

**STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED
FY2000 CITY OF CHICAGO BUDGET, NOVEMBER 3, 1999, BY THE CIVIC
FEDERATION**

The Civic Federation would like to thank the Mayor and the members of the City Council for this opportunity to comment on the proposed FY2000 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.

OVERVIEW

The following is an overview of The Civic Federation's testimony of the proposed FY2000 City of Chicago Budget. An analysis of these issues follows this overview.

Section I: Budgetary Highlights

The Civic Federation is **disappointed** in this year's budget in that it contains tax increases without a concomittant effort to decrease spending through expenditure reductions. The City of Chicago, like the rest of the nation, is in a time of substantial economic growth. If there should be a downturn in the economy, The Civic Federation is concerned that the City of Chicago has not adequately positioned itself through the creation of efficiencies to address that problem.

The following is a summary of The Civic Federation's analysis of the City of Chicago's proposed FY2000 Budget:

A. Total Net Appropriations

- The City's proposed FY00 net appropriation is 5.49% higher than for FY99, increasing from \$4.5 billion to approximately \$4.74 billion.
- The City's Corporate Fund is increasing by 4.35% from \$2.29 billion in 1999 to \$2.39 billion in 2000.
- If the trend over the past five years continues, actual expenditures for the year 2000 will near 90% of appropriations. In 1992 actual expenditures were 74.5% of appropriations.
- The City's debt service payments are increasing by 6.47% from \$425 million in 1999 to \$452.5 million in 2000.

B. Corporate Fund Revenue

- Total revenues for the Corporate Fund are projected to rise by 6.15% from \$2.164 billion to \$2.297 billion in 2000.
- While tax revenue is expected to rise by 2.6% (from \$1.52 billion to \$1.56 billion), non-tax revenue is expected to rise by 10.2% from \$518.3 million to \$571.3 million.

C. Property Tax Levy

- The FY200 City Budget proposes a 4.2% increase in the property tax levy from \$659 million to \$684 million. Long-term debt service payments from the City of Chicago's property tax levy are expected to increase by 20% from \$165 million to \$198 million. The new Neighborhoods Alive 21 debt service levy constitutes \$13.2 million, or 2% of the total levy. Although the average property tax bill within the corporate limits of Chicago has not increased above its 1990 level, the City of Chicago must develop a contingency plan to reduce expenditures should there be a decrease in property values in the event of an economic downturn.

Section II: Taxes and Fees

The Civic Federation is **concerned** about the proposed fee increases.

Section III: Pensions

The Civic Federation is **pleased** that the City of Chicago is continuing to address the status of its four pension funds.

Section IV: Financial Condition

According to The Civic Federation's independent longitudinal review of the City's financial practices between FY94 and FY98, Chicago is in **good** financial health, a tribute to the City's superior financial management and the effects of a high-performing economy. Specifically:

- The City's general obligation bond rating was maintained at an A1 rating by Moody's Investors in FY98. Thus, the City's bonds are of high investment quality, offering solid investment potential.
- The City has adequate resources on hand to met its financial obligations over time.
- The City does not rely heavily on risky forms of revenues to cover expenditures.

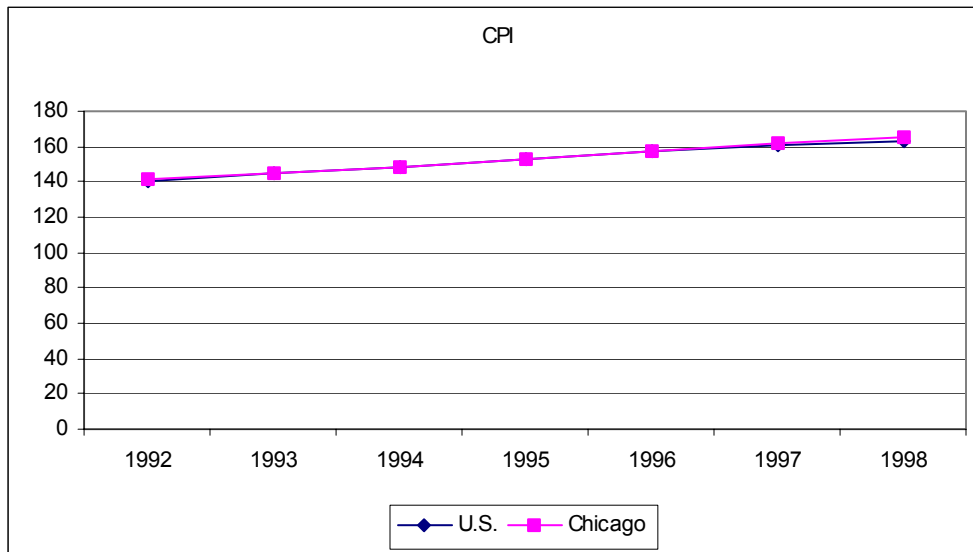
However, the City's short and long-term debt loads are steadily increasing. Continued increases in these indicators may bear watching.

- The City's short-term debt has increased steadily between FY94 and FY98, rising from \$1 billion to nearly \$1.2 billion. This represents an increase of 17%.
- The City's long-term per capita debt load increased by 28% between FY94 and FY98, rising from \$1,253 to \$1,604.

SECTION I: BUDGETARY HIGHLIGHTS

A. Expenditures and CPI

The Consumer Price Index (CPI) is “a measure of the average change over time in the price paid by urban consumers for a market basket of consumer goods and services.”¹ It is generally considered the best measure of inflation. Since 1992, the CPI has increased by approximately 2% or 3% annually.



Therefore, the cost of the goods and services necessary for the City of Chicago to function have been rising at approximately 2% or 3% as well. However, the appropriations and expenditures by the City have been rising at more than the rate of inflation. The average annual increase in actual expenditures between 1993 and 1998 was 5.07%.

<u>All Funds (\$ Millions)</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Expenditures	\$ 2,868	\$ 3,050	\$ 3,211	\$ 3,407	\$ 3,523	\$ 3,736
Annual Percent Change	3.25%	6.36%	5.28%	6.09%	3.41%	6.05%

The average annual increase in appropriations during this time was 3.08%.

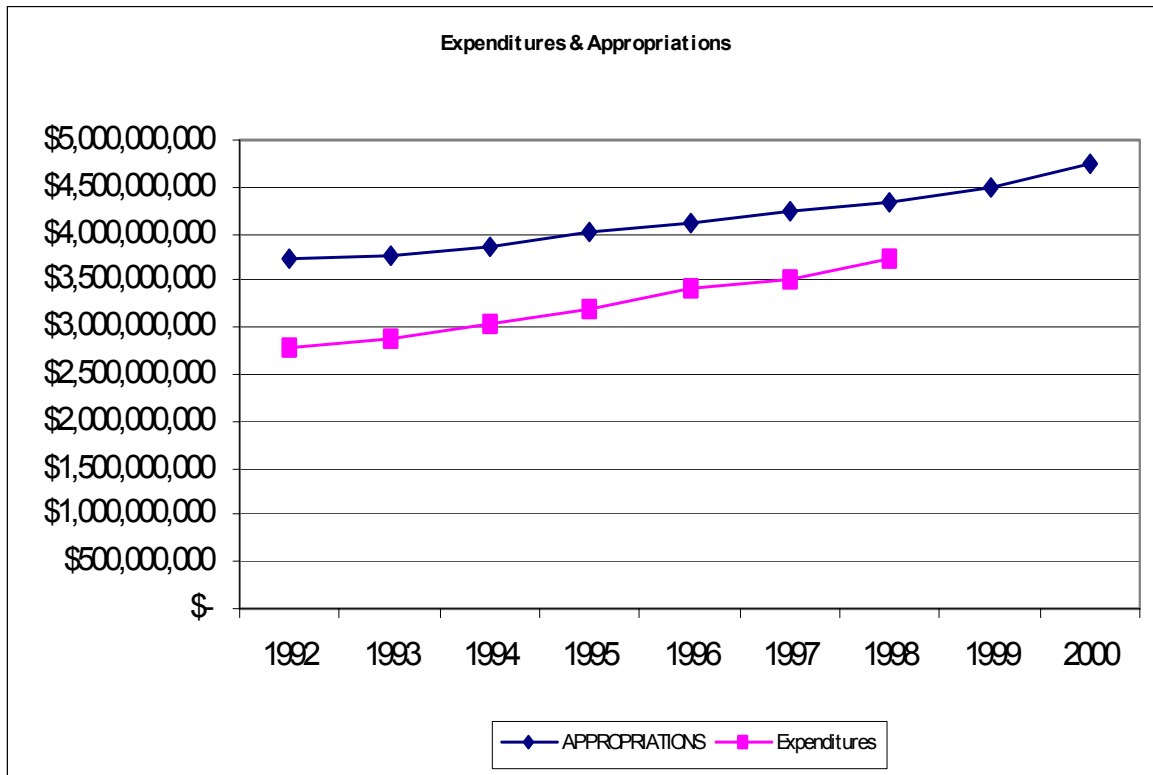
<u>All Funds (\$ Millions)</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
--------------------------------	-------------	-------------	-------------	-------------	-------------	-------------

¹ “Understanding the Consumer Price Index: Answers to Some Questions.” U.S. Department of Labor, Bureau of Labor Statistics, July 1999 (revised).

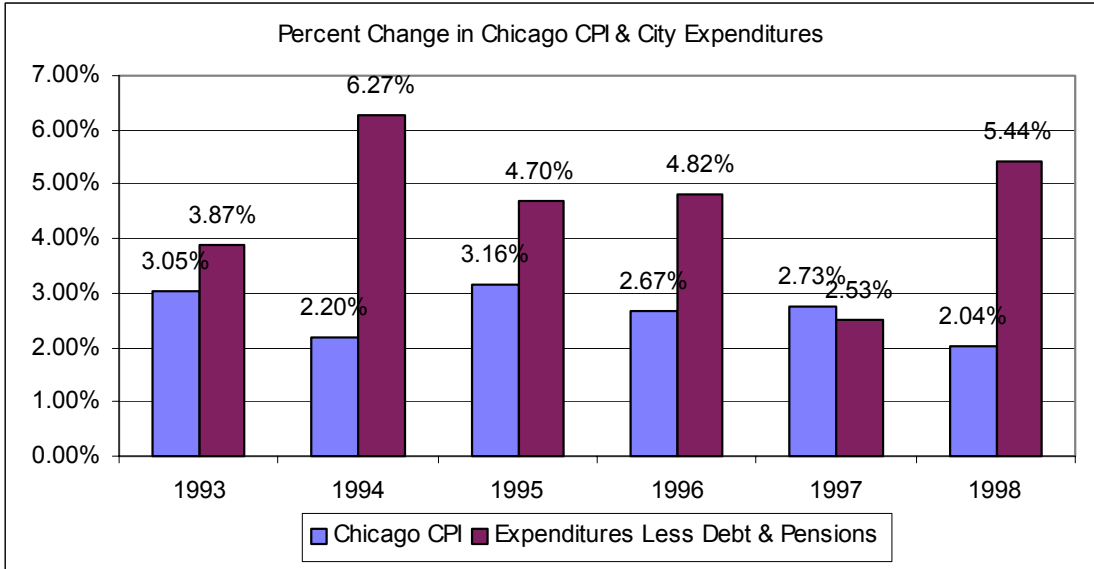
Total Appropriations	\$ 3,751	\$ 3,851	\$ 4,020	\$ 4,123	\$ 4,245	\$ 4,342
Annual Percent Change	0.70%	2.77%	4.29%	2.57%	2.94%	2.29%

For FY1999 and FY2000 the percent increase in appropriations are 3.56% and 5.49% respectively.

This trend indicates that while appropriations are growing at a rate close to the rate of inflation, expenditures are growing at nearly twice the rate of inflation.

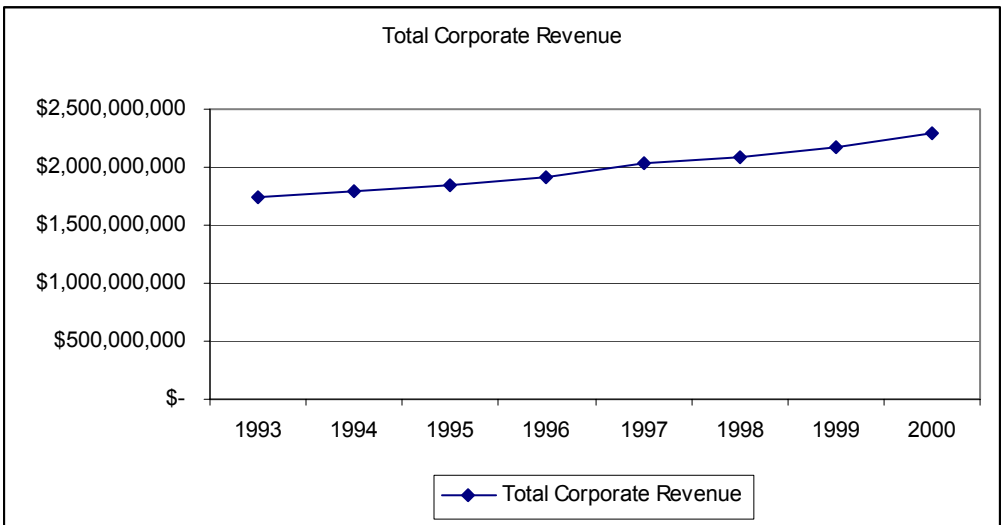


The total appropriations and expenditures include debt service payments that are not subject to inflation in the same way as consumer prices. In order to make a fair comparison the debt service and pension payments must be subtracted from the expenditures. Less debt and pension obligations, the City's expenditures are still rising faster than inflation.

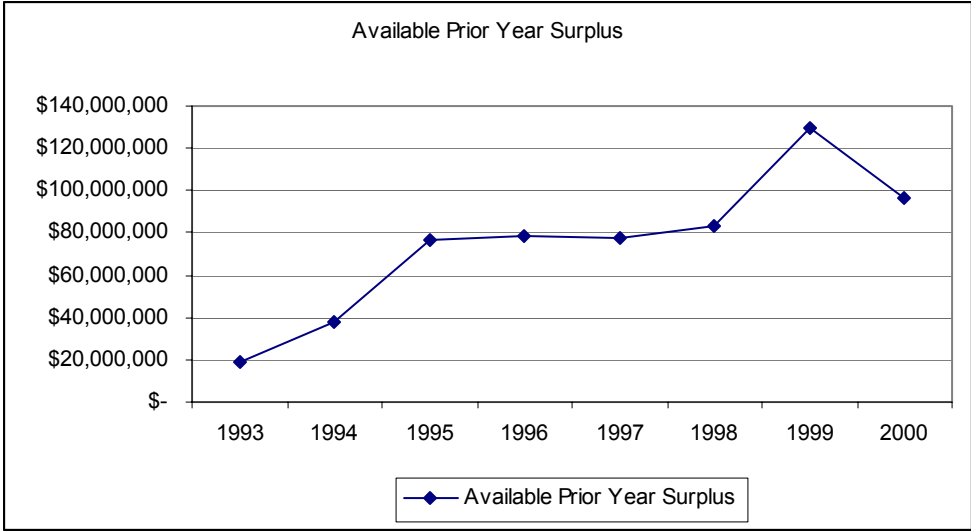


B. Overall Revenues

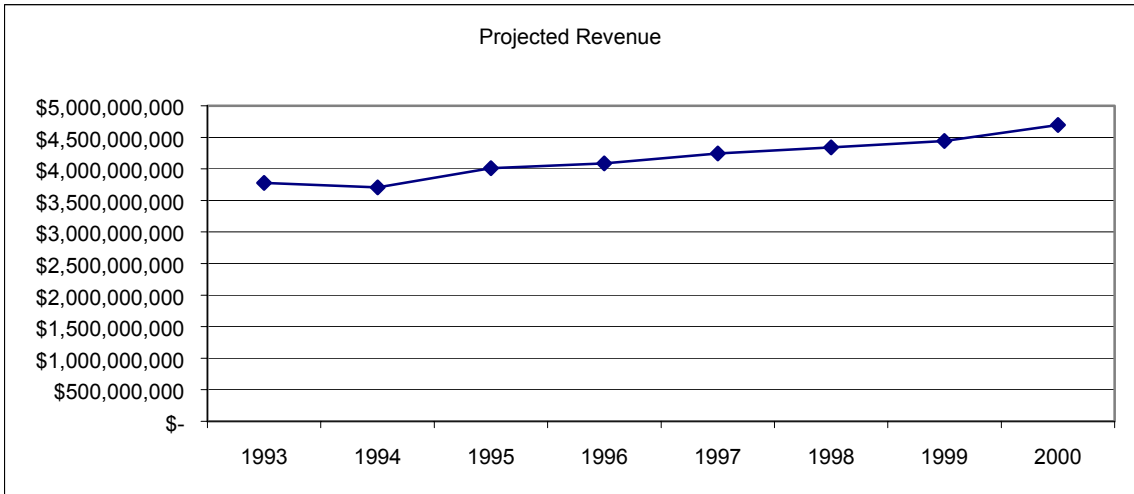
The total revenues for the Corporate Fund are projected to rise by 6.15% from \$2.164 billion to \$2.297 billion in 2000. Tax Revenue is expected to climb by 2.6%, and non-tax revenue is expected to climb by 10.2%. The largest increases in non-tax revenue are expected to come from Internal Service Earnings, Fines & Forfeitures, Licenses & Permits, and Current Service Charges.



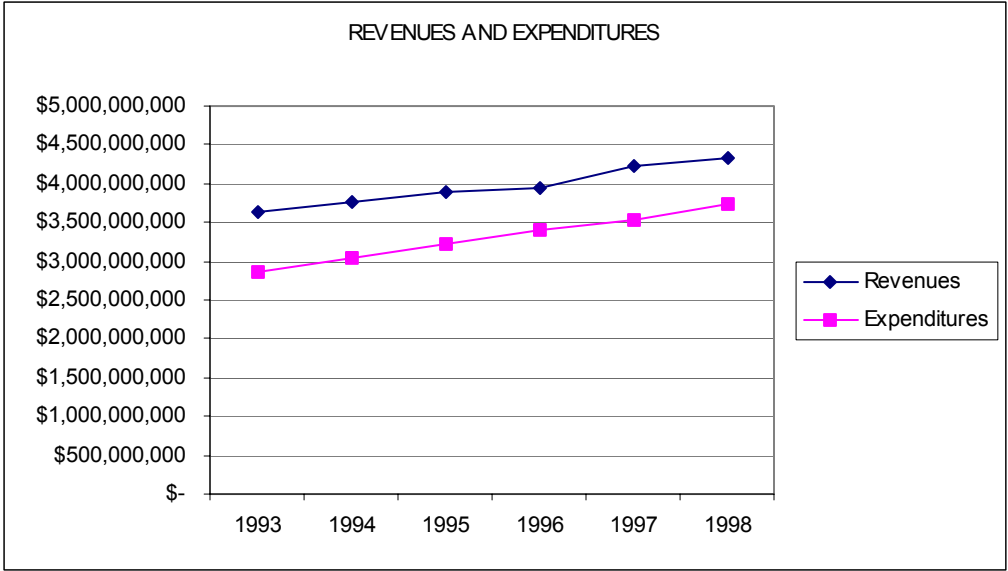
The Corporate Fund’s year-end balance will be down this year. On January 1, 2000 the Fund is expected to have \$96.5 million. This is down by 24.8% from last year when the Fund started 1999 with a balance of \$129.2 million.



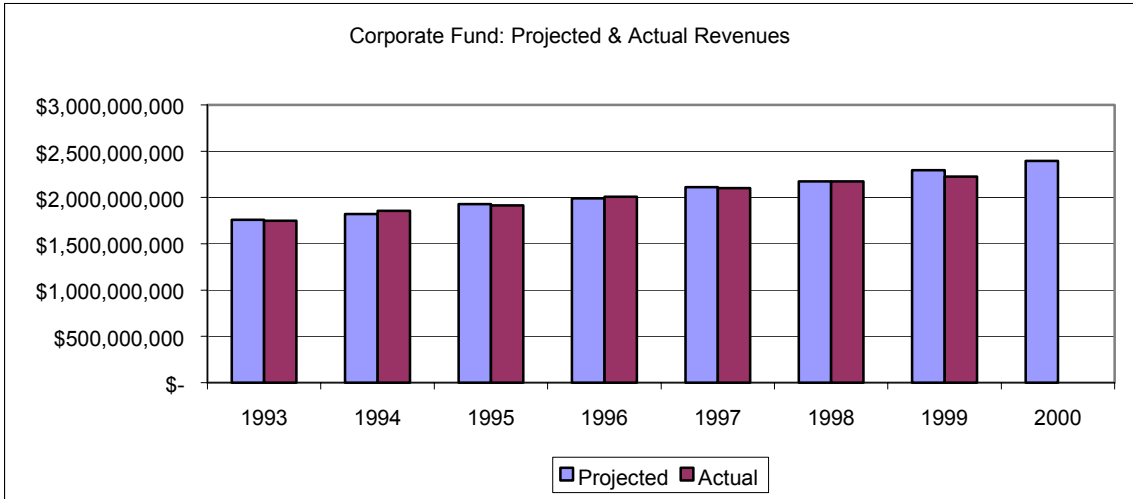
The City's projected total resources for FY00 are 5.64% higher than for FY99, increasing from \$4.4 billion to \$4.7 billion.

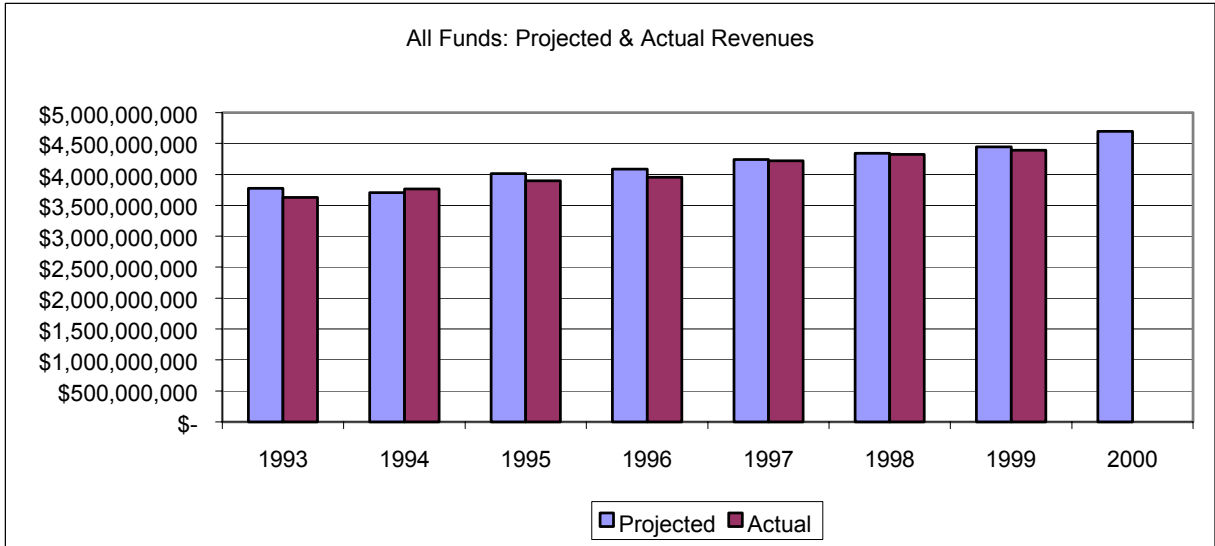


Since 1993, the City's actual revenues have exceeded actual expenditures by a declining amount, falling from 20.9% more revenues than expenditures in FY93 to 13.6% more in FY98.



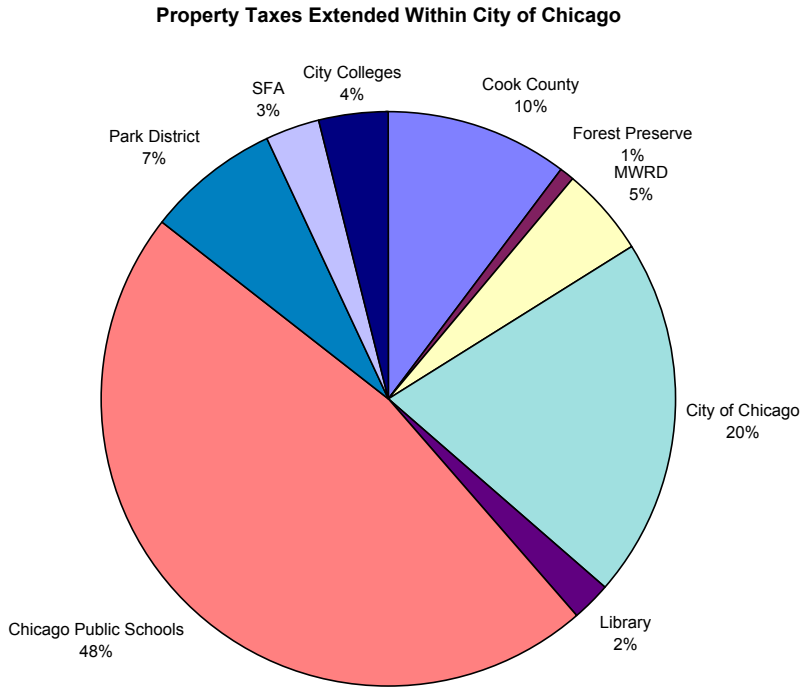
During this time the revenue projections have been within a $\pm 3\%$ margin of error.





C. PROPERT TAX LEVY

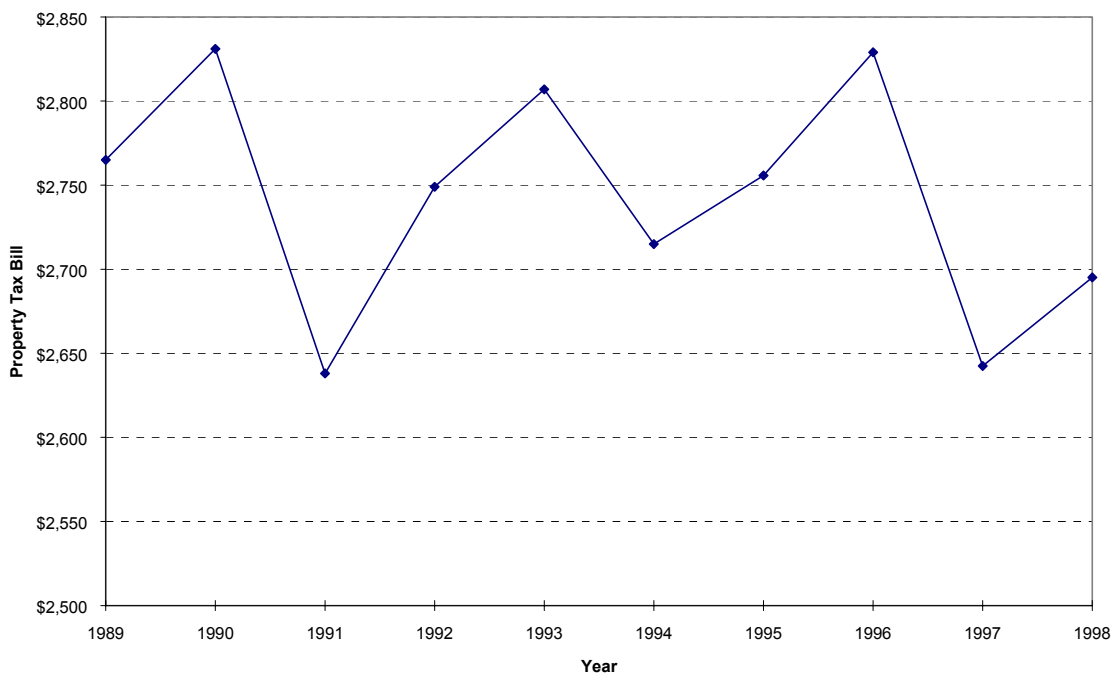
As a local government with the authority to levy property taxes, the City of Chicago is just one of eight governments on the property tax bill of a property owner within the corporate limits of the City of Chicago. As the pie chart illustrates, the eight major governments include the Chicago Public Schools, the City of Chicago (a separate levy is extended for the Chicago Library Fund), Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District (MWRD), the Chicago Park District, the Chicago City Colleges, and the Chicago School Finance Authority.



Since 1989, on average, property tax rates for homeowners within the City of Chicago have not increased. However, this does not mean that individual property tax bills did not increase. In order to assess whether an individual tax bill increases a property owner must compare the change in his or her assessment to the change in the aggregate City of Chicago tax rate and the state multiplier.

As the chart below (which illustrates the impact of tax rates) on tax bills demonstrates, a property tax bill for a hypothetical home with a constant fair market value of \$100,000 has remained below \$2,850 since 1989. One reason for this consistent leveling off of the average tax rate is that the total value of taxable property increased, both new construction and tax rates increases in market value. Thus, as the tax extensions of the local government increased, such increases were offset by the increase in property values. This increase in property values is evident during the City of Chicago’s reassessment years (1991, 1994, and 1997) when tax rates fell.

Chicago Property Tax Bill: \$100,000 Fair Market Value Home



As the table below on business cycle expansions and contractions illustrates, one reason for this growth in the value of taxable property is that the United States in general, and the City of Chicago in particular, are in the ninth year of an economic boom. Unemployment is low, revenue collections are up and consumer confidence is high. However, all good things come to an end, including economic upturns. The City of Chicago needs to develop a contingency plan for the time when such a downturn occurs, if the value of property then decreases. If the value of property should decrease, the City and the governments who extend property taxes within the City of Chicago would need to reduce their extensions in order to prevent an increase in tax rates.

The Business Cycle: An Economic Downturn is Inevitable

Length of Business Cycles

BUSINESS CYCLE REFERENCE DATES

DURATION IN MONTHS Contraction/Expansion Cycle

Trough		Peak		(Trough From Previous Peak)	(Trough to Next Peak)	(Trough from Previous Trough)	(Peak from Previous Peak)
April	1958	April	1960	8	24	47	32
February	1961	December	1969	10	106	34	116
November	1970	November	1973	11	36	117	47
March	1975	January	1980	16	58	52	74
July	1980	July	1981	6	12	64	18
November	1982	July	1990	16	92	28	108
March	1991			8	--	100	--

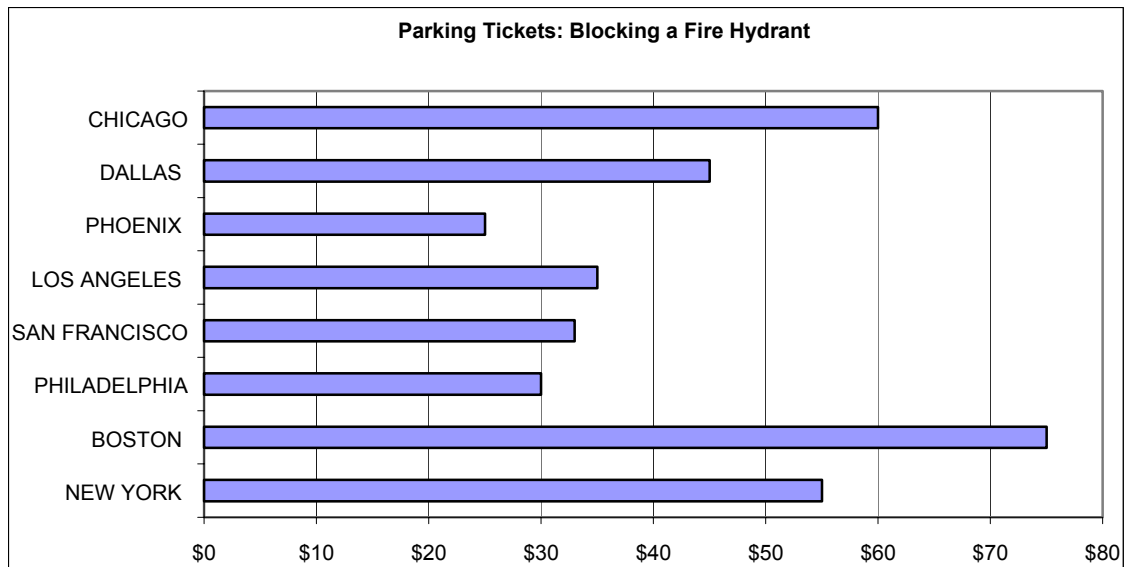
Source: National Bureau of Economic Research, Inc.

The average length of a business cycle between 1958 and 1990 was approximately 55 months. The current business cycle, which began in 1991, has continued to date for 103 months. Thus, the possibility of a contraction occurring in the near future is likely.

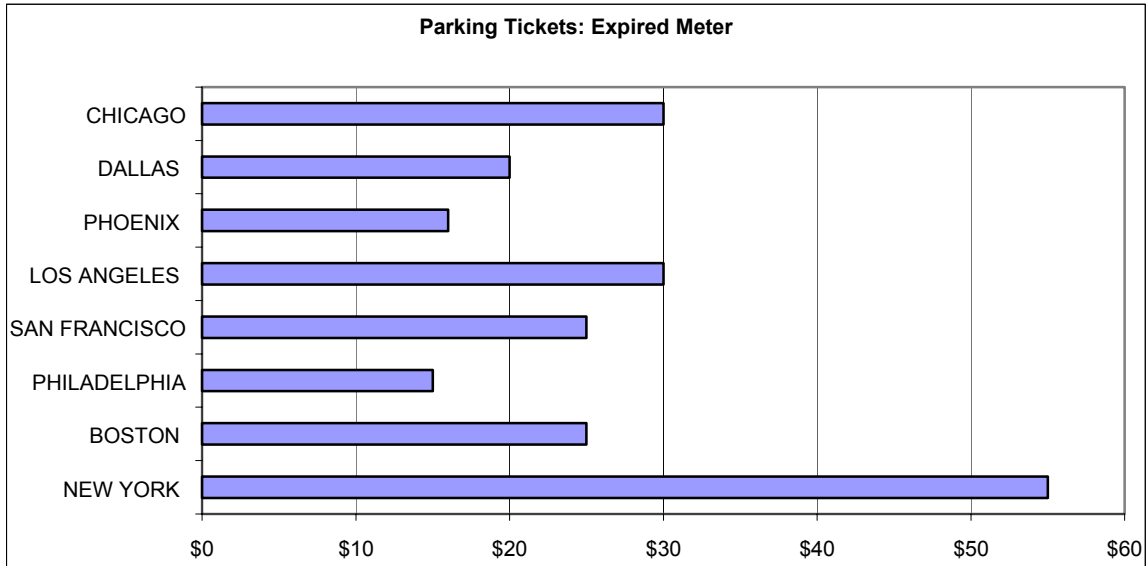
SECTION II: FEE INCREASES

A. Parking Tickets

For the parking violation “blocking a fire hydrant,” Chicago’s current fine of \$60 is the second highest fine of the cities surveyed. Only Boston imposed a more expensive fine, while most of the cities charged between \$25 and \$45.

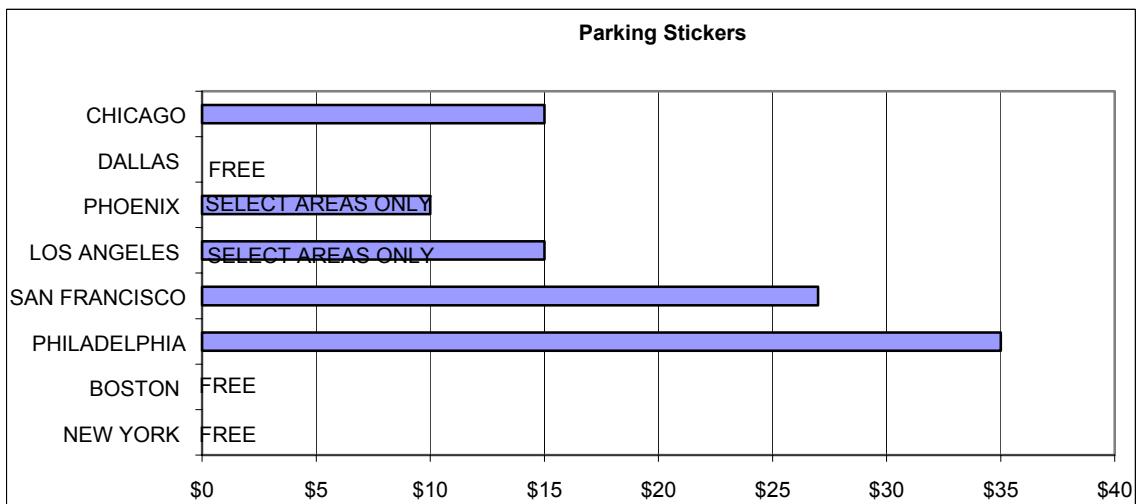


Chicago is also already close to the most expensive city for the parking violation “meter fee unpaid.” New York tops the list with a fine of \$55 for this violation in downtown Manhattan. Chicago’s current rates of \$20-\$30 depending on the location place the city in close correspondence with the fines imposed by the rest of the cities surveyed.



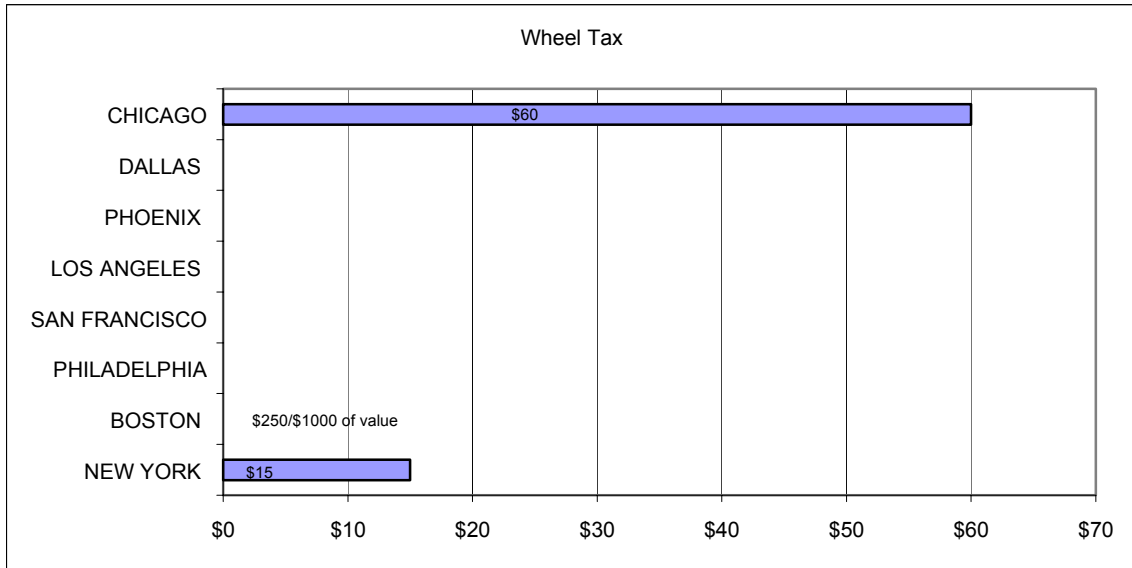
B. Residential Parking Stickers

The charge imposed by the City of Chicago for residential parking stickers is less than that imposed by Philadelphia and San Francisco. The rest of the cities surveyed do not necessarily require any kind of parking permit.



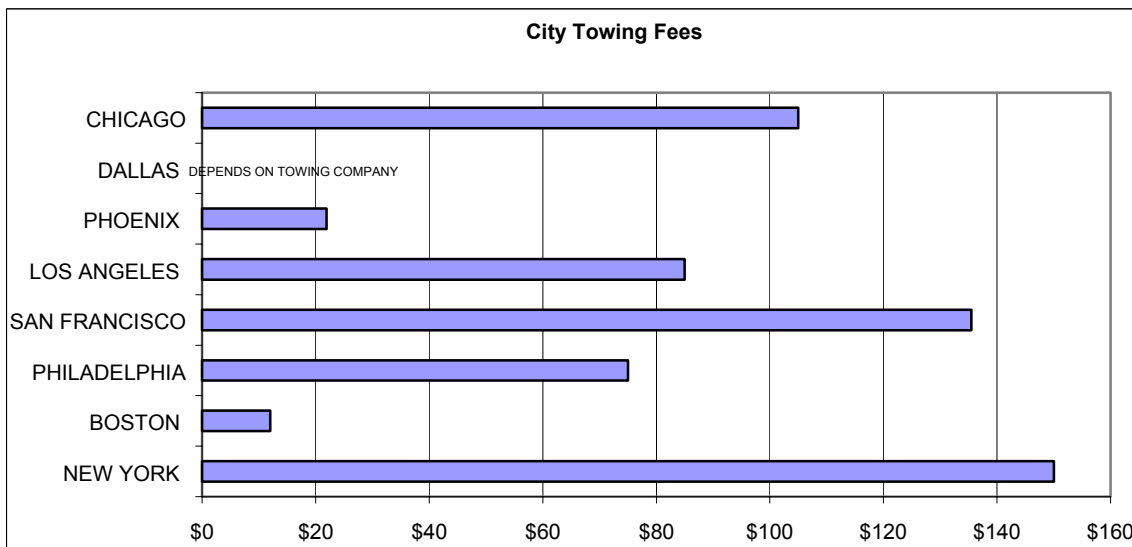
C. Wheel Tax

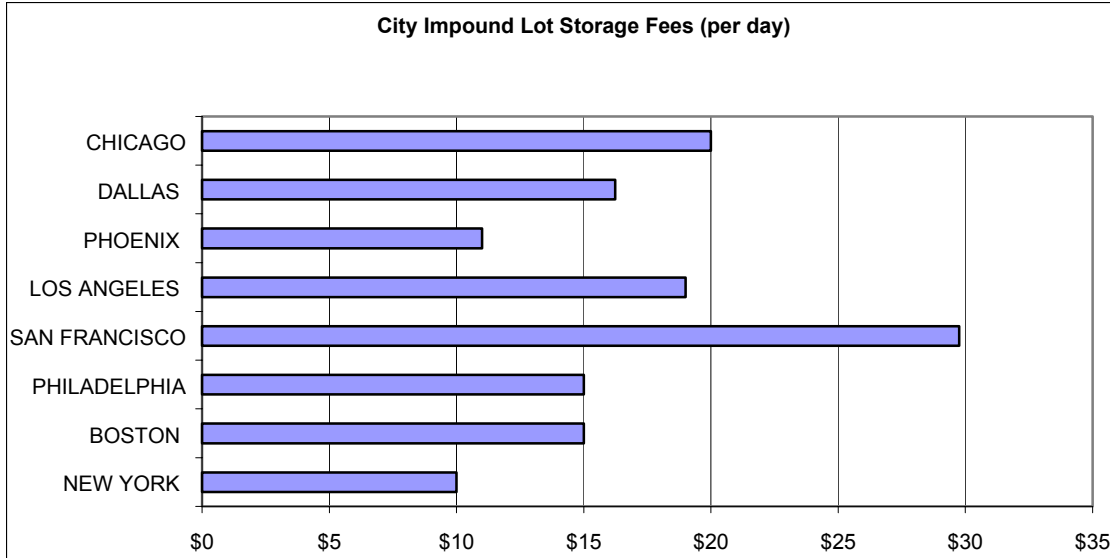
Chicago's current wheel tax of \$60 per year is comparable only to Boston and New York. Boston's yearly excise tax is comparable in expense, and New York's wheel tax is comparable in application. The rest of the cities surveyed, however, do not impose any wheel tax at all.



C. Towing and Storage Fees

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.





D. Employer’s Expense Tax

As was mentioned in The Civic Federation’s position on the FY1999 City of Chicago Budget, the Federation **requests** that the City take advantage of its strong financial position to finally eliminate the \$25 million Employer’s Expense or “head” tax. The head tax is an anti-business tax that helps inhibit the creation of new jobs and promotes economic development in the suburbs, not the City. The City’s abolition of the head tax for firms with 50 or fewer employers and concurrent reduction from \$5 to \$4 for remaining firms in the FY95 budget was welcomed by The Civic Federation and the entire business community. We believe that completing the job and abolishing the tax should be a major focus of the City’s fiscal policy.

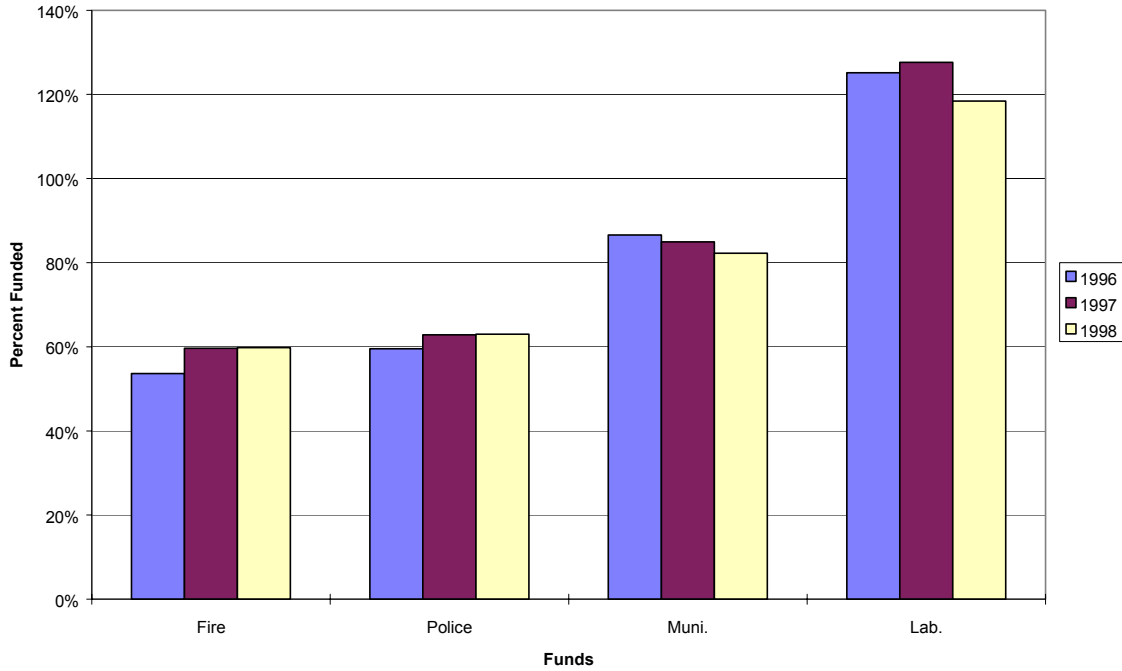
SECTION III: PENSIONS

For three consecutive years, the financial markets of the United States have continued to grow at a significant pace. As a result, the City of Chicago’s four pension fund’s investments continue to grow at higher than expected yields. As the chart below illustrates, the Firemens’ and Policemens’ Funds are continuing to make progress in achieving “healthy” funded ratios approaching 60%. Part of the recent increases in these two funds is a result in the valuation change recently made by the Government Accounting Standards Board (GASB #25) from valuing pension funds at “Book” Value to “Smoothed Market” Value. For example, in the case of the Policemens’ Fund, the Book Value funded ratio valuation for 1998 was 55% while its Smoothed Market Value was 63%.

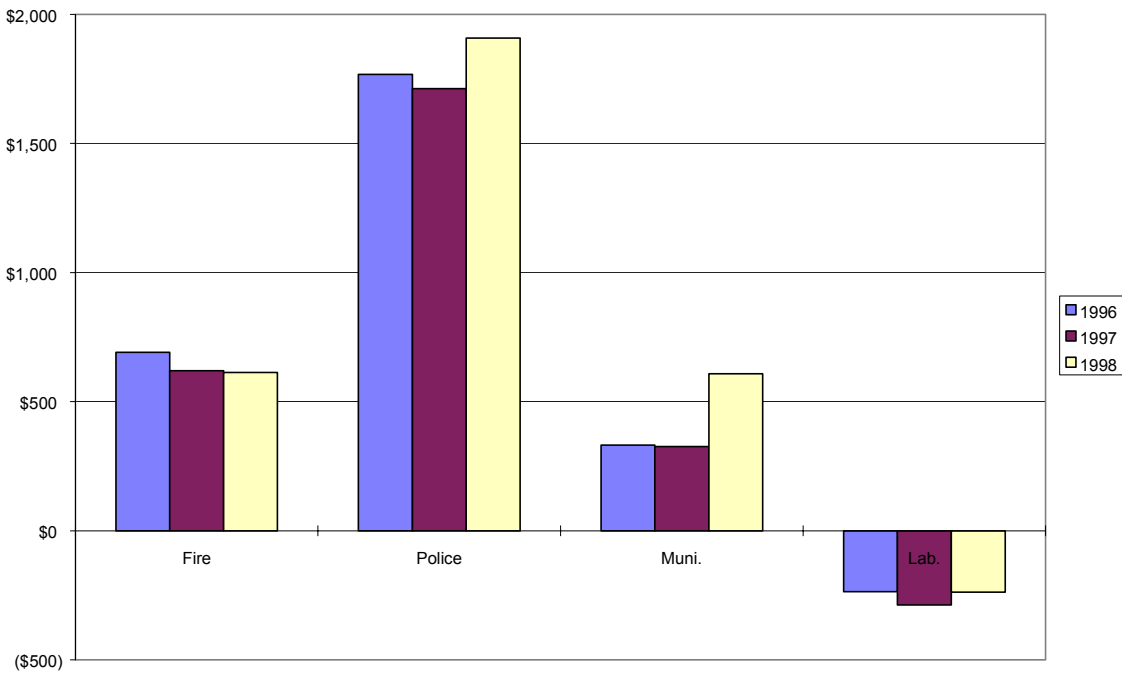
In terms of the City of Chicago’s other two funds, The Civic Federation is concerned about the decrease in the funded ratio of the Muncipal Fund (82%). However, such a decrease can be expected after completion of an early retirement program. In addition, the Laborers’ Fund (118%) continues to be overfunded and consideration should be given

to further adjusting the employer's contribution through a change in the statutory multiple.

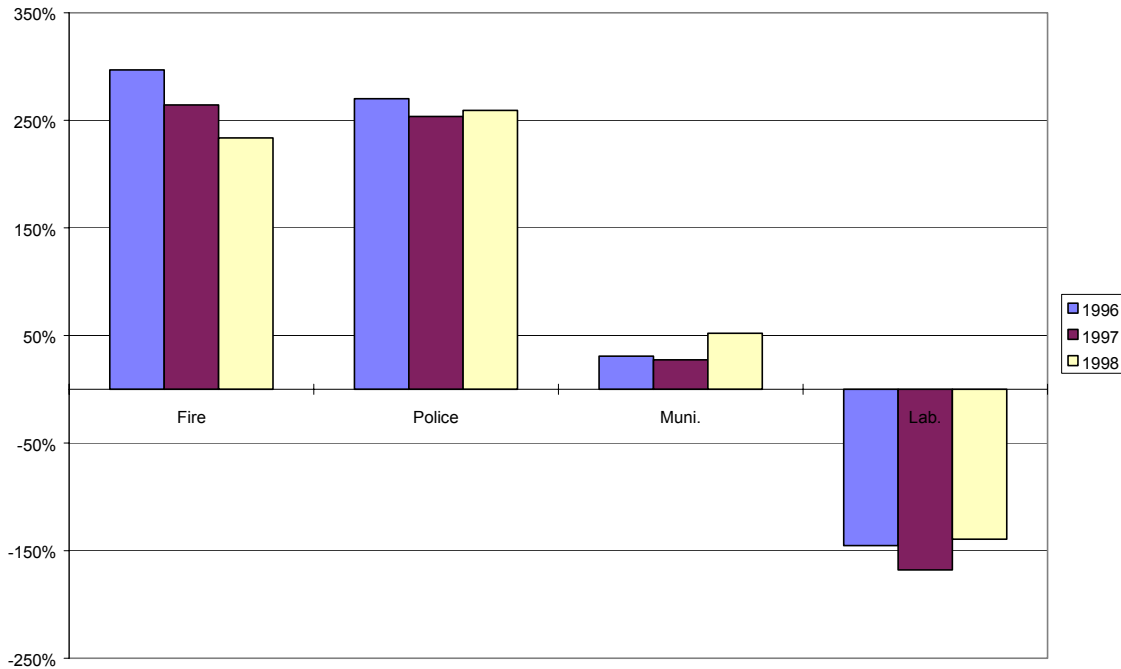
Funded Ratio - Actuarial Value of Assets



Unfunded Liability (\$ Millions)



Unfunded Liability as % of Covered Payroll



SECTION IV: FINANCIAL CONDITION

The following indicators provide a snapshot of the City of Chicago’s overall financial condition over the past five fiscal years, from FY94 to FY98. FY98 is the last year for which complete financial information is available.

The Civic Federation has developed the Financial Indicators as a first-of-its-kind tool to analyze governmental financial condition. While other studies have fashioned analytical tools to assist government financial managers, this is the first effort aimed at assisting taxpayers to better understand the financial condition of local governments.

Based on analysis of selected financial indicators, the City of Chicago is in good financial health:

- The City’s general obligation bond rating was maintained at an A1 rating by Moody’s Investors in FY98. Thus, the City’s bonds are of high investment quality, offering solid investment potential.
- The City has adequate resources on hand to met its financial obligations over time;
- The City does not rely heavily on risky forms of revenues to cover expenditures

However, the City's short and long-term debt loads are steadily increasing. Continued increases in these indicators may bear watching.

- The City's short-term debt has increased steadily between FY94 and FY98, rising from \$1 billion to nearly \$1.2 billion. This represents an increase of 17%.
- The City's long-term per capita debt load increased by 28% between FY94 and FY98, rising from \$1,253 to \$1,604.

A. QUALITY OF REPORTING

In order to evaluate the quality of governmental financial reporting, The Civic Federation has established a five-point grading scale, drawing upon standards established by the Governmental Accounting Standards Board (GASB). In order to merit a grade of 5/5 the following criteria must be met:

- 1) The Comprehensive Annual Financial Report (CAFR) format is used;
- 2) Generally Accepted Accounting Principles (GAAP) are used for financial statements;
- 3) There is an Unqualified Audit Opinion;
- 4) Financial Reports are released within 6 months of the close of the fiscal year; and
- 5) GAAP was used for presenting budgetary data in its General and Special Revenue funds.

The City of Chicago received a rating of 4/5 for all five of the years examined. Chicago consistently lost one point in the quality of their financial reporting due to the fact that the City did not use Generally Accepted Accounting Principles (GAAP) for the adoption of its budget. The City's Annual Appropriated Budgets were adopted on a budgetary basis, a method that is not consistent with GAAP.

Figure 4-1

**THE CITY OF CHICAGO CHECKLIST
FOR FINANCIAL REPORTING: FY94 - FY98**

CRITERIA	FY94	FY96	FY96	FY97	FY98
CAFR FORMAT	YES	YES	YES	YES	YES
GAAP USED FOR FINANCIAL STATEMENTS	YES	YES	YES	YES	YES
UNQUALIFIED AUDIT OPINION	YES	YES	YES	YES	YES
FINANCIAL REPORT RELEASED IN 6 MONTHS	YES	YES	YES	YES	YES
GAAP USED FOR BUDGET	NO	NO	NO	NO	NO
RATING	4/5	4/5	4/5	4/5	4/5

The City of Chicago operates under a mayor-council form of government. The financial statements present the City government and its four component units as one entity. The component units include: The Municipal Employees' Annuity and Benefit Fund; The Laborers' and Retirement Board Employees' Annuity and Benefit Fund; The Policeman's Annuity and Benefit Fund of Chicago; and The Firemen's Annuity and Benefit Fund.

B. FINANCIAL INDICATORS

The following section presents indicators that provide benchmarks of the financial health of the City of Chicago. They include: 1) liquidity, 2) cash solvency, 3) budgetary solvency, 4) financial stability and 5) risk factors.

1. Liquidity

Liquidity is the ready availability of cash, including the ability to convert assets into cash on short notice without loss of value. The following funds are reasonable options for internal borrowing and are, therefore, grouped together for this analysis: General Fund (GF), Special Revenue Fund (SRF) and Proprietary Funds. Capital funds are not included in this analysis because comparisons would be distorted by the mere timing differences in capital spending and debt financing activity, resulting in the large temporary fund balances. Also, borrowing from Capital Project Funds and Debt Service Funds may be restricted by bond covenants. Even without legal restrictions, the asset level of these funds can be quite volatile, making them an unreliable source of internal financing.

The liquidity ratio is calculated according to the formula below:

LIQUIDITY = CASH & SHORT-TERM INVESTMENTS / ACCOUNTS PAYABLE.
--

If the ratio is at least one the government should have enough resources to pay its bills as they come due.

As Figure 4-2 shows the City of Chicago had an adequate liquidity ratio for each of the years the study examined. The ratio ranged from a high of 3.4 in FY97 to a low of 2.1 in FY96 and FY98. For the five years analyzed the liquidity ratio averaged 2.5. Thus, The City of Chicago consistently maintained adequate funds to pay its bills as they came due during the time period analyzed.

Figure 4-2

**LIQUIDITY RATIO FOR THE CITY OF CHICAGO
GENERAL, SPECIAL REVENUE & PROPRIETARY FUNDS:
FY94 - FY98**

FISCAL YEAR	CASH + SHORT-TERM INVESTMENT	ACCOUNTS PAYABLE	RATIO
1994	\$ 540,882,000	\$ 204,523,000	2.6
1995	\$ 503,657,000	\$ 204,413,000	2.5
1996	\$ 562,579,000	\$ 269,144,000	2.1
1997	\$ 608,858,000	\$ 178,513,000	3.4
1998	\$ 632,080,000	\$ 300,440,000	2.1
AVERAGE	\$ 569,611,200	\$ 231,406,600	2.5

2. Cash Solvency: Current Fund Balance Ratio

Cash Solvency indicators measure the government's ability to meet its financial obligations over an indefinite period, long enough to convert illiquid assets to cash. The Civic Federation used a current fund balance ratio to measure cash solvency for the General and Special Revenue Funds.

$$\text{CURRENT FUND BALANCE RATIO} = \frac{\text{(UNRESERVED GF AND SRF FUND BALANCE + THAT PORTION OF THE RESERVED FUND BALANCE EARMARKED FOR ENCUMBRANCES)}}{\text{COMBINED GF AND SRF OPERATING EXPENDITURE.}}$$

In order to assess the size of the fund balance ratios, the Civic Federation has devised a rating system, which is listed below:

- If the Current Fund Balance Ratio is less than 10%, the government unit under review can be said to have Low Cash Solvency.
- If the Current Fund Balance Ratio is at least 10% but less than 25% of spending, it can be said to have Adequate Cash Solvency.
- If the Current Fund Balance Ratio is at least 25% but less than 50% of spending, it can be said to have Substantial Cash Solvency.
- If the Current Fund Balance Ratio is 50% or greater, it can be said to have High Cash Solvency.

The ratings are offered as a guide to taxpayers to use in raising questions with government officials regarding unreserved fund balances. Whenever Cash Solvency is too high, the government might consider shifting toward longer term holdings, retiring debt, or adjusting the income streams feeding the funds in order to bring income in line with current spending requirements.

According to Figure 4-3, the current fund balance of both the General and Special Revenue Funds has averaged 10.0%. Therefore, according to the current fund balance ratio calculations, the City of Chicago's General and Special Revenue Funds can be placed in the "Adequate" cash solvency category for the average of the five years the study examined. In FY95, FY96, FY97 and FY98, the City of Chicago General and Special Revenue Funds maintained a current fund balance ratio of 11%, easily placing them in the "Adequate" Cash Solvency Category.

Figure 4-3

**CURRENT FUND BALANCE RATIO FOR GENERAL AND
SPECIAL REVENUE FUNDS OF CITY OF CHICAGO: FY94-FY98**

FISCAL YEAR	Unreserved GF & SRF Fund Balance	GF & SRF Expenditures	Ratio	Rating
1994	\$ 255,764,000	\$ 2,828,673,000	0.09	Low
1995	\$ 332,250,000	\$ 3,139,760,000	0.11	Adequate
1996	361,358,000	3,307,082,000	0.11	Adequate
1997	362,451,000	3,378,156,000	0.11	Adequate
1998	382,903,000	3,475,036,000	0.11	Adequate
AVERAGE	\$ 338,945,200	\$ 3,225,741,400	0.10	Adequate

3. BUDGETARY SOLVENCY

Budgetary solvency measures a government’s ability to generate enough revenue over the course a normal budgetary period to meet its expenditures and prevent deficits. We have measured budgetary solvency through the use of two measures:

- The surplus or deficit trend in fund balances for the General, Special Revenue, Debt Service, and Capital Projects funds; and
- Short-term debt trends over time.

A. Surpluses or Deficits

Figure 4-4 examines fund balances in each of the City of Chicago’s Governmental Funds for FY94 to FY98. All of the Governmental funds showed a surplus, indicating a healthy budget solvency for the years examined. The Governmental and Capital Project Funds experienced substantial growth, while the Special Revenue and Debt Service Funds grew at only a moderate rate. The Capital Project Fund grew by 77% between FY97 and FY98, from \$345 million to \$611 million.

- The General Fund grew 80%, increasing from \$131 million to \$237 million;
- The Special Revenue Fund grew 19%, increasing from \$160 million to \$190 million;
- The Debt Service Fund grew 20%, increasing from \$137 million to \$165 million; and
- The Capital Project Fund grew 98%, increasing from \$309 million to \$611 million.

Figure 4-4

**GOVERNMENTAL FUNDS GROUP
FUND BALANCES: FY94 - FY98**

FISCAL YEAR	General Fund	Special Revenue Fund	Debt Service Fund	Capital Project Fund
1994	\$ 131,889,000	\$ 159,642,000	\$ 137,851,000	\$ 309,637,000
1995	\$ 150,629,000	\$ 145,004,000	\$ 223,662,000	\$ 354,052,000
1996	\$ 189,578,000	\$ 189,493,000	\$ 203,374,000	\$ 355,834,000
1997	\$ 216,330,000	\$ 194,435,000	\$ 170,957,000	\$ 345,141,000
1998	\$ 236,947,000	\$ 190,116,000	\$ 165,503,000	\$ 611,767,000
AVERAGE	\$ 185,074,600	\$ 175,738,000	\$ 180,269,400	\$ 395,286,200

B. Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of coming financial difficulties.

Figure 4-5 shows that Chicago's short-term debt has increased steadily between FY94 and FY98, rising from \$1 billion to nearly \$1.2 billion. This represents an increase of 17%.

Figure 4-5

**SHORT-TERM DEBT TRENDS
FOR THE CITY OF CHICAGO:
FY93 - FY97**

FISCAL YEAR	Total Short-Term Debt	Percent Change
1994	\$1,009,273,000	
1995	\$1,041,778,000	3.2%
1996	\$1,151,497,000	10.5%
1997	\$1,147,439,000	-0.4%
1998	\$1,184,048,000	3.2%
Average	\$1,106,807,000	-

4. FINANCIAL STABILITY

Financial stability is the ability of a government to maintain its current financial policies. The following section sets forth some general indicators of financial stability for the City of Chicago. They include general obligation debt credit ratings, long-term debt per capital, and pension funding ratios.

A. Credit Rating

The City’s general obligation bond rating was maintained at an A1 rating by Moody’s Investors in FY98. Thus, the City’s bonds are of high investment quality, offering solid investment potential.

B. Long-Term Debt Per Capita

Figure 4-6 presents long-term debt per capita trends for the City of Chicago for FY94 to FY98. The long-term debt analysis includes claims payable, employee vacation leave, capital leases, notes payable, and general obligation bonds payable. Any increases in this category bear watching as a potential sign of increasing financial risk.

As Figure 4-6 shows, long-term debt per capita assumed by Chicago has grown significantly over the five-year period this study examines. Between FY94 and FY98 long-term debt per capita grew 28%, increasing from \$1,253 to \$1,604. The average long-term debt per capita for the five years examined was \$1,420.

Figure 4-6

**LONG-TERM DEBT PER CAPITA IN
THE CITY OF CHICAGO FY94 - FY98**

Fiscal Year	Total Long-Term Debt	Population	Total Long-Term Debt Per Capita
1994	\$ 3,488,310,000	2,783,726	\$ 1,253
1995	\$ 3,709,701,000	2,783,726	\$ 1,333
1996	\$ 4,098,850,000	2,783,726	\$ 1,472
1997	\$ 4,007,512,000	2,783,726	\$ 1,440
1998	\$ 4,464,204,000	2,783,726	\$ 1,604
AVERAGE	\$ 3,953,715,400		\$ 1,420

5. RISK FACTORS

This portion of the analysis presents calculations for two different types of financial risk faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

A. Risk Exposure Factor Ratio

Risk Exposure Factor ratios measure the percentage by which a government will have to increase property taxes to cover a 1% shortfall in risky revenue sources, if services are to be maintained at current levels and other revenue sources are not available. Some of these sources of revenue and sources of risk are listed below:

- Investment Income is subject to *market* risk.
- Intergovernmental Revenue is subject to *political* risk. Welfare reform provides a good example of this type of risk.
- Transfer In is subject to two kinds of *management* risk, (1) the budget of the fund will not be balanced in the future, given that it is currently out of balance, and (2) the surplus in the originating fund will be eliminated.

The risk exposure factor ratio is calculated according to the following formula:

RISK EXPOSURE FACTORS = (INVESTMENT REVENUE + INTERGOVERNMENTAL REVENUE + TRANSFERS IN) / PROPERTY TAX REVENUE.
--

Figure 4-7 shows that the City of Chicago’s risk exposure factor ratio averaged 3.4 for the five years that the study examined. This means that the City would have been required to raise taxes or cut spending by 3.4% on average to cover a 1% shortfall in intergovernmental revenue, had it occurred. In short, over the period of this study, the City did not rely to heavily on risky forms of revenues to cover expenditures.

Figure 4-7

**RISK EXPOSURE FACTOR RATIOS FOR
THE CITY OF CHICAGO FY93 - FY98**

FISCAL YEAR	G & SR Intergovernmental, Interest & Transfers In & Out	G & SR Fund Property Tax Revenue	Ratio
1994	\$846,331,000	\$246,655,000	3.4
1995	\$938,103,000	\$264,154,000	3.6
1996	\$934,486,000	\$281,654,000	3.3
1997	\$938,273,000	\$278,564,000	3.4
1998	\$1,051,052,000	\$302,107,000	3.5
AVERAGE	\$941,649,000	\$274,626,800	3.4

B. Tax Leverage Factor Ratio

The Tax Leverage Factor Ratio is the rate by which government must increase its property taxes to maintain all services at existing levels in response to a one-percent increase in the budget for those funds supported by property tax revenue, assuming no offsetting increases in other revenue. This ratio gives planners a baseline to evaluate their long-term budget balancing efforts.

The Tax Leverage Factor Ratio is measured according to the formula presented below:

$$\text{TAX LEVERAGE FACTOR} = \frac{\text{TOTAL GF \& SRF OPERATING EXPENDITURES}}{\text{PROPERTY TAX REVENUE}}$$

Figure 4-8 shows that the tax leverage factor ratio for the City of Chicago for FY94 to FY98. The City's tax leverage ratio factor averaged 12%, this means that a 1% increase in the City budget would require a 12% increase in property taxes if other sources of revenue were not available.

Figure 4-8

**TAX LEVERAGE FACTOR RATIOS FOR
THE CITY OF CHICAGO FY94 - FY98**

Fiscal Year	GF & SRF Funds Total Operating Expenditures	GF & SRF Funds Property Tax Revenue	Ratio
1994	\$ 3,001,951,000	\$ 246,655,000	12.2
1995	\$ 3,139,760,000	\$ 264,154,000	11.9
1996	\$ 3,307,082,000	\$ 281,654,000	11.7
1997	\$ 3,378,156,000	\$ 278,564,000	12.1
1998	\$ 3,475,036,000	\$ 302,107,000	11.5
AVERAGE	\$ 3,131,124,400	\$ 261,286,400	12.0

Respectfully Submitted,

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