670 million in FY2014. The large increase over time bears watching and raises concerns about the affordability of the City's rising debt burden.



Long-Term Direct Debt Per Capita

A common ratio used by ratings 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 ten years, between FY2005 and FY2014, direct debt per capita rose by 74.9% from $1,769 to $3,094. The large upward trend in debt per capita between FY2005 and FY2014 is a cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.

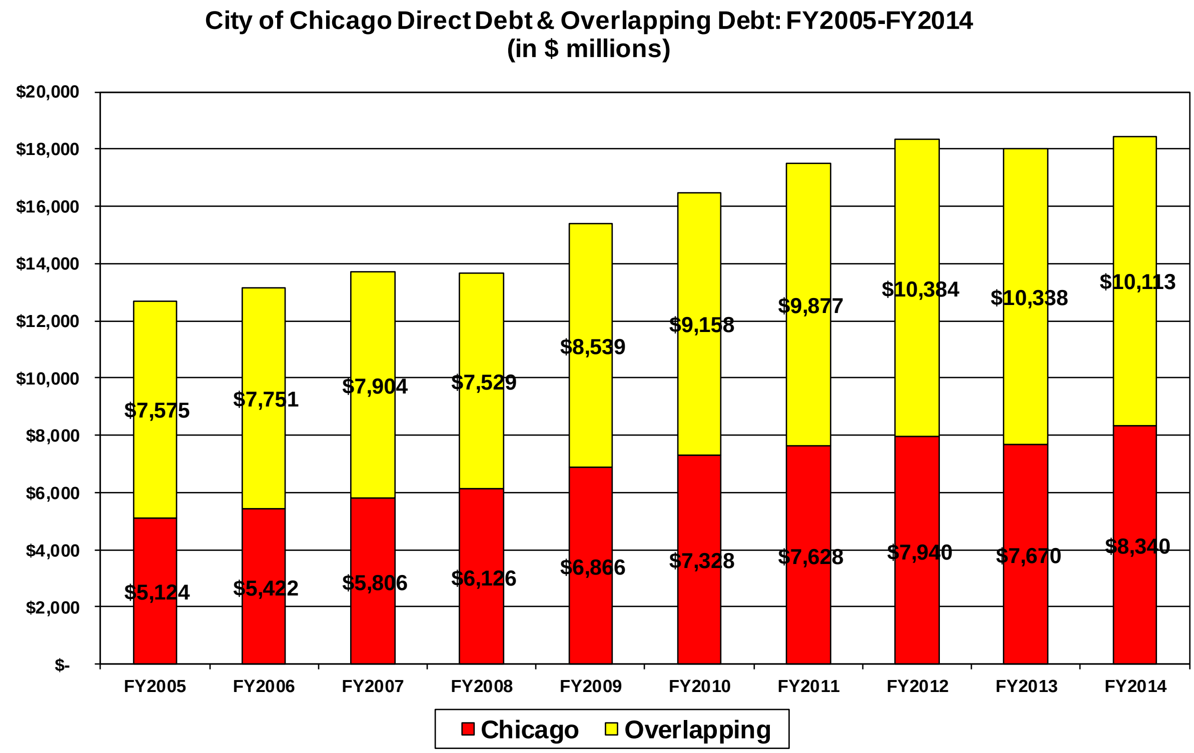


Source: City of Chicago, FY2014 Comprehensive Annual Financial Report, pp. 158-159.

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, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[177] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2005 and FY2014 combined direct debt from other overlapping governments increased by 33.5% at the same time City of Chicago debt rose by 62.8%. Total direct debt from all eight major governments including Chicago rose by 45.3%. The rate of increase in direct debt issued by Chicago far outpaced the increase for the overlapping governments.

[177] School Finance Authority debt was retired in 2007 and the Authority dissolved on June 1, 2010. Debt is now issued by the City on behalf of the Chicago Public Schools through the Chicago School Building Improvement Fund. The City also issues debt on behalf of the City Colleges for capital improvements.



Source: City of Chicago Comprehensive Annual Financial Reports, various years. Table 18: City of Chicago Computation of Direct and Overlapping Debt..

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2016 are projected to be 22.9% of total local fund net appropriations, or nearly $1.8 billion out of expenditures of $7.8 billion. Since FY2012 debt service appropriations have risen by 24.9%, roughly at the same pace as the 24.7% increase in total net appropriations. The debt service ratio has averaged 23.5% over the five-year period analyzed. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[178]

City of Chicago Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2012-FY2016

	Debt Service	Total Net Appropriation	Ratio
FY2012	$ 1,437,125,733	$ 6,283,605,000	22.9%
FY2013	$ 1,520,332,540	$ 6,540,147,000	23.2%
FY2014	$ 1,708,603,837	$ 6,976,982,000	24.5%
FY2015	$ 1,743,440,463	$ 7,339,188,000	23.8%
FY2016	$ 1,794,543,572	$ 7,837,956,000	22.9%
Five-Year $ Increase	$ 357,417,839	$ 1,554,351,000	
Five Year % Increase	24.9%	24.7%	

Source: City of Chicago Program and Budget Summaries and Budget Recommendations: FY2012-FY2016.

[178] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Credit Ratings

The ratings agencies have issued a number of credit rating downgrades since 2010, reflecting the City's continued deteriorating financial outlook. The following table summarizes credit ratings as of September 1, 2015 for various types of City bonds. The narrative that follows discusses the various downgrade actions over the past several years.

City of Chicago Credit Ratings (as of 9/1/15)			
	Ratings Agency		
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation Bonds			
City	Ba1	A-	BBB+
Revenue Bonds			
O'Hare Airport			
Senior Lien General Airport Revenue Bonds	A2	A-	A-
Passenger Facility Charge Revenue Bonds	A2	A-	A
Midway Airport			
First Lien - Revenue Bonds	A2	A	A
Second Lien - Revenue Bonds	A3	A-	A-
Water			
Senior Lien - Revenue Bonds	Aa2	AA	AA+
Junior Lien - Revenue Bonds	Aa3	AA-	AA
Wastewater			
Senior Lien - Revenue Bonds	A1	AA-	Not Rated
Junior Lien - Revenue Bonds	A2	A+	AA
Sales Tax	A3	AAA	A-
Motor Fuel Tax	Baa1	AA+	BBB+

Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 -
See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.
Moody's Investors Services Rating Action, July 17, 2013; Paul Merrion, Crain's Chicago Business, "Why state's falling credit ratings hurt Chicago, June 7, 2013; Fitch Ratings, Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to BBB+. Outlook Negative, June 4, 2013; Fitch Ratings, Fitch Rates Chicago O'Hare airport, IL Revs 'A-', Outlook Negative; Affs PFCs at 'A', Outlook Stable, September 25, 2013; Chicago Tribune, S & P turns 'negative' on Chicago's financial outlook, September 16, 2013; Chicago Sun-Times, "Fitch lowers Chicago's bond rating," November 11, 2013 at http://www.suntimes.com/23683456-761/fitch-lowers-chicagos-bond-rating.html; City of Chicago website at http://www.cityofchicago.org/city/en/depts/fin/supp_info/bond_issuances0/credit_information.html; CBS Chicago, Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit, March 4, 2014.

Chicago Credit Rating Downgrades in 2015

On February 27, 2015 Moody's downgraded the City of Chicago's General Obligation Bond rating one notch to Baa2 from Baa1, which triggered the termination clauses of several of the derivative instruments tied to the City's variable rate bonds, also referred to as swaps. At that time, Moody's cited a number of factors that could lead to a further reduction in the City's bond rating, including the Illinois Supreme Court issuing its ruling that the State's pension reform package was unconstitutional.[179]

In May 2015 Moody's Investors Service further downgraded the City of Chicago's general obligation bond ratings to Ba1 with a negative outlook, a rating below investment grade.[180] Soon after, Fitch Ratings and Standard and Poor's Ratings Services followed suit by downgrading Chicago's general obligation bond rating one notch to BBB+ from A- and to A- from A+, respectively, with negative outlook, but keeping Chicago's rating at investment grade.[181]

Chicago Credit Rating Downgrades in 2013 and 2014

Chicago motor fuel tax bonds credit ratings were lowered by both Fitch and Moody's in June 2013 after they downgraded the State of Illinois' general obligation ratings. Fitch lowered the rating to BBB+ from A-. This action was triggered by Fitch's downgrade of the State of Illinois' general obligation bond rating to A- from A. Moody's reduced the rating on the bonds to Baa1 with a negative outlook from A3 one day after their State of Illinois rating was lowered to A2 from A3. Motor fuel taxes are distributed according to formula set by the state and are subject to annual appropriation by the General Assembly. The ratings agencies expressed concern that weakness in the state's financial condition raised qustions about the reliability of state revenues provided to local governments that are used to pay for local debt.[182]

In July 2013, Moody's downgraded Chicago general obligation sales tax bonds to A3 from Aa3, water and sewer senior lien revenue bond to A1 from Aa2 and water and sewer junior lien bonds to A2 from Aa3. The outlook on all ratings was negative. The primary reason for the general obligation bond downgrade was the City's large and growing unfunded pension liabilities and the increasing budget pressures resulting from these obligations. The sales tax bonds were downgraded due to the "lack of legal separation between pledged sales tax revenues and the city's general operations." The downgrades of the water and sewer bonds reflected the ratings agency's concerns about how the City's water and sewer enterprises were linked to its general operations.[183]

In September 2013, Standard & Poor's (S&P) reduced the City's A+ general obligation bond rating from stable to negative. The downgrade was due to concerns that Chicago might reduce its reserves in order to pay for increased pension funding in fiscal year 2015. In that year S&P said

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[179] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015. See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.
[180] Chicago Tribune. "Chicago credit junked, Moody's downgrades to Detroit-level status after pension fix tossed," May 13, 2015.
[181] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.
[182] Fitch Ratings. "Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BBB+'; Outlook Negative," June 4, 2013 and Paul Merrion, *Crain's Chicago Business*, "Why state's falling credit rating hurts Chicago," June 7, 2013.
[183] Moody's Investors Services. Rating Action: Moody's downgrades Chicago to A3 from Aa3, affecting $8.2 billion of GO and sales tax debt; outlook negative.

that the City must substantially increase contributions to two of its four retirement funds to meet state statuary requirements. S&P noted that the City could retain its A+ rating with a stable outlook if it devised a plan to make the forthcoming pension payments while maintaining a balanced budget and keeping reserves at current levels.[184]

In November 2013 Fitch issued the following credit downgrades:

- $8 billion unlimited tax general obligation (ULTGO) bonds downgraded to 'A-' from 'AA-';
- $497.3 million sales tax bonds downgraded to 'A-' from 'AA-';
- $200 million commercial paper notes, 2002 program series A (tax exempt) and B (taxable) downgraded to 'BBB+' from 'A+'.

The rating outlook for Chicago debt was negative. The downgrade reflected the City's lack of action on solving its mounting unfunded pension liability problem.[185]

In March 2014 Moody's Investor's Services again downgraded the City of Chicago's credit rating, lowering it from A3 to Baa1 with a negative outlook, only three ranks above speculative status. The negative outlook indicates that another downgrade could come if the City does not implement a solution to its looming pension funding shortfall. As a result of the downgrade, Chicago had the worst credit rating of any major city except Detroit.[186]

Chicago Credit Rating Downgrades 2010-2012

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds to AA from AA+.[187] 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.[188] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds to AA- from AA, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[189]

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[184] Reuters. "S&P turns 'negative' on Chicago's financial outlook," September 16, 2013.

[185] Reuters. "Fitch Downgrades Chicago, IL's ULTGOs to 'A-'; Outlook Negative," November 8, 2013 at http://www.reuters.com/article/2013/11/09/ny-fitch-ratings-chicago-idUSnBw085976a+100+BSW20131109.

[186] CBS Chicago. *Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit*, March 4, 2014 and Civic Federation Blog. "Chicago Faces Significant Swaps Liabilities if Bond Rating Lowered Again," June 19, 2014.

[187] 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.

[188] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.

[189] 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 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 in August 2010. The reasons given for the downgrade were that the City was overly dependent on asset lease reserves that were 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.[190]

Moody's, Standard & Poor's and Fitch reaffirmed the City of Chicago's general obligation and sales tax bond ratings and gave the City's credit a stable outlook on October 18, 2011. At that time, the ratings agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[191]

In July 2012, Moody's downgraded O'Hare Airport senior lien general revenue bonds to A2 from A1 over concerns about slow growth in passengers and the bankruptcy of American Airlines, the airport's second largest carrier. The ratings agency noted that the ongoing O'Hare runway expansion effort faces considerable risk in its ability to contain costs and complete work on time because of the size and complexity of the project. Moody's affirmed the A2 rating for O'Hare passenger facility revenue bonds at this time.[192]

Bond Refinancing

The Mayor's recommended FY2016 budget proposes refinancing long-term bonds due to be retired in FY2016 to reduce the debt service owed by the City in the coming year.[193] This refinancing technique, known as "scoop and toss", provides for current and near-term budget relief but increases the interest cost of the original capital investments and government service paid for with funds borrowed decades earlier.

The total cost of this refinancing will not be known until after the bonds are sold but the practice over the last three budget years has cost the City an aggregate total of $446.8 million in additional interest cost in order to reduce its annual budget deficits by a total of $254.6 million.[194] According to the budget document, "scoop and toss" in FY2016 will be reduced by $100 million compared to previous years. The total "scoop and toss" for FY2015 was $225 million and the expected refinancing for FY2016 totals $125 million.

In March 2014 the City refinanced the first portion of its FY2015 "scoop and toss" by paying for $120.8 million in principal due for repayment with refunding bonds that mature through

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190 Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.

191 Fitch Ratings. Fitch Rates Chicago, IL GOs & Sales Tax Bonds 'AA-'; Outlook Stable. October 18, 2011 and Standard & Poor's. 'AAA' Rating Assigned To Chicago, IL's $229.5 Million Series 2011A-C Sales Tax Refunding Bonds. October 18, 2011. Fran Spielman, "500 jobs coming, bond rating steady," *Chicago Sun-Times*, October 19, 2011.

192 Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.

193 City of Chicago, FY2016 Budget Recommendations, p. 32.

194 Source: City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, Mach 13, 2014, p. H-2; City of Chicago, General Obligation Bonds, Taxable Project and Refunding Bonds Series 2012B, *Official Statement*, May 16, 2012, pp. G1-G3.

FY2044.[195] The term bonds used to facilitate this refinancing received an annual interest rate of 6.3% and were structured so that no principal payments will be made for 30 years. Extending the life of this debt leads to a total interest cost of $228.8 million for the refunding bonds. If the City had not refunded the debt, the FY2015 budget would have had to include this principal payment as part of its total debt service payment. Likewise, the FY2013 and FY2014 operating budgets benefited from $133.8 million in refunded principal that was due to be paid out of operating expenses in those years but was part of refunding bonds issued in May 2012. The additional interest for the FY2013 and FY2014 refunding totals $218.0 million.

The City will also experience a spike in principal payments owed at the end of the refunding when the entire principal amounts are due to be repaid in full, which reduces the government's long-term debt capacity.

The following chart shows the principal that was owed in FY2013 through FY2015 by the City but that were refinanced and paid for using term bonds and will not be repaid until FY2044. The chart also shows the original bond series and the amount of interest that will be paid over the life of the extended debt.

City of Chicago: Refunded Principal and New Interest Costs FY2013-FY2015 (in $ millions)

	FY2013		FY2014		FY2015		Total	
Refunded Bond Series	Principal Refunded	New Interest	Principal Refunded	New Interest	Principal Refunded	New Interest	Principal Refunded	Total New Interest Owed
1993A	$ 6.4	$ 10.4	$ -	$ -	$ -	$ -	$ 6.4	$ 10.4
1993B	$ -	$ -	$ 6.0	$ 9.8	$ 12.4	$ 23.5	$ 18.4	$ 33.3
1995A	$ -	$ -	$ -	$ -	$ 15.4	$ 29.1	$ 15.4	$ 29.1
1998	$ -	$ -	$ 4.0	$ 6.4	$ 6.8	$ 12.9	$ 10.8	$ 19.4
2001A	$ -	$ -	$ 2.3	$ 3.8	$ 2.4	$ 4.6	$ 4.8	$ 8.4
2002A	$ -	$ -	$ -	$ -	$ 0.2	$ 0.3	$ 0.2	$ 0.3
2003A	$ 3.1	$ 5.0	$ 3.3	$ 5.4	$ 0.8	$ 1.5	$ 7.1	$ 11.8
2004A	$ 2.1	$ 3.4	$ 2.4	$ 3.8	$ 1.6	$ 3.1	$ 6.1	$ 10.4
2005A	$ 13.1	$ 21.3	$ 59.6	$ 97.1	$ 63.6	$ 120.5	$ 136.3	$ 238.9
2005B	$ 2.4	$ 4.0	$ 1.8	$ 3.0	$ 2.7	$ 5.1	$ 7.0	$ 12.1
2005C	$ -	$ -	$ -	$ -	$ 4.2	$ 8.0	$ 4.2	$ 8.0
2006A	$ 1.5	$ 2.5	$ 1.6	$ 2.6	$ -	$ -	$ 3.1	$ 5.1
2006B	$ -	$ -	$ -	$ -	$ 4.9	$ 9.3	$ 4.9	$ 9.3
2007A	$ 0.2	$ 0.3	$ -	$ -	$ -	$ -	$ 0.2	$ 0.3
2007C	$ 12.3	$ 20.0	$ 11.5	$ 18.8	$ 5.7	$ 10.9	$ 29.5	$ 49.7
2008A	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ -	$ -	$ 0.2	$ 0.3
Total	**$ 41.2**	**$ 67.1**	**$ 92.6**	**$ 150.9**	**$ 120.8**	**$ 228.8**	**$ 254.6**	**$ 446.8**

Source: City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement* , Mach 13, 2014, p. H-2; City of Chicago, General Obligation Bonds, Taxable Project and Refunding Bonds Series 2012B, *Official Statement* , May 16, 2012, pp. G1-G3.

As shown in the table above, "scoop and toss" has been used to reduce the City's annual debt service on bonds that date back to 1993. The refinancing of these bonds extends the life of the original debt from 20 to 50 years and the backloading of principal payments for 30 years greatly increases the cost of the original investments.

[195] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, March 13, 2014, p. H-2.

The City also refinanced $14.0 million of principal payments due from FY2016 through FY2027 with the Taxable Series 2014B Bonds. The interest rate being paid on all of these bonds increased to 6.3% through 2044. The original interest rates ranged from 5.0% to 5.37%.[196]

The practice of "scoop and toss" refinancing differs from the City's direct borrowing for operations in previous years. In the past, the City directly used bond proceeds to fund operations, increasing corporate fund resources. "scoop and toss" reduces total debt service owed, thus freeing up additional operating resources that would have otherwise been used to make the principal payments but does not make bond proceeds available to pay for other general operating expenditures.

According to a plan announced by the Mayor in April 2015, the City plans to phase out the use of "scoop and toss" refinancing by the end of FY2019 but will utilize the technique to delay payment on an additional $300 million of principal owed in the interim budget years.

Restructuring Bonds

The City of Chicago issued $1.1 billion of new debt on July 16, 2015 to restructure a large amount of existing liabilities using long-term General Obligation Bonds. The largest of these liabilities were costs associated with the City's variable rate bonds and associated interest rate swaps.

Since 2003 the City of Chicago maintained a portfolio of variable rate bonds and associated swaps contracts that serve various purposes including hedging against interest rate fluctuation and accessing additional funds through upfront payments.

These contracts carry separate terms for payments between the City and financial institutions counterparty to the agreements. The swaps overlay the payment terms owed to the original bondholders and can lower or increase the total cost of the bonds. Depending on the terms of the agreements and the indices that the deals are tied to, the City or counterparty may be in a negative or positive position under the contract at any given time.

Due to termination clauses triggered by the City's recent bond rating downgrades,[197] the City was forced to pay the negative market value of all of its outstanding swaps and it chose to refinance the outstanding variable rate debt into long-term fixed rate bonds.

The City used $192.1 million of the restructuring bonds to pay for the costs associated with the swaps terminations and $24.5 million to reimburse the City's General Fund for swaps termination costs previously incurred.[198]

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[196] City of Chicago, General Obligation Bonds, Taxable Series 2014B, *Official Statement*, March 13, 2014, p. H-2.
[197] See the Ratings section on page 92 more information about these downgrades.
[198] City of Chicago, General Obligation Bonds Series 2015A and Taxable Series 2015B, *Official Statement*, p. 15, July 16, 2015.

Conversion of the City's outstanding variable rate bonds into long-term fixed rate bonds cost $151.6 million and was paid for with the restructuring bond proceeds. An additional $46.6 million in bank fees related to the transaction were also financed through the restructuring bonds.[199]

The City used $181.0 million of the bond proceeds to terminate a sale and lease back agreement related to the construction of the Chicago Transit Authority's Orange Line construction.[200] An amount totaling $170.0 million was used for a portion of the FY2015 and FY2016 "scoop and toss" bond refinancing.

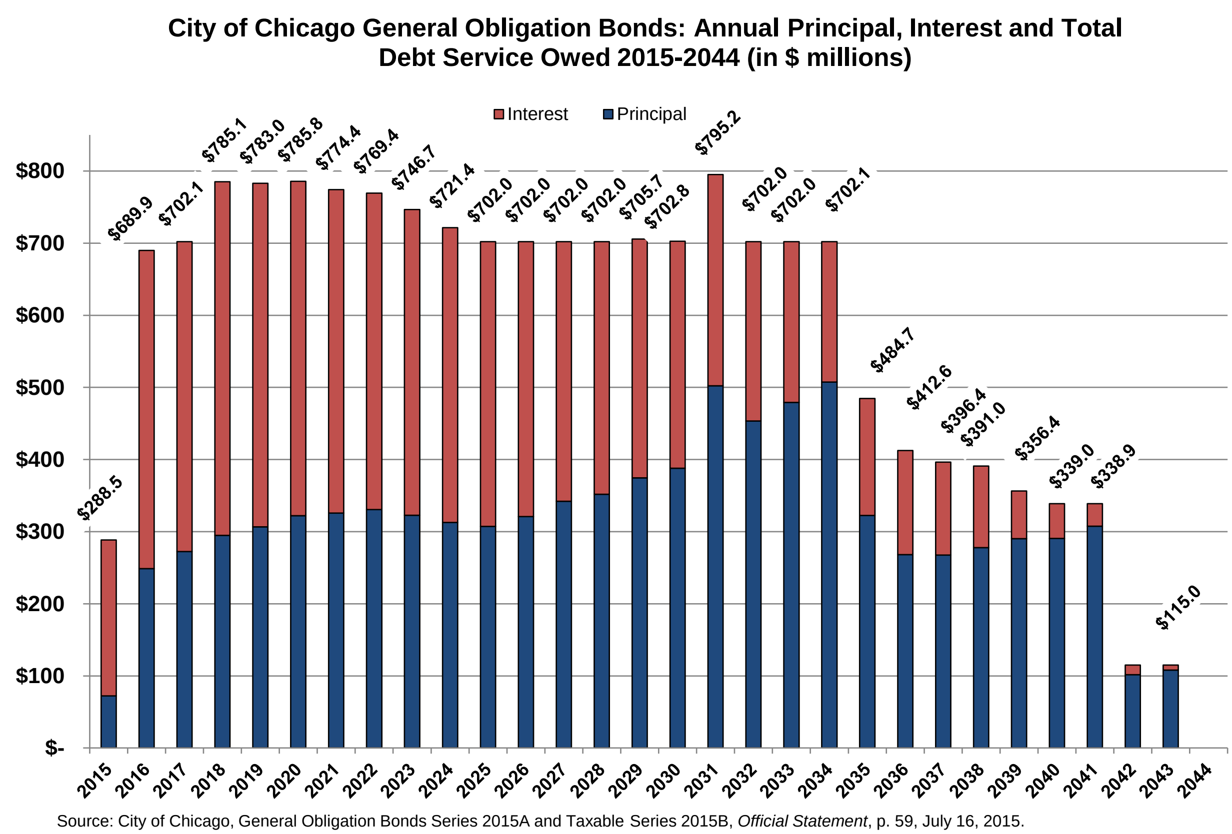
[199] City of Chicago, General Obligation Bonds Series 2015A and Taxable Series 2015B, *Official Statement*, pp. 14 and 15, July 16, 2015.
[200] City of Chicago, General Obligation Bonds Series 2015A and Taxable Series 2015B, *Official Statement*, p. 14, July 16, 2015.

The restructuring bond proceeds were used to repay other cost incurred through the City's short-term borrowing program including:

- $35 million for debt service related to the purchase of the Michael Reese Hospital campus;
- $62.4 million for payment of a legal judgement related to the long-term lease of the City's parking garages;
- $18.5 million related to contract claims against the City by the private operator of the City's parking meter system; and
- $2.4 million for the termination of the City's sale and lease back of the 311/911 Qualifies Technological Equipment (QTE).

The restructuring bonds included funding for $177.8 million in capitalized interest on the new bonds and $7.6 million of the cost to issue the bonds.

After the issuance of the restructuring bonds the City's long-term General Obligation debt grew to $9.1 billion with a total of $8.0 billion in interest for a total of $17.1 billion of debt service owed through FY2044. The following chart shows the principal and interest payments owed by the City as of July 16, 2015.



Source: City of Chicago, General Obligation Bonds Series 2015A and Taxable Series 2015B, *Official Statement*, p. 59, July 16, 2015.

The amounts in the chart above include the total debt service due in FY2016 prior to the "scoop and toss" refunding expected to total $125 million. The FY2015 principal payment is reduced by approximately $225 million of "scoop and toss" refinancing.

Due to the backloading of principal payments the City faces extraordinarily high interest payments annually and little debt service relief through FY2035. The ongoing use of "scoop and toss" refinancing has resulted in large amounts of principal owed in the out years of the City's debt service schedule and a large spike in debt service in FY2031.

CAPITAL PROGRAM

The City of Chicago has released a FY2015-2019 Capital Improvement Plan (CIP).[201] This is the fourth CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and provide an estimate of the size and timing of future debt issuance. The first year of a CIP is the capital budget for that fiscal year. Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

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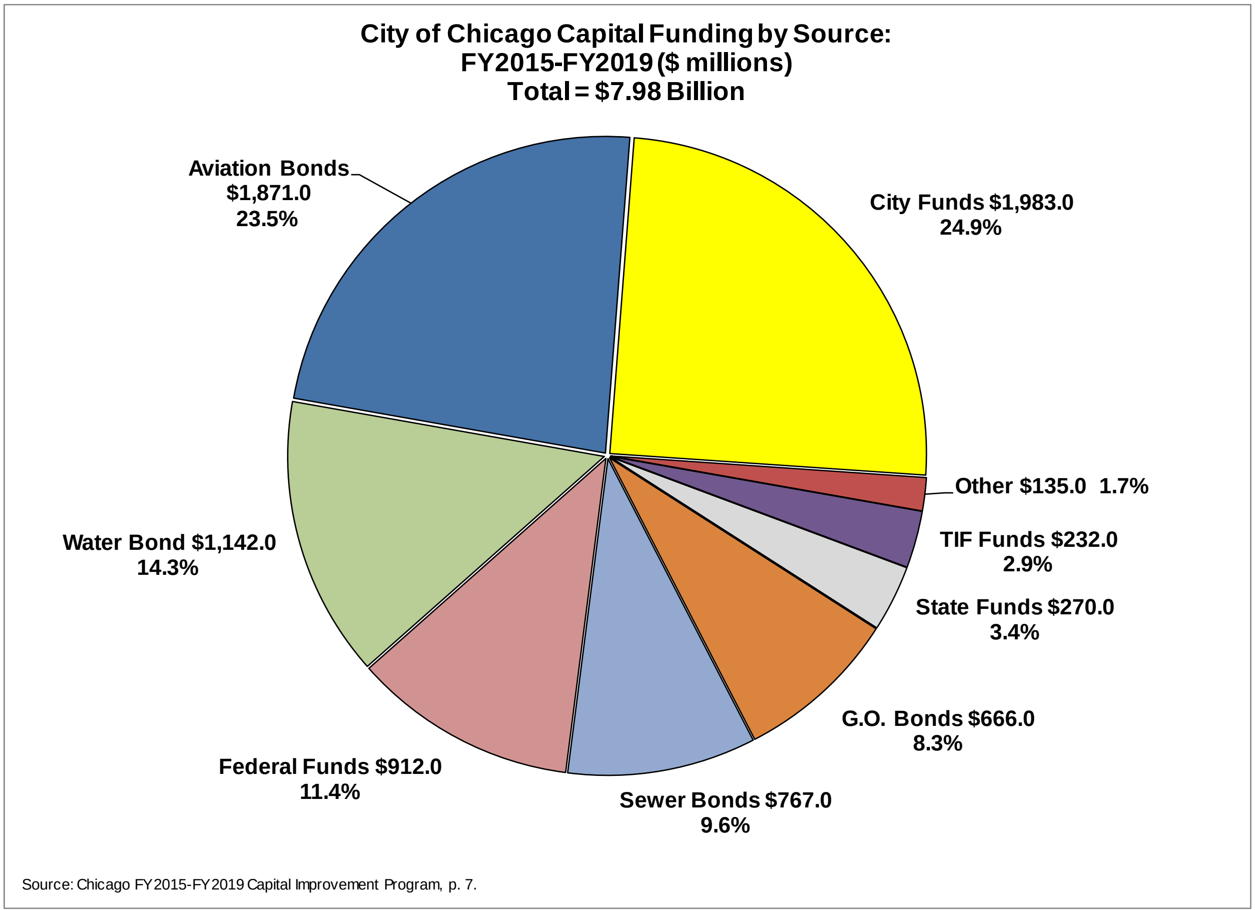
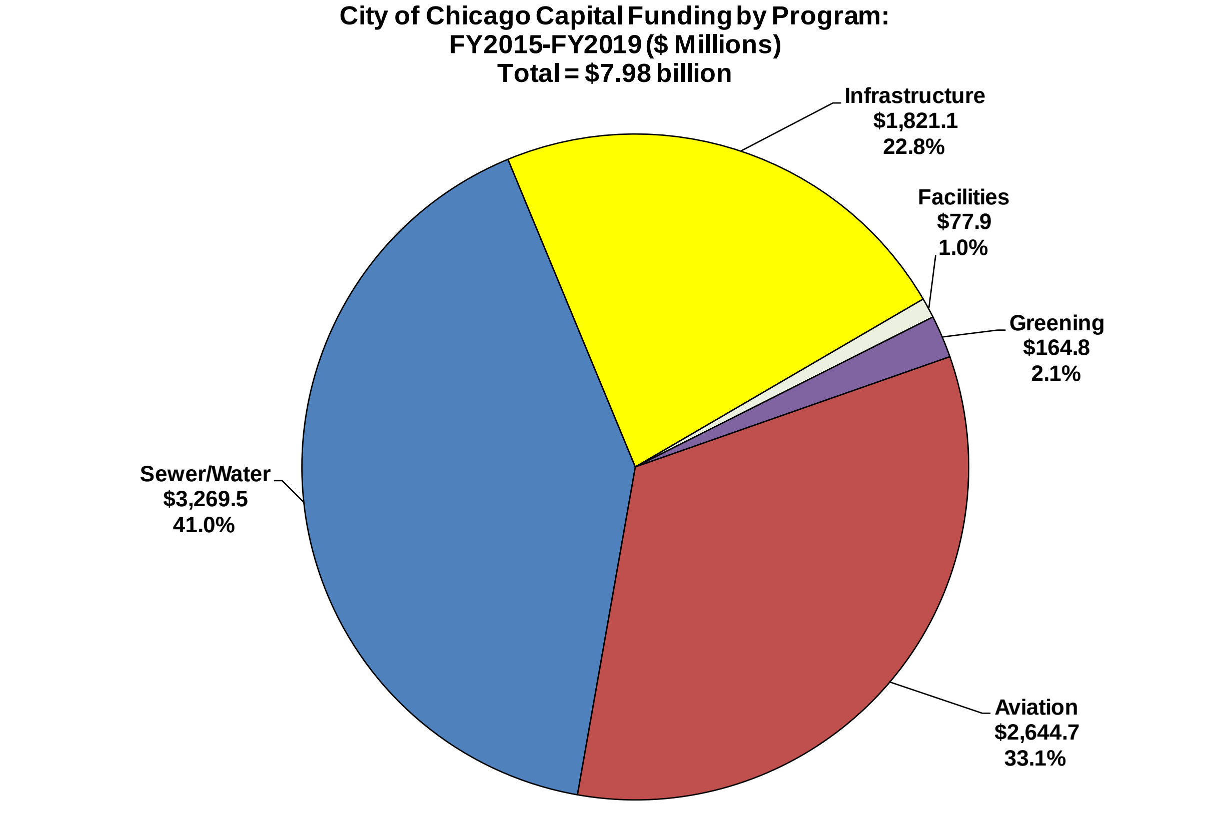
[201] The FY2015-FY2019 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2015%20-%202019%20Capital%20Improvement%20Program.pdf.

The FY2015-FY2019 CIP proposes $7.98 billion in planned projects. Aviation, water and sewer projects paid for with revenue bond funds will consume 47.4% of the total or $3.8 billion. City funds, derived from fees and other resources, will account for $1.9 billion or 24.9i% of all five-year CIP spending. Federal funds will be used to finance 11.4% or $912.1 million in projects. City issued general obligation bonds will be used for $666.0 million or 8.3% of all projects. Smaller sums will be derived from the State, tax increment financing districts and other funds.



The next exhibit shows the distribution of Chicago FY2015-FY2019 CIP funds by program. The largest component of the capital program will be $3.3 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total $2.6 billion, or 33.1% of all funding. The next largest capital program will be for infrastructure, which will total approximately $1.8 billion, or 22.8% of funding. Smaller amounts will be used for facilities and greening projects such as greenways, street medians, neighborhood parks, streetscaping and natural areas.



Source: Chicago FY2015-FY2019 Capital Improvement Program, p. 8.

The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and Civic Federation budget analyses of local government budgets. [202] This review is based on the FY2014-FY2018 capital improvement program posted online on the City's website. [203] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

[202] See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.
[203] See http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2014CapitalBook.pdf.

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually, although no CIP was produced for the FY2011-2015 period.
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No, but there is an overview of planned projects
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[204]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear

[204] City of Chicago Capital Improvement Plans are available at http://www.cityofchicago.org/city/en/depts/obm/provdrs/cap_improve.html

APPENDIX A

Appropriation Trends by Fund for Local Funds

The City of Chicago is proposing to adopt an amended FY2015 budget in conjunction with the adoption of the proposed FY2016 budget to account for increased payments to the police and fire pension funds.

The chart below compares the adopted FY2015 appropriations by fund for local funds with the proposed FY2015 amended budget. The proposed amended FY2015 budget will increase the Pension Funds appropriations by $328.6 million or 59.0%. The proposed amended FY2015 will increase the Enterprise Funds appropriations by $10.4 million or 0.4%. The proposed amended FY2015 appropriations will increase by $339.3 million, or 4.2% over the FY2015 adopted budget. Corporate Fund appropriations will also increase by $0.3 million. Net appropriations will increase by $328.9 million, or 4.5%.

City of Chicago Appropriations by Fund for Local Funds
FY2015 Adopted and FY2015 Amended
(In $ millions)

	FY2015 Adopted	FY2015 Proposed Amended	Proposed $ Change	Proposed % Change
Corporate Fund	$ 3,534.4	$ 3,534.7	$ 0.3	0.0%
Special Revenue Funds	$ 619.7	$ 619.7	$ 0.0	0.0%
Pension Funds	$ 557.1	$ 885.7	$ 328.6	59.0%
Debt Service Funds	$ 826.4	$ 826.4	$ (0.0)	0.0%
Enterprise Funds	$ 2,449.4	$ 2,459.8	$ 10.4	0.4%
Total Resources	**$ 7,987.0**	**$ 8,326.3**	**$ 339.3**	**4.2%**
Less Proceeds of Debt	$ (95.3)	$ (95.3)	$ 0.0	0.0%
Less Internal Transfer	$ (552.2)	$ (562.6)	$ (10.4)	1.9%
Net Appropriation	**$ 7,339.5**	**$ 7,668.4**	**$ 328.9**	**4.5%**

Note: Excludes Grant Funds

Source: City of Chicago, Appropriation Ordinances, FY2012-FY2015; and FY2016 Budget Recommendations, Summary F.

The next chart provides two two-year comparisons between the FY2016 proposed budget and the FY2015 adopted budget and FY2015 proposed amended budget. The FY2016 proposed budget projects that net appropriations for all funds will increase by 2.2% to approximately $7.8 billion from FY2015 proposed amended appropriations of just over $7.7 billion. Appropriations for the Corporate Fund will increase by 2.8%, or $98.1 million, from approximately $3.5 billion in the FY2015 proposed amended budget to $3.6 billion in FY2016, due in part to a change in the how pension fund payments are accounted for beginning with the FY2015 budget.

The Special Revenue Fund, which is used to account for revenue from specific taxes and other sources that by law are designated to finance particular functions, will decrease by 0.6% from FY2015 proposed amended appropriations. Appropriations for the Pension Funds will increase by 10.4%, or $92.6 million from $885.7 million proposed amended in FY2015 to $978.3 million proposed for FY2016. The increase is primarily attributable to the increased pension payments to the police and fire pension funds and retroactive payments.[205] Enterprise Fund appropriations, which fund business-type operations that are typically self-supporting and include the two airports, water and sewer operations, are increasing by 3.6%, or $89.0 million, over the two-year period. Approximately $10 million of the proposed $99.5 million increase is due to the proposed amendment to the FY2015 budget which will help contribute towards pension payments to the police and fire pension funds. As noted in the beginning of this section, the City of Chicago is proposing to amend the FY2015 budget to increase the property tax levy by $318 million, with an additional $10 million coming from the Enterprise Funds, to provide additional funding for police and fire pension payments.[206]

City of Chicago Appropriations by Fund for Local Funds: FY2012-FY2016 (in $ millions)

	FY2012 Adopted	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2015 Proposed Amended	FY2016 Proposed	Two-Year Adopted $ Change	Two-Year Adopted % Change	Two-Year Proposed Amended $ Change	Two-Year Proposed Amended % Change	Five-Year Adopted $ Change	Five-Year Adopted % Change
Corporate Fund	$ 3,095.7	$ 3,161.8	$ 3,290.2	$ 3,534.4	$ 3,534.7	$ 3,632.8	$ 98.4	2.8%	$ 98.1	2.8%	$ 537.2	17.4%
Special Revenue Funds	$ 473.2	$ 484.4	$ 523.0	$ 619.7	$ 619.7	$ 615.7	$ (3.9)	-0.6%	$ (4.0)	-0.6%	$ 142.6	30.1%
Pension Funds	$ 476.3	$ 479.4	$ 478.3	$ 557.1	$ 885.7	$ 978.3	$ 421.1	75.6%	$ 92.6	10.4%	$ 501.9	105.4%
Debt Service Funds	$ 646.6	$ 708.3	$ 797.4	$ 826.4	$ 826.4	$ 778.3	$ (48.1)	-5.8%	$ (48.1)	-5.8%	$ 131.7	20.4%
Enterprise Funds	$ 2,001.6	$ 2,108.0	$ 2,313.7	$ 2,449.4	$ 2,459.8	$ 2,548.9	$ 99.5	4.1%	$ 89.0	3.6%	$ 547.3	27.3%
Total Appropriations	**$ 6,693.3**	**$ 6,941.9**	**$ 7,402.6**	**$ 7,987.0**	**$ 8,326.3**	**$ 8,553.9**	**$ 566.9**	**7.1%**	**$ 227.6**	**2.7%**	**$ 1,860.6**	**27.8%**
Less Proceeds of Debt	$ (70.5)	$ (72.3)	$ (95.0)	$ (95.3)	$ (95.3)	$ (77.1)	$ 18.2	-19.1%	$ 18.2	-19.1%	$ (6.6)	9.3%
Less Internal Transfer	$ (330.3)	$ (324.5)	$ (316.0)	$ (552.2)	$ (562.6)	$ (638.8)	$ (86.6)	15.7%	$ (76.2)	13.5%	$ (308.5)	93.4%
Net Appropriation	**$ 6,292.4**	**$ 6,545.1**	**$ 6,991.6**	**$ 7,339.5**	**$ 7,668.4**	**$ 7,838.0**	**$ 498.5**	**6.8%**	**$ 169.6**	**2.2%**	**$ 1,545.6**	**24.6%**

Note 1: Excludes grant funds. FY2011-FY2014 adopted figures are used because year-end estimates or actuals are not available.
Note 2: Historically the Civic Federation has analyzed the two-year dollar and percent change between the current proposed budget and the previous year's adopted budget. However, this year the Civic Federation is presenting the two-year dollar and percent change between the FY2016 proposed budget and the FY2015 originally adopted budget because the Chicago City Council is scheduled to adopt a FY2015 supplemental appropriation in addition to the FY2016 proposed budget. For more information on the proposed amended FY2015 budget, please see the Property Tax Revenue section on pp. 40; and Appendix B.

Source: City of Chicago, Appropriation Ordinances, FY2012-FY2015; FY2016 Overview, pp. 139-140; and FY2016 Budget Recommendations, Summary F.

Appropriation Trends by Program Area

The City of Chicago is proposing to adopt an amended FY2015 budget in conjunction with the adoption of the proposed FY2016 budget to account for increased payments to the police and fire pension funds.

The chart below compares the adopted FY2015 appropriations for all local funds by program area with the proposed FY2015 amended budget. The proposed FY2015 amended budget will increase the General Financing Requirements by $339.3 million, or 8.6% above the FY2015 originally adopted appropriations of $3.9 billion to $4.3 billion in the FY2015 proposed amended budget. After accounting for internal transfers, proceeds of debt and grant funds, the All Local Funds total will increase by $329 million, or 4.5%, rising from $7.3 billion to $7.7 billion under the FY2015 proposed amended budget. Internal transfers between funds will increase by $10.4 million, as result of the Enterprise Funds paying for a portion of the increased contributions to the police and fire pension funds.

[205] City of Chicago, FY2016 Budget Overview, p. 31.
[206] City of Chicago, FY2016 Budget Overview, p. 31.

City of Chicago All Funds Appropriations by Program Area FY2015 Adopted & FY2015 Proposed Amended (in $ millions)				
	FY2015 Adopted	FY2015 Proposed Amended	FY2015 $ Change	FY2015 % Change
Finance and Administration				
Local Fund	$ 531.0	$ 531.0	$ (0.0)	0.0%
Grants	$ 43.9	$ 43.8	$ (0.1)	-0.2%
Subtotal Finance and Administration	**$ 574.9**	**$ 574.8**	**$ (0.1)**	**0.0%**
Legislative and Elections				
Local Fund	$ 52.5	$ 52.5	$ 0.0	0.0%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 52.5**	**$ 52.5**	**$ 0.0**	**0.0%**
City Development				
Local Fund	$ 70.8	$ 70.8	$ (0.0)	0.0%
Grants	$ 115.6	$ 115.7	$ 0.1	0.1%
Subtotal City Development	**$ 186.4**	**$ 186.5**	**$ 0.1**	**0.0%**
Community Services				
Local Fund	$ 147.6	$ 147.7	$ 0.1	0.1%
Grants	$ 415.4	$ 415.4	$ 0.0	0.0%
Subtotal Community Services	**$ 562.9**	**$ 563.1**	**$ 0.2**	**0.0%**
Public Safety				
Local Fund	$ 2,082.5	$ 2,082.5	$ 0.0	0.0%
Grants	$ 177.8	$ 177.8	$ (0.0)	0.0%
Subtotal Public Safety	**$ 2,260.3**	**$ 2,260.3**	**$ (0.0)**	**0.0%**
Regulatory				
Local Fund	$ 57.6	$ 57.6	$ (0.0)	-0.1%
Grants	$ 11.1	$ 11.1	$ (0.0)	0.0%
Subtotal Regulatory	**$ 68.8**	**$ 68.7**	**$ (0.1)**	**-0.1%**
Infrastructure Services and Public Service Enterprises				
Local Fund	$ 1,104.3	$ 1,104.3	$ (0.0)	0.0%
Grants	$ 804.2	$ 804.3	$ 0.1	0.0%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,908.5**	**$ 1,908.6**	**$ 0.1**	**0.0%**
General Financing Requirements				
Local Fund	$ 3,940.7	$ 4,280.0	$ 339.3	8.6%
Grants	$ -	$ -	$ -	-
Subtotal General Financing Requirements	**$ 3,940.7**	**$ 4,280.0**	**$ 339.3**	**8.6%**
Subtotal All Program Areas	**$ 9,555.1**	**$ 9,894.5**	**$ 339.4**	**3.6%**
Less Internal Transfers	$ (552.2)	$ (562.6)	$ (10.4)	1.9%
Less Proceeds of Debt	$ (95.3)	$ (95.3)	$ 0.0	0.0%
Less Grant Funds	$(1,568.1)	$(1,568.1)	$ (0.0)	0.0%
All Local Funds Total	**$ 7,339.5**	**$ 7,668.5**	**$ 329.0**	**4.5%**

Note 1: FY2016 Recommendations, Summary G consolidates Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation consolidated FY2015 Public Service Enterprises and Infrastructure Services in this chart.
Note 2: Minimal differences may appear in chart due to rounding.
Source: City of Chicago, FY2015 Appropriation Ordinance, Summary G; FY2016 Budget Overview, p. 37; and FY2016 Budget Recommendations, Summary G.

The chart below provides two two-year comparisons between the FY2016 proposed budget and the FY2015 adopted budget and FY2015 proposed amended budget by program area. This chart focuses on the changes between the FY2015 proposed amended budget and FY2016 proposed budget. The FY2016 proposed budget projects that General Financing Requirements will increase by $165.3 million, or 3.9% over the FY2015 proposed amended budget. This increase is due primarily to contributions to the City's pension funds. Over the two-year period, between the

FY2015 proposed amended budget and the FY2016 proposed budget, all local funds are estimated to increase by $169.5 million, or 2.2%.

City of Chicago All Funds Appropriations by Program Area
FY2015 Adopted, FY2015 Proposed Amended & FY2016 Proposed
(in $ millions)

	FY2015 Adopted	FY2015 Proposed Amended	FY2015 $ Change	Two-Year Adopted $ Change	Two-Year Adopted % Change	Two-Year Proposed $ Change	Two-Year Proposed % Change
Finance and Administration							
Local Fund	$ 531.0	$ 531.0	$ (0.0)	$ (14.9)	-2.8%	$ (14.9)	-2.8%
Grants	$ 43.9	$ 43.8	$ (0.1)	$ (14.2)	-32.3%	$ (14.1)	-32.2%
Subtotal Finance and Administration	**$ 574.9**	**$ 574.8**	**$ (0.1)**	**$ (29.1)**	**-5.1%**	**$ (29.0)**	**-5.0%**
Legislative and Elections							
Local Fund	$ 52.5	$ 52.5	$ 0.0	$ (10.3)	-19.6%	$ (10.3)	-19.6%
Grants	$ -	$ -	$ -	$ -	-	$ -	-
Subtotal Legislative and Elections	**$ 52.5**	**$ 52.5**	**$ 0.0**	**$ (10.3)**	**-19.6%**	**$ (10.3)**	**-19.6%**
City Development							
Local Fund	$ 70.8	$ 70.8	$ (0.0)	$ 1.2	1.8%	$ 1.3	1.8%
Grants	$ 115.6	$ 115.7	$ 0.1	$ (13.9)	-12.0%	$ (13.9)	-12.0%
Subtotal City Development	**$ 186.4**	**$ 186.5**	**$ 0.1**	**$ (12.6)**	**-6.8%**	**$ (12.7)**	**-6.8%**
Community Services							
Local Fund	$ 147.6	$ 147.7	$ 0.1	$ 5.2	3.5%	$ 5.0	3.4%
Grants	$ 415.4	$ 415.4	$ 0.0	$ 12.8	3.1%	$ 12.8	3.1%
Subtotal Community Services	**$ 562.9**	**$ 563.1**	**$ 0.2**	**$ 18.0**	**3.2%**	**$ 17.8**	**3.2%**
Public Safety							
Local Fund	$ 2,082.5	$ 2,082.5	$ 0.0	$ 51.3	2.5%	$ 51.3	2.5%
Grants	$ 177.8	$ 177.8	$ (0.0)	$ 0.9	0.5%	$ 0.9	0.5%
Subtotal Public Safety	**$ 2,260.3**	**$ 2,260.3**	**$ (0.0)**	**$ 52.1**	**2.3%**	**$ 52.2**	**2.3%**
Regulatory							
Local Fund	$ 57.6	$ 57.6	$ (0.0)	$ 5.3	9.2%	$ 5.4	9.3%
Grants	$ 11.1	$ 11.1	$ (0.0)	$ (3.4)	-30.5%	$ (3.4)	-30.5%
Subtotal Regulatory	**$ 68.8**	**$ 68.7**	**$ (0.1)**	**$ 1.9**	**2.8%**	**$ 2.0**	**2.9%**
Infrastructure Services and Public Service Enterprises							
Local Fund	$ 1,104.3	$ 1,104.3	$ (0.0)	$ 24.5	2.2%	$ 24.5	2.2%
Grants	$ 804.2	$ 804.3	$ 0.1	$ (67.7)	-8.4%	$ (67.7)	-8.4%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,908.5**	**$ 1,908.6**	**$ 0.1**	**$ (43.2)**	**-2.3%**	**$ (43.2)**	**-2.3%**
General Financing Requirements							
Local Fund	$ 3,940.7	$ 4,280.0	$ 339.3	$ 504.6	12.8%	$ 165.3	3.9%
Grants	$ -	$ -	$ -	$ -	-	$ -	-
Subtotal General Financing Requirements	**$ 3,940.7**	**$ 4,280.0**	**$ 339.3**	**$ 504.6**	**12.8%**	**$ 165.3**	**3.9%**
Subtotal All Program Areas	**$ 9,555.1**	**$ 9,894.5**	**$ 339.4**	**$ 481.4**	**5.0%**	**$ 142.0**	**1.4%**
Less Internal Transfers	$ (552.2)	$ (562.6)	$ (10.4)	$ (86.6)	15.7%	$ (76.2)	13.5%
Less Proceeds of Debt	$ (95.3)	$ (95.3)	$ 0.0	$ 18.2	-19.1%	$ 18.2	-19.1%
Less Grant Funds	$(1,568.1)	$(1,568.1)	$ (0.0)	$ 85.4	-5.4%	$ 85.5	-5.5%
All Local Funds Total	**$ 7,339.5**	**$ 7,668.5**	**$ 329.0**	**$ 498.5**	**6.8%**	**$ 169.5**	**2.2%**

Note 1: FY2016 Recommendations, Summary G consolidates Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation consolidated FY2015 Public Service Enterprises and Infrastructure Services in this chart.
Note 2: Minimal differences may appear in chart due to rounding.
Source: City of Chicago, FY2015 Appropriation Ordinance, Summary G; FY2016 Budget Overview, p. 37; and FY2016 Budget Recommendations, Summary G.

APPENDIX B – AMENDED FY2015 RESOURCES

This section of the analysis provides an overview of City of Chicago resources from all local funds based on the City's proposed amendment to the FY2015 approved budget which raises the property levy for tax year 2016. The levy for the FY2015 Budget would increase by $318.2 million, or 36.7%, from $868.2 million to $1.2 billion. In this section, we provide an alternative two-year and five-year trend analysis comparing the proposed FY2016 budget and the proposed FY2015 amended budget.

"All local funds" are the funds used by the City for its non-capital operations, including the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. They exclude grant funds.[207] However, grant funding is anticipated to be $1.48 billion in FY2016

[207] City of Chicago, FY2015 Budget Overview, p. 144.

and is included in the proposed budget which brings the total budget to $9.32 billion.[208] The Corporate Fund is the City's general fund for regular governmental operations.

This analysis examines proposed FY2016 revenue estimates, FY2015 proposed amendments and prior year actual revenues. It should be noted that Corporate Funds, Enterprise Funds and Debt Service Funds are not affected by proposed changes to the approved FY2015 budget.

All Local Funds Trends

If the FY2015 budget is amended, the City of Chicago's total resources are projected to increase by 2.3%, or $190.1 million, to over $8.5 billion in FY2016, due primarily to the increase in the property tax levy. The City's resources include estimated revenues across all funds, including $26.0 million in proceeds and transfers-in into the Corporate Fund. Transfers-in are resources such as funds captured from expiring tax increment financing (TIF) districts that are moved from other funds into the Corporate Fund.

The exhibit that follows presents the resources for all local funds by fund. Some of the resource highlights by fund include:

- Tax revenues in the Corporate Fund are expected to increase in FY2016 by 5.2% over the proposed amended FY2015 budget. Since FY2012 these revenues will have increased by $464.8 million or 23.1%. During the same five-year period, non-tax revenues in the Corporate Fund will increase by $221.4 million, or 24.4%, from $907.7 million in FY2012 to a projected $1.1 billion in FY2016;
- Revenues within the Special Revenue Funds will increase by $18.6 million, or 3.3%, to $582.7 million in FY2016 over FY2015 proposed amended levels. The increase is largely driven by the creation of the new Affordable Housing Fund which is estimated to bring in $24.0 million of revenue from the City's density program and the Affordable Requirements ordinance;[209]
- The City is projecting an increase of $89.0 million, or 3.6%, in Enterprise Fund revenues for a total of nearly $2.6 billion in FY2016 from FY2015 proposed amended levels. Over the five year period, enterprise revenues increase by $697.9 million, or 37.7%. Water & Sewer revenues are increasing due to water rate increases and Aviation revenues are established at each airport on an ongoing basis;
- Resources allocated for the pension funds will increase by $92.5 million, or 2.4%, from the FY2015 amended budget to $978.2 million in FY2016. Pension revenues will have increased by $519.2 million, or 113.1%, over the past five years. The increase is due in large part to the required contributions to the Police and Fire Pension funds proposed by the State in SB777.[210] The City is also required to increase its contributions to the

[208] City of Chicago, FY2016 Budget Overview, p. 21.
[209] City of Chicago, FY2016 Budget Overview, p. 29. For more information, see. http://www.cityofchicago.org/city/en/depts/dcd/supp_info/affordable_housingrequirementsordinance.html.
[210] City of Chicago, FY2016 Budget Overview, p. 31. SB777 would amend the Chicago Police and Chicago Firefighter pension payment requirements. For more information, see http://www.ilga.gov/legislation/BillStatus.asp?DocTypeID=SB&DocNum=777&GAID=13&SessionID=88&LegID=85970.

Municipal and the Laborers' pension funds as a result of SB1922, which will be addressed by the Illinois Supreme Court later this year;[211]

- For more information on the pension funds, see page 57 of this report;
- The City is projecting to use approximately $775.4 million of its resources toward debt service in FY2016. This represents a $49.5 million, or 6.0%, decrease from the FY2015 proposed amended budget and a $149.1 million, or 23.8%, increase from FY2012; and
- The City is not projecting to use unreserved Corporate Fund fund balance. For more information on the City's fund balance levels, see the Reserve Funds section on page 54.

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[211] City of Chicago, FY2016 Budget Overview, p. 31. SB1922 would amend the Chicago Municipal and Chicago Laborers' pension funds. For more information, see http://www.ilga.gov/legislation/BillStatus.asp?DocNum=1922&GAID=12&DocTypeID=SB&SessionID=85&GA=98.

City of Chicago All Local Funds Resources by Fund: FY2012-FY2016 (in $ millions)												
	FY2012 Actual	**FY2013 Actual**	**FY2014 Actual**	**FY2015 Adopted**	**FY2015 Proposed Amended**	**FY2016 Proposed**	**2-Year Change Adopted ($)**	**2-Year Change Adopted (%)**	**2-Year $ Change Proposed Amended ($)**	**2-Year Change Proposed Amended (%)**	**5-Year $ Change**	**5-Year % Change**
Corporate Fund												
Tax Revenues	$ 2,012.9	$ 2,101.0	$ 2,178.2	$ 2,355.9	$ 2,355.9	$ 2,477.7	$ 121.8	5.2%	$ 121.8	5.2%	$ 464.8	23.1%
Non-Tax Revenues	$ 907.7	$ 929.4	$ 998.0	$ 1,145.4	$ 1,145.4	$ 1,129.1	$ (16.3)	-1.4%	$ (16.3)	-1.4%	$ 221.4	24.4%
Total Corporate Fund Revenue	**$ 2,920.6**	**$ 3,030.4**	**$ 3,176.2**	**$ 3,501.3**	**$ 3,501.3**	**$ 3,606.8**	**$ 105.5**	**3.0%**	**$ 105.5**	**3.0%**	**$ 686.2**	**23.5%**
Special Revenue Funds												
Vehicle & Motor Fuel Taxes	$ 219.7	$ 230.2	$ 266.8	$ 242.0	$ 242.0	$ 248.0	$ 6.0	2.5%	$ 6.0	2.5%	$ 28.3	12.9%
Library	$ 81.3	$ 83.6	$ 83.6	$ 85.6	$ 85.6	$ 98.7	$ 13.1	15.3%	$ 13.1	15.3%	$ 17.4	21.4%
Emergency Communication	$ 64.2	$ 68.4	$ 74.8	$ 122.9	$ 122.9	$ 96.1	$ (26.8)	-21.8%	$ (26.8)	-21.8%	$ 31.9	49.7%
Special Events and Hotel Tax	$ 37.2	$ 39.6	$ 39.8	$ 40.1	$ 40.1	$ 42.1	$ 2.0	5.1%	$ 2.0	5.1%	$ 4.9	13.2%
CTA Real Estate Transfer Tax	$ 40.8	$ 56.1	$ 63.1	$ 63.4	$ 63.4	$ 63.3	$ (0.1)	-0.2%	$ (0.1)	-0.2%	$ 22.5	55.1%
Affordable Housing Fund	$ -	$ -	$ -	$ -	$ -	$ 24.0	N/A	N/A	N/A	N/A	N/A	N/A
TIF Administration	$ 4.4	$ 5.4	$ 5.9	$ 10.2	$ 10.2	$ 10.5	$ 0.4	3.4%	$ 0.4	3.4%	$ 6.1	138.6%
Total Special Revenue Funds Revenue	**$ 447.6**	**$ 483.3**	**$ 534.0**	**$ 564.1**	**$ 564.1**	**$ 582.7**	**$ 18.6**	**3.3%**	**$ 18.6**	**3.3%**	**$ 135.1**	**30.2%**
Enterprise Funds												
Water & Sewer	$ 835.2	$ 894.8	$ 1,007.3	$ 1,150.4	$ 1,150.4	$ 1,149.0	$ (1.4)	-0.1%	$ (1.4)	-0.1%	$ 313.8	37.6%
Aviation	$ 1,015.7	$ 1,078.4	$ 1,169.0	$ 1,299.0	$ 1,309.4	$ 1,399.8	$ 100.8	7.8%	$ 90.4	6.9%	$ 384.1	37.8%
Total Enterprise Funds Revenue	**$ 1,850.9**	**$ 1,973.2**	**$ 2,176.3**	**$ 2,449.4**	**$ 2,459.8**	**$ 2,548.8**	**$ 99.4**	**4.1%**	**$ 89.0**	**3.6%**	**$ 697.9**	**37.7%**
Pension Funds												
Municipal	$ 163.9	$ 151.8	$ 164.3	$ 242.7	$ 242.7	$ 277.7	$ 35.0	14.4%	$ 35.0	14.4%	$ 113.8	69.4%
Laborers'	$ 16.0	$ 13.9	$ 14.8	$ 24.0	$ 24.0	$ 28.5	$ 4.5	18.7%	$ 4.5	18.7%	$ 12.5	78.1%
Police	$ 189.8	$ 196.1	$ 193.8	$ 194.1	$ 420.0	$ 464.0	$ 269.9	139.0%	$ 44.0	10.5%	$ 274.2	144.5%
Fire	$ 89.3	$ 83.1	$ 110.6	$ 96.3	$ 199.0	$ 208.0	$ 111.7	116.0%	$ 9.0	4.5%	$ 118.7	132.9%
Total Pension Funds Revenue	**$ 459.0**	**$ 444.9**	**$ 483.5**	**$ 557.1**	**$ 885.7**	**$ 978.2**	**$ 421.1**	**75.6%**	**$ 92.5**	**10.4%**	**$ 519.2**	**113.1%**
Debt Service Funds												
Bond Redemption and Interest	$ 626.3	$ 579.5	$ 791.0	$ 824.9	$ 824.9	$ 775.4	$ (49.5)	-6.0%	$ (49.5)	-6.0%	$ 149.1	23.8%
Total Debt Service Funds Revenue	**$ 626.3**	**$ 579.5**	**$ 791.0**	**$ 824.9**	**$ 824.9**	**$ 775.4**	**$ (49.5)**	**-6.0%**	**$ (49.5)**	**-6.0%**	**$ 149.1**	**23.8%**
Total Revenues	**$ 6,304.4**	**$ 6,511.3**	**$ 7,161.0**	**$ 7,896.8**	**$ 8,235.8**	**$ 8,491.9**	**$ 595.1**	**7.5%**	**$ 256.1**	**3.1%**	**$ 2,187.5**	**34.7%**
Corporate Fund Proceeds & Transfers In	**$ 86.6**	**$ 21.0**	**$ 39.7**	**$ 32.8**	**$ 32.8**	**$ 26.0**	**$ (6.8)**	**-20.8%**	**$ (6.8)**	**-20.8%**	**$ (60.6)**	**-70.0%**
Corporate Fund Prior Year Unrestricted Fund Balance	**$ 72.3**	**$ 77.2**	**$ 33.8**	**$ -**	**$ -**	$ -	**$ -**	**-**	**$ -**	**-**	**$ (72.3)**	**N/A**
Other Funds Prior Year Unrestricted Fund Balance	**$ 40.9**	**$ 52.3**	**$ 70.8**	**$ 79.4**	**$ 79.4**	**$ 20.3**	**$ (59.1)**	**-74.4%**	**$ (59.1)**	**-74.4%**	**$ (20.6)**	**-50.4%**
Total Resources	**$ 6,504.2**	**$ 6,661.8**	**$ 7,305.3**	**$ 8,009.0**	**$ 8,348.1**	**$ 8,538.2**	**$ 529.2**	**6.6%**	**$ 190.1**	**2.3%**	**$ 2,034.0**	**31.3%**

Note: Minor differences may appear due to rounding.

Sources: City of Chicago FY2015 Budget Ordinance, Summary A and B, pp. 1-2 and FY2016 Budget Overview, pp. 132-139.

APPENDIX C – ANNUAL REQUIRED CONTRIBUTIONS FOR THE FOUR CITY OF CHICAGO PENSION FUNDS

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 healthcare (see OPEB section of this report), which has been reported separately since FY2005.[212] In FY2013 the Municipal Fund had the largest ARC, at $820.0 million, followed by the Police Fund at $474.2 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $671.8 million.

The shortfall is the additional amount that should have been contributed in order to pay the normal cost for that year and over the entire 10-year period for the other three funds.

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
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%
2010	$ 363,624,570	$ 174,500,507	$ 189,124,063	48.0%	$ 1,048,084,301	34.7%	16.6%	39.7%
2011	$ 402,751,961	$ 174,034,600	$ 228,717,361	43.2%	$ 1,034,403,526	38.9%	16.8%	35.6%
2012	$ 431,010,173	$ 197,885,552	$ 233,124,621	45.9%	$ 1,015,170,686	42.5%	19.5%	30.8%
2013	$ 474,177,604	$ 179,521,259	$ 294,656,345	37.9%	$ 1,015,426,128	46.7%	17.7%	26.0%
2014	$ 491,651,208	$ 178,158,132	$ 313,493,076	36.2%	$ 1,074,333,318	45.8%	16.6%	29.6%

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

Source: Chicago Policemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2014, p. 81.

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
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%
2010	$ 218,388,037	$ 80,947,311	$ 137,440,726	37.1%	$ 400,404,320	54.5%	20.2%	32.4%
2011	$ 250,056,273	$ 82,869,839	$ 167,186,434	33.1%	$ 425,385,354	58.8%	19.5%	28.3%
2012	$ 271,505,718	$ 81,521,883	$ 189,983,835	30.0%	$ 418,964,763	64.8%	19.5%	24.4%
2013	$ 294,877,895	$ 103,669,015	$ 191,208,880	35.2%	$ 416,491,784	70.8%	24.9%	24.0%
2014	$ 304,265,411	$ 107,334,399	$ 196,931,012	35.3%	$ 460,189,982	66.1%	23.3%	22.7%

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

Source: Chicago Firemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2007, p. 28 and Actuarial Valuation Report as of December 31, 2014, p. 78.

[212] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a percent of payroll and 0-4.3% to Actual Employer Contribution as a Percent of Payroll. See Civic Federation, *Status of Local Pension Funding Fiscal Year 2012*, October 2, 2014.

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
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%	0.0%
2010	$ 46,664,704	$ 15,351,944	$ 31,312,760	32.9%	$ 199,863,410	23.3%	7.7%	73.8%
2011	$ 57,258,593	$ 12,778,697	$ 44,479,896	22.3%	$ 195,238,332	29.3%	6.5%	64.9%
2012	$ 77,566,394	$ 11,852,905	$ 65,713,489	15.3%	$ 198,789,741	39.0%	6.0%	55.4%
2013	$ 106,199,410	$ 11,583,051	$ 94,616,359	10.9%	$ 200,351,820	53.0%	5.8%	56.7%
2014	$ 106,018,725	$ 12,160,815	$ 93,857,910	11.5%	$ 202,673,014	52.3%	6.0%	64.3%

*The City did not levy a property tax for the Laborer's fund from 2001-2006 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, 2014, p. 99.

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
2005	$ 285,291,350	$ 155,057,116	$ 130,234,234	54.4%	$ 1,407,323,058	20.3%	11.0%	68.5%
2006**	$ 303,271,824	$ 157,062,769	$ 146,209,055	51.8%	$ 1,475,877,378	20.5%	10.6%	67.2%
2007	$ 343,123,106	$ 139,606,140	$ 203,516,966	40.7%	$ 1,564,458,835	21.9%	8.9%	67.6%
2008	$ 360,387,176	$ 146,803,250	$ 213,583,926	40.7%	$ 1,543,976,553	23.3%	9.5%	62.9%
2009	$ 413,508,622	$ 148,046,490	$ 265,462,132	35.8%	$ 1,551,973,348	26.6%	9.5%	57.0%
2010	$ 483,948,339	$ 154,752,320	$ 329,196,019	32.0%	$ 1,541,388,065	31.4%	10.0%	49.8%
2011	$ 611,755,657	$ 147,009,321	$ 464,746,336	24.0%	$ 1,605,993,339	38.1%	9.2%	44.6%
2012	$ 690,822,553	$ 148,858,655	$ 541,963,898	21.5%	$ 1,590,793,702	43.4%	9.4%	37.2%
2013	$ 820,022,689	$ 148,196,884	$ 671,825,805	18.1%	$ 1,580,288,709	51.9%	9.4%	36.9%
2014	$ 839,038,303	$ 149,746,748	$ 689,291,555	17.8%	$ 1,602,977,593	52.3%	9.3%	36.9%

*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 FY2006 Actuarial Valuation, p. 94; FY2013, p. 15; and FY2014, p. 96