STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2001 CITY OF CHICAGO BUDGET, NOVEMBER 1, 2000.

The Civic Federation would like to thank the Mayor and the members of the City Council for this opportunity to comment on the proposed FY2001 budget. As a government and finance watchdog group, The Civic Federation has closely monitored and commented on the fiscal health of local area governments for over 100 years.

1. OVERVIEW

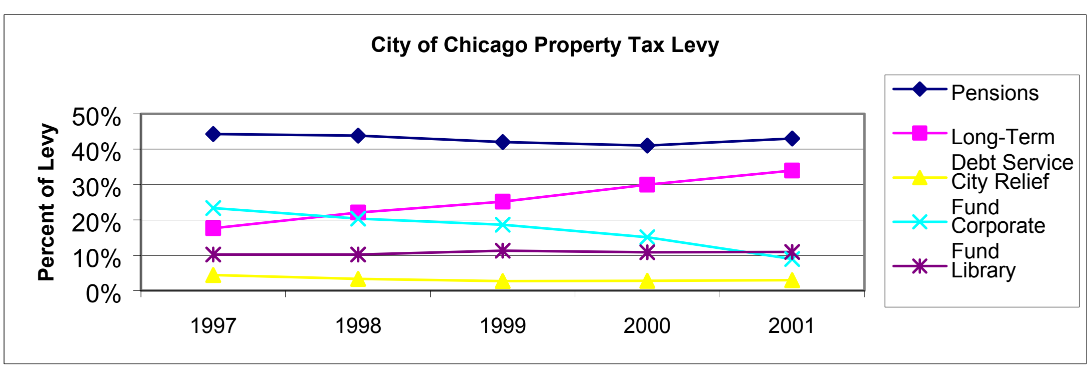
In general, The Civic Federation is **not opposed** to the proposed FY2001 budget. The Federation's limited support for this year's budget is because the budget is balanced using conservative revenue projections and limited reductions in personnel. Although the Federation does not oppose the proposed budget, The Civic Federation is **concerned** about the City of Chicago's long-term financial obligations, specifically its pension liabilities and debt issuances. The Federation cautions the City against becoming **overly burdened** with long-term financial obligations that may limit its ability to provide needed services in the future, specifically the City will have fewer resources to pay for operations or to cover expenditures.

This concern is particularly relevant given the increase in expenditures and concomitant increase in taxes, fees, and fines in the City's budget over the last ten years. A question for consideration is whether the City's long-term obligations will hinder the City's ability to deliver services should the economy significantly falter. This question is particularly relevant given The Civic Federation's view that the City is beginning to reach the point where its revenue sources are becoming **overly burdensome** for its citizens.

2. LONG-TERM FINANCIAL OBLIGATIONS

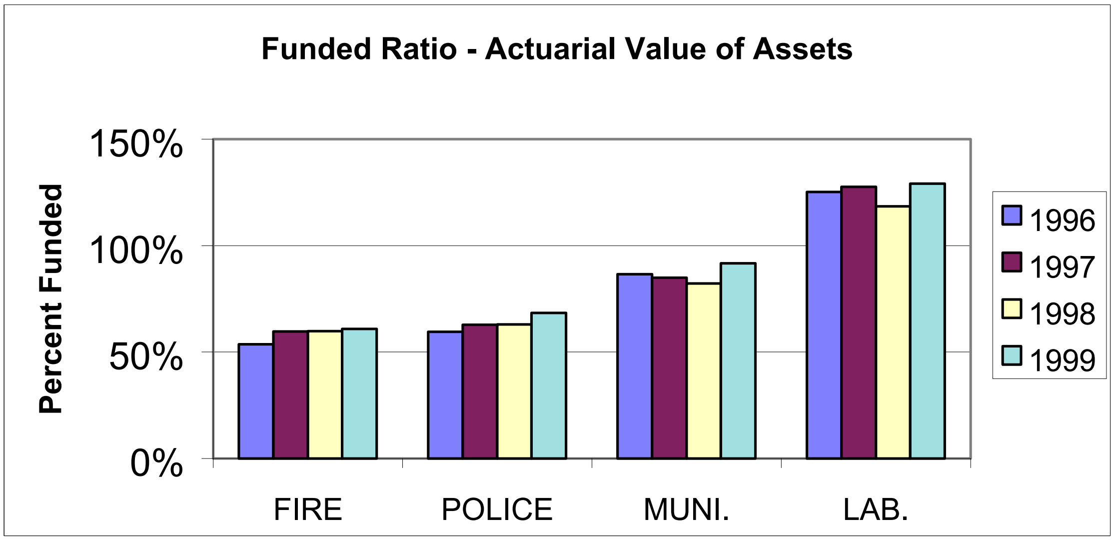
A. Debt

As the chart below indicates, between the 1997 budget and the proposed 2001 budget, there has been a significant increase in the percentage of the property tax levy dedicated towards long-term obligations. The most significant growth in these obligations is in the area of debt service. Without adjusting for inflation, between 1997 levy and the proposed 2001 levy, the City's long-term debt service will increase from approximately $120 million to $234 million.

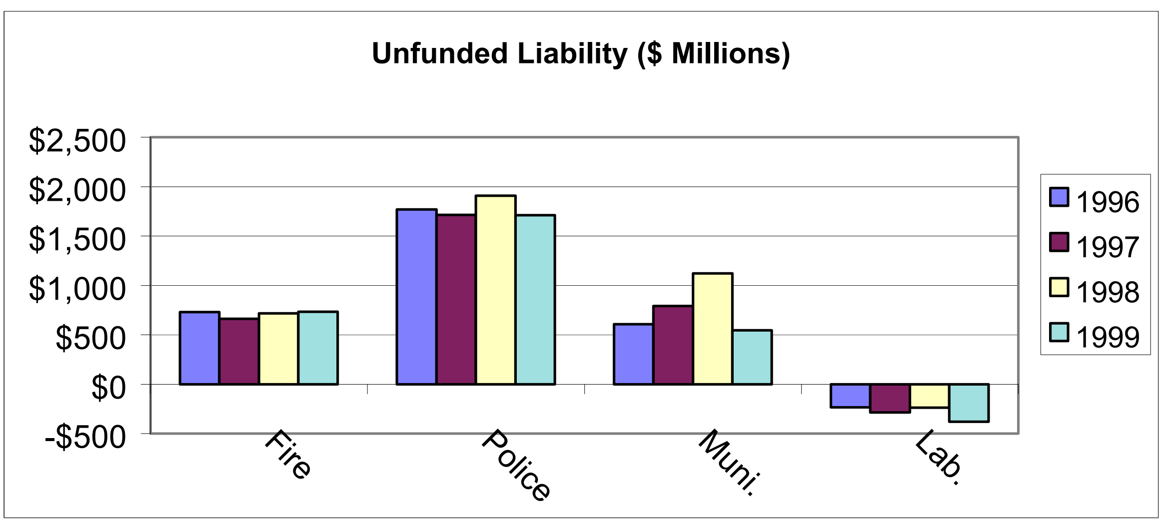


B. Pensions

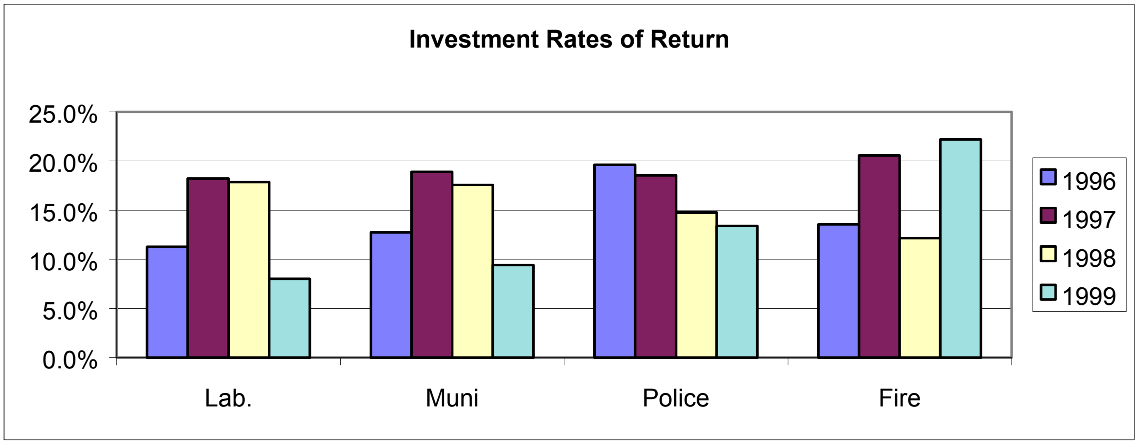
In addition to debt service, the City's other major long-term obligation is the funding of its four pension funds: Firemen's, Policemen's, Municipal, and Laborers'. For the past four years, the financial markets of the United States grew at a significant pace. As a result, the City of Chicago's pension funds' investments grew at higher than expected yields. As the chart below indicates, two of the four funds, the Municipal and the Laborers' funds, are quite healthy in terms of their funded ratios[1], 91.7% and 129.1%. The Policemen's and Firemen's funds have made some significant progress in improving what have been historically weak funded ratios at 68.3% and 60.9%.



Although the City's four pension funds continue to improve in terms of funding status, The Civic Federation remains concerned about the liabilities of these funds. As the chart below indicates, after subtracting the overfunding of the Laborer's Fund, the unfunded liability of the remaining three funds is approximately $2.9 billion.



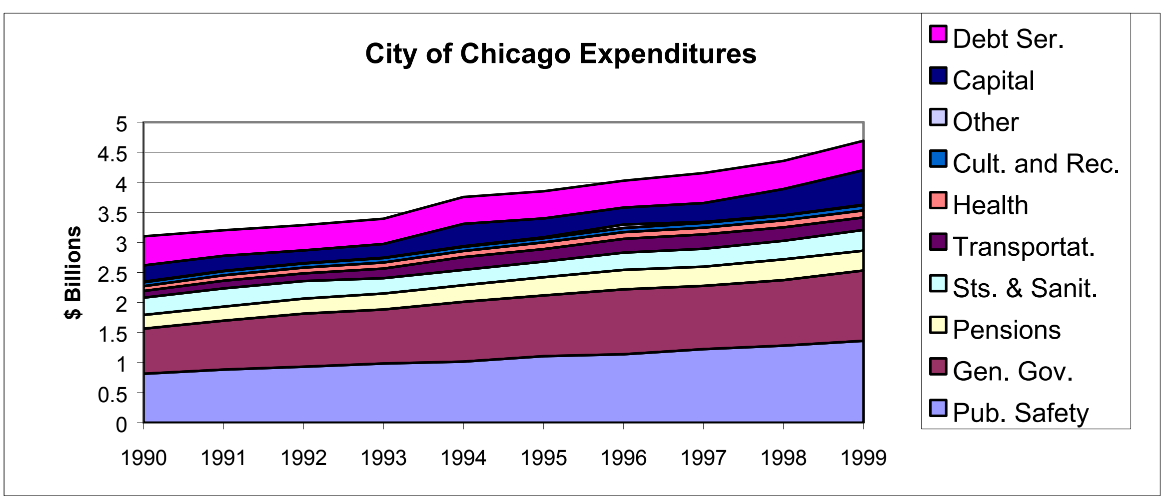
[1] Funded Ratio = Total Assets/Total Liabilities



Although the City's two weaker funds, Firemen's and Policemen's, continue to make progress in their respective funded ratios and the other two funds remain strong, part of that progress is attributable to unprecedented, strong financial markets. Specifically, during the last four years, these funds realized higher than expected returns on investments. As the chart above indicates, between 1996 and 1998, each of these funds realized investment returns much higher than the actuarially assumed rate of 8%. In 1999, the investment rate of return for three of these funds decreased with the onset of the financial market's current volatility. The volatility started in 1999 continued on in 2000 with the Dow Jones Industrial average experiencing an 11% decrease in value from 12/31/99 to 10/20/00 and the NASDAQ losing 14.4% of its value during that time period. If the financial markets should continue to falter, The Civic Federation is concerned that the City may have a difficult time meeting the unfunded liabilities mentioned above and have to **resort to a property tax increase** to meet these obligations. As with many public pension funds, the liabilities of these funds are backed by the local governments through their respective property tax levys.

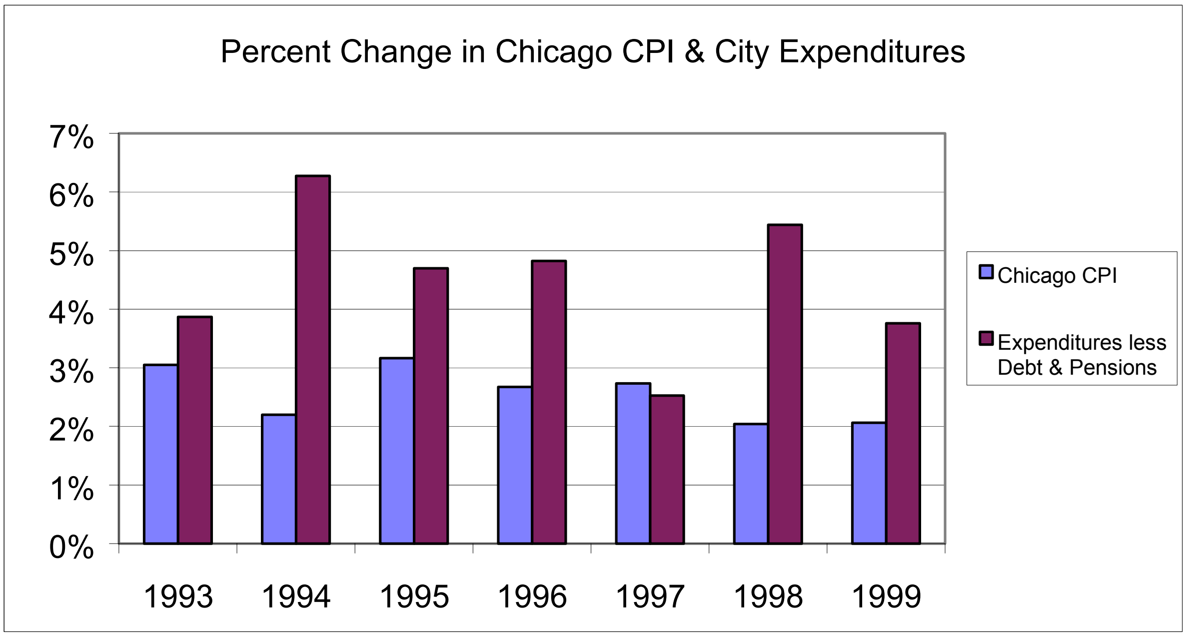
The Civic Federation believes the Mayor should appoint a Blue Ribbon committee to review the City's four pension funds and determine if the City of Chicago should begin to evaluate the possibility of changing the current system by incorporating other pension funding mechanisms, defined contribution funding strategies for example, into the City's mix of pension plans.

3. OPERATING EXPENDITURES



Note: Data from *City of Chicago: 1999 Comprehensive Annual Financial Report.*

As the above chart indicates, the City's expenditures continue to rise at a steady rate. Between 1990 and 1999, overall expenditures increased from $3.1 billion to $4.7 billion. The significance of these rising costs can be seen when expenditures are compared to the local Consumer Price Index (CPI) for Chicago. As the chart below indicates, the City's expenditures continue to rise at a rate greater than CPI. Over the last seven years, CPI, or the cost of goods and services necessary for the City of Chicago to function have been rising at an average rate of 2.42%. However, the City's expenditures have been rising at an average rate of 4.82%. Although this year's budget does contain some cost-efficiencies, specifically the elimination of 250 vacancies, it does not present a significant enough management plan to control the City's growing expenditures. The Civic Federation is concerned that if expenditures continue to rise, the City may not be able to deliver the quality services that the taxpayers expect.



4. ALTERNATIVE REVENUES

As expenditures continue to increase, the City has continued to seek revenue sources other than the property tax. As these taxes or alternative revenue sources increase, The Civic Federation continues to be concerned about the cost of living and doing business in the City of Chicago. In 1997, the Federation testified before the City Council, "One reason the City is able to hold the line on property taxes may be its increased reliance on fees and user charges." Once again we offer a word of caution concerning the fees imposed on citizens of, and visitors to, this city. While we recognize the need to pay for services, we also know that the cost of living is increasing in Chicago. Before the City considers increasing its parking fine collection, one must consider whether such a cost is unduly burdensome on the citizenry. .Since 1995, the City of Chicago has both increased the rates used in these taxes, the types of taxes and the revenues produced by these taxes have increase as well as the economy continues to grow. As the chart below indicates, between 1995 and the proposed 2001 budget, these taxes, without adjusting for inflation, will increase from $1.9 billion to $2.4 billion.

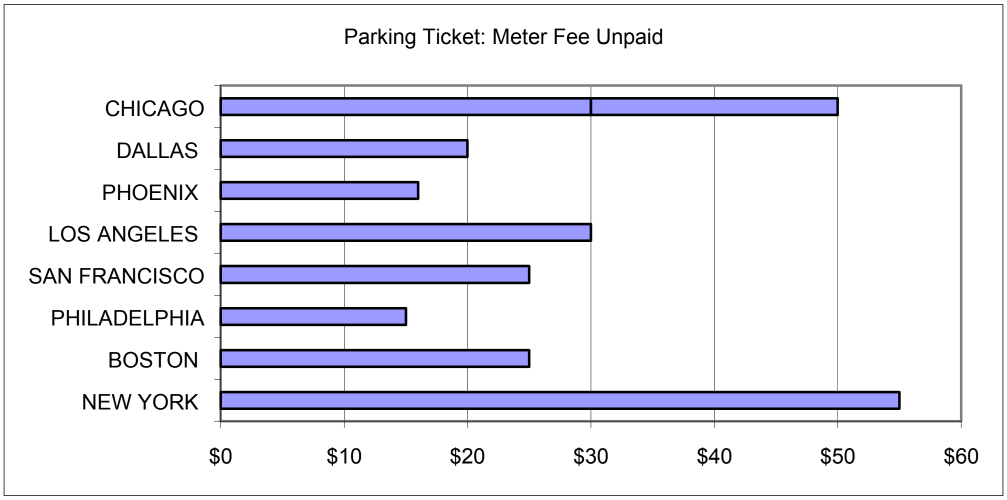
	1995	1996	1997	1998	1999	Est. 2000	Budg. 2001	% Change 1995-2001
Utility Tax	$251	$265	$270	$269	$273	$287	$297	14%
Utility Compensation	118	122	125	128	148	156	159	32%
Chicago HROT	153	155	155	157	155	176	183	15%
Transaction	130	130	157	174	188	188	198	44%
Transportation	125	129	129	135	137	144	149	15%
Recreation	82	86	90	86	80	85	86	3%
Business	58	55	58	61	64	67	69	15%
Compliance	0	0	0	0	0	0	10	100%
Proceeds & Transfers	151	160	169	184	169	150	142	-1%
Intergovernmental	400	426	459	477	490	524	554	31%
License, Permits	48	52	54	58	65	73	73	51%
Fines, Forfeitures, & Penalties	92	99	97	104	101	132	145	43%
Charges for Services	62	73	58	55	47	60	55	-4%
Municipal Utilities	17	19	18	19	18	22	23	31%
Leases, Rentals	7	9	9	9	17	15	13	103%
Interest Income	14	11	10	13	11	12	14	-15%
Internal Service Earnings	204	211	241	235	235	256	272	26%
Other Revenue	2	6	2	8	37	2	2	-33%
Total	$1,915	$2,007	$2,101	$2,173	$2,234	$2,347	$2,442	23%

Is the cost of driving an automobile, a necessity that some citizens need to visit their doctors or obtain groceries, becoming too high?

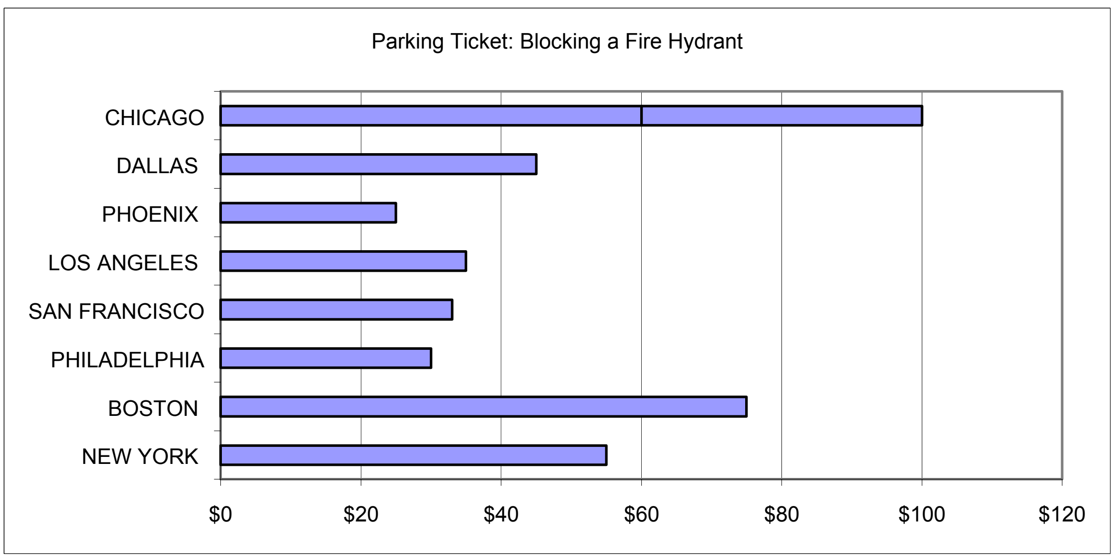
Last year, after the City Council approved increases in parking and driving fees, The Civic Federation embarked on a brief and informal study of automobile fees and taxes across the country. The increase in the fine for parking in front of an expired meter in Chicago was raised from $30 to $50, and the fine for parking in front of a fire hydrant was raised from $60 to $100. We selected New York, Boston, Philadelphia, San Francisco, Los Angeles, Phoenix, and Dallas to compare with Chicago. As major urban centers these cities should provide a fair gauge of Chicago's relative standing. We gathered information from other Government Research Organizations, Departments of Revenue, Departments of Parking and Traffic, and Budget Offices.

A. Parking Tickets

The first fine compared was an expired meter. Chicago was already the second most expensive City for this violation. The proposed increase brought the cost of a ticket for an unpaid meter in Chicago to the same level as in downtown Manhattan.



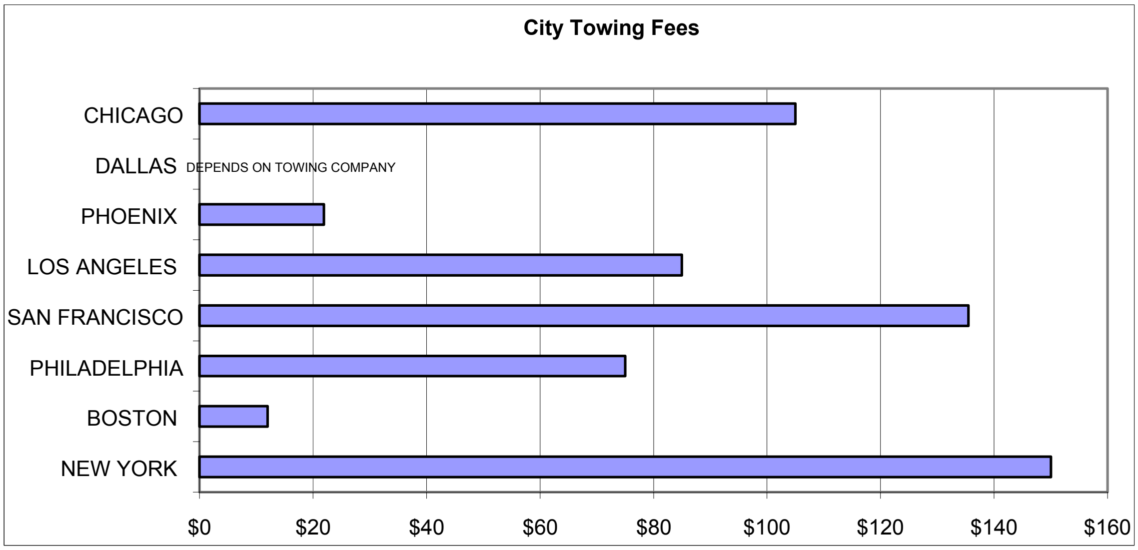
The increase in the cost of a ticket for blocking a fire hydrant put Chicago well above all other cities surveyed. The fine imposed as a result of this ticket became 25% more expensive than the second most expensive fine.

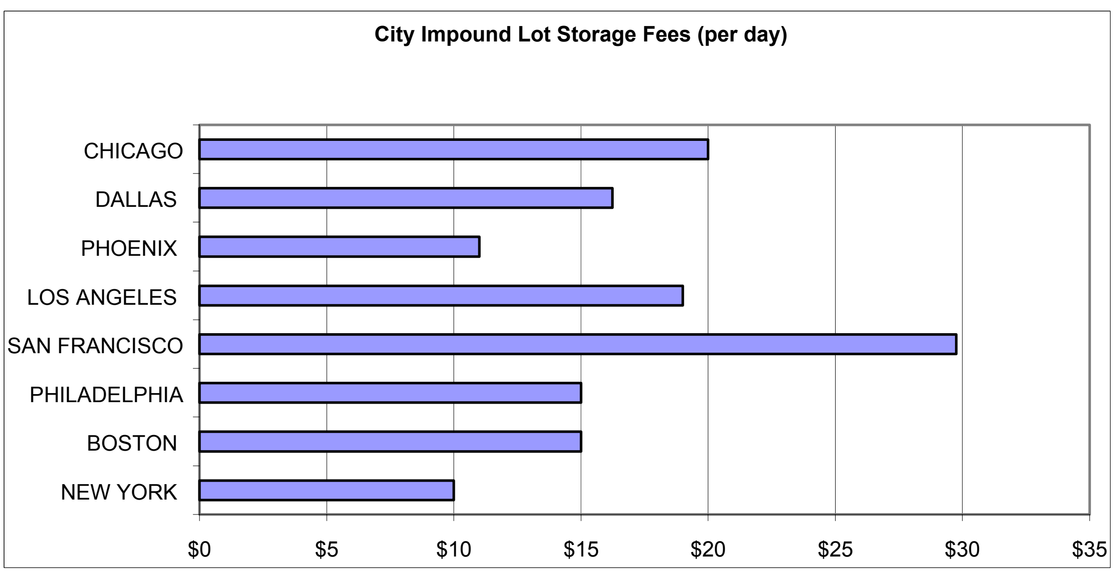


B. Towing and Storage Fees

The BOOT system is designed to prevent anyone with more than a specific number of outstanding parking tickets from driving his/her car until the debt is paid. The current costs to Chicago residents associated with the BOOT system are $60 for BOOT removal. This compares with a charge of $56 in Boston and $75 in New York City for the same service.

If the parking violations remain unpaid after the BOOT is applied, the vehicle is towed. The next two graphs show that the City is also already close to the most expensive cities for having a car towed and impounded. Only New York and San Francisco charge more to tow a car, and only San Francisco charges more per day to store a car.





Although the Civic Federation is pleased to see this increase in reliance on non-property tax sources of revenue, the Federation cautions the City against becoming over reliant on these sources of revenue. Two problems may arise from increases in these fees, fines, and taxes. First, the increased costs may become prohibitively expensive to the public. For example, some city residents may have a difficult time affording to drive in the City of Chicago. Second, the City of Chicago should evaluate the elasticity of demand for the privilege of driving within the city limits. Many people may avoid the City, move to the suburbs, or simply take public transportation rather than pay the City's fees, fines, and taxes. Increasing the cost may decrease demand, thereby decreasing revenues.

5. CONCLUSION

In summary, the City's proposed FY2001 budget is balanced and conservative in its estimates. The Civic Federation commends the City for taking a number of cost-cutting measures such as reducing positions through the elimination of vacancies. However, the Federation believes that the City must develop a long-term strategy for reducing its future obligations. Without such a strategy, the City's ability to support any growth in its future operations may be limited.

Respectfully submitted,

John Currie, President
Myer Blank, Director of Policy Analysis
Scott Metcalf, Research Manager