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CIVIC FEDERATION APPLAUDS FISCAL RESTRAINT IN PARKS BUDGET

Urges Pension and Employee Benefit Reform to Control Costs

CHICAGO – Praising a combination of careful management practices, prudent privatization initiatives, and creative public-private partnerships, the Civic Federation announced its **support** for the proposed $393.9 million FY2007 Chicago Park District budget. The Federation's complete Park District budget analysis, including detailed findings and recommendations, will be available Wednesday on our website at www.civicfed.org.

The District's spending plan was balanced through fee and rental increases without increasing the property tax levy. The levy will remain frozen at $259.9 million for the third consecutive year. "The Civic Federation believes fee increases are preferable to general tax increases as a way for the Park District to raise revenue because they target those who actually benefit from a program or service," said Laurence Msall, president of the Civic Federation. "We support the District's strategy of diversifying its revenue sources as a way to reduce its reliance on property taxes."

The Civic Federation has long recommended that governments look into the privatization of non-core assets and supported the District's long-term lease of three downtown parking garages as a prudent move. The lease will allow the District to pay off $70 million in existing garage debt and therefore reduce its debt burden. Moreover, the Park District has made responsible plans for using the proceeds of the transaction, such as funding current and future capital investments, and creating a $120 million income-generating reserve fund. Capital spending on neighborhood parks will total $122 million and $35 million will be reserved to rebuild Daley Bicentennial Park after the East Monroe Street garage is reconstructed in five years.

In its analysis, the Federation **cautioned** the District about the deterioration of the financial status of its pension fund. The District's pension fund is currently exhibiting relatively good fiscal health with a funded ratio of 80% in FY2005, the most recent year for which data are available. But the funded ratio has declined sharply from 96.7% in FY2001 and looks poised to dip below 80% in FY2006. The Civic Federation considers a funded ratio below 80% to be a cause for concern. Negative CPD pension funding trends are due in part to an ill-considered two-year partial pension funding holiday authorized by the Illinois General Assembly that allowed the District to transfer a portion of its property tax levy to general operations rather than the pension fund as stated on taxpayers' bills. The pension fund is also affected in part by inadequate annual CPD contributions, which are determined by Illinois statute and are not tied to the funded ratio.

"The Chicago Park District must seek pension benefit and governance reforms immediately if it is to prevent the slide of its pension fund into fiscal ill-health," said Msall. "The Civic Federation recommends seeking legislative approval to establish a two-tiered benefit system to control pension and benefit costs for future employees, tie benefit enhancements to contribution increases, cap annuity increases for new hires, and require a more balanced perspective between management, employees, and taxpayers on the Park Employees' Annuity and Benefit Fund Board."

Also of concern to the Federation was the District's increased personnel costs. For FY2007 that increase was 8.1%, a sharp contrast to the previous year's increase of 1.1%. In addition to double-digit increases in health and dental benefit costs, a 3.6% cost of living increase granted to employees in collective bargaining and a 4.5% increase in full time equivalent (FTE) employment contributed to the dramatic rise in personnel costs. "District management must take care not to undo its praiseworthy efforts to contain personnel costs in the past several years," said Msall. "We caution the District to hold the line on personnel, as FTEs have increased by 7.3% or 221 positions since FY2005."

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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CHICAGO PARK DISTRICT FY2007
OPERATING BUDGET RECOMMENDATIONS
Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Park District's FY2007 budget because it is a sound financial plan that stresses fiscal restraint and responsibility.

The Chicago Park District is a government that has held down its operating costs and its property tax levy through a successful combination of careful management practices, privatization of services, and public-private partnerships.

The FY2007 CPD budget proposes a modest 2.2% increase in spending to $393.9 million and, for the third year in a row, freezes the property tax levy at $259.9 million. Rental, permit, and harbor fees will be increased. These increases are appropriate and preferable to general tax increases because they target those who actually benefit from a program or service. The District's strategy of diversifying its revenue through greater utilization of user fees is a positive trend that may help it reduce its reliance on property taxes over the long term.

The long-term lease of the District's three downtown parking garages is a prudent move that allows the District to end its responsibility for a non-core asset and reduce its existing high debt burden. We commend the CPD for using the proceeds of this transaction responsibly by creating a $120 million Long Term Income Reserve Fund that will earn interest over time. The District will also earmark $157 million of the remaining proceeds for current and future capital investments.

FY2007 Budget Highlights

- The FY2007 budget will be $393.9 million, a 2.2% or $8.3 million increase over FY2006 budgeted appropriations, and only a 0.7% or $2.8 million increase over the estimated actual FY2006 appropriations.
- The property tax levy will be frozen at $259.9 million for the third consecutive year.
- The District has budgeted for an increase of 4.4% or 139 full-time equivalent (FTE) positions over the 3,125 FTEs that it actually employed in FY2006. This increase to 3,264 FTEs for FY2007 is primarily due to additional part-time and seasonal employees that the District plans to hire.
- Total personnel costs are budgeted at $141.0 million. This is an 8.1%, $10.6 million increase over the $130.4 million that was budgeted for personnel in FY2006.
- Utility rates for electricity, water, sewer, and natural gas are projected to increase by approximately 18.1%, from $20.1 million to $23.8 million. Most of the increase is due to the rising cost of natural gas. Appropriations for natural gas are expected to increase by 53.2%, from $6.3 million to $9.6 million.
- Personal Property Replacement Tax (PPRT) revenues are projected to increase by $3.5 million or 8.9%, from $39.5 million to $43.0 million.
- Soldier Field rentals will increase by $495,102 or 2.2%, from $22.0 million to $22.5 million.
- There will be a 3% increase in rental and permit fees. Revenues from these sources will rise by $370,000, from $4.6 million to $4.9 million.
- Harbor fee revenues will increase by 12%, from $18.2 million to $20.4 million, due to an 8% fee increase. The boating season will be extended by one month in 2007 in order to compensate harbor users for this increase.
- Northerly Island events are projected to generate a total of $1.3 million. Approximately $1.1 million of that amount will be used for on-site capital expenses.

Civic Federation Concerns

- In FY2005 the Chicago Park District Pension Fund had a relatively healthy funded ratio of 80.0%. However, we are concerned about the health of the Fund because of several troubling negative trends. Since FY2001, its funded ratio has declined from 96.7%, and unfunded liabilities have risen by 564% or $124.5 million, growing from $22.0 million to $146.5 million.
- The CPD accelerated the decline of its Pension Fund's fiscal health by taking an ill-advised partial pension holiday in both FY2004 and FY2005, reducing its annual contributions from $9.8 million to $4.8 million.[1] The Federation strongly opposed these actions.
- CPD personnel costs in FY2007 are expected to rise by 8.1%, from $130.4 million to $141.0 million. This follows a 1.1% increase in personnel costs from FY2005 to FY2006. Driven by rising benefit costs, a 3.6% salary increase in FY2007, and a 4.5% increase in FTE employment, this trend must be carefully monitored to ensure that the District's successful efforts to control personnel costs in previous years are not eroded. We caution that the District must hold the line on personnel. Since FY2005, FTEs have increased by 7.3% or 221 positions.

Civic Federation Recommendations

- The Civic Federation cautions the CPD that it is time to begin implementing cost-saving measures that will slow the growth of retirement benefit costs. Left unchecked, the steady decline of the Pension Fund's fiscal health could move from an area of concern to one of crisis.
- The CPD should seek legislation in Springfield that authorizes the District to implement measures to control pension costs. These measures should include: reducing benefits for new employees; fixing annual annuity increases for new hires at the projected Consumer Price Index or 3%, whichever is less; requiring contribution increases for any new benefit increases; and requiring that employer contributions be related to funding levels rather than set by arbitrary multipliers.
- The District should further strengthen its improved budget format by adding an organizational chart, five-year summaries of appropriations and revenue data, and a crosswalk that explains changes in budget categories and provides comparable trend data for previous years.
- The District should continue to develop and utilize a performance measurement system for all District programs as part of a broader strategic planning strategy. The performance measures should be published in the Budget Book.
- The District should adopt a formal fund balance or reserve policy that would require a certain percentage of expenditures or revenues to be set aside for contingencies. The Government Finance Officers Association (GFOA) standard of 5% to 15% of operating revenues or expenditures is a good guideline for such a policy.
- The CPD should adopt other formal financial policies that cover, for example, the use of one-time revenues and debt management, and it should publish these policies in the budget document.

[1] A 2004 law, Public Act 93-654, allowed the District to levy the full pension amount for 2004 and 2005, while reducing its employer contributions to the fund by $5 million each year. The $10.0 million withheld from the District's 2004 and 2005 annual pension contributions will be transferred to the District's Corporate fund in FY2007 and will be used to pay for District operating expenses. Steve Hughes (Chief Financial Officer, the Chicago Park District), in a telephone conversation with the Civic Federation, November 30, 2006.

- The District should develop and implement a formal long-term financial planning process that would solicit input from all stakeholders. The completed long-term financial plan should be publicly available in a published document.

OVERVIEW

The Civic Federation **supports** the Chicago Park District's FY2007 budget because it is a sound financial plan that stresses fiscal restraint and responsibility.

The Chicago Park District is a government that has held down its operating costs and its property tax levy through a successful combination of careful management practices, privatization of services, and public-private partnerships.

The FY2007 CPD budget proposes a 2.2% or $8.3 million increase over FY2006 budgeted appropriations and only a 0.7% or $2.8 million increase over the estimated actual FY2006 appropriations. The District also freezes the property tax levy at $259.9 million. Rental, permit, and harbor fees will be increased, but these increases are appropriate and preferable to general tax increases, since they target those who actually benefit from a program or service. The District's strategy of diversifying its revenue through greater utilization of user fees is a positive trend that may help it reduce its reliance on property taxes over the long term.

The long-term lease of the District's three downtown parking garages is a prudent move that allows the District to end its responsibility for a non-core asset and reduce its high debt burden. We commend the CPD for using the proceeds of this transaction responsibly by creating a $120 million Long Term Income Reserve Fund that will earn interest over time. The District will also earmark $157 million of the remaining proceeds for current and future capital investments.

Reasons for Civic Federation Support

The Civic Federation supports the FY2007 budget for the following reasons:

Exercising Property Tax and Spending Restraint

The Chicago Park District budget will increase modestly in FY2007 to $393.9 million, a 2.2% increase over FY2006 budgeted appropriations of $385.6 million. Compared to the District's actual estimated appropriations of $391.0 million for FY2006, the FY2007 budget's growth stands at only 0.7%. In addition, the District has frozen the levy for the third consecutive year at $259.9 million.

The Civic Federation applauds the leadership of the Chicago Park District for exercising fiscal restraint in both spending and taxing in its FY2007 budget.

Privatization of Parking Garage Management

The CPD has entered into a 99-year concession and lease of three of its downtown Chicago parking garages (the Grant Park North, Grant Park South, and East Monroe Street garages). Proceeds from this transaction will total $347 million, and will be used in the following manner:

- $122 million will be used for neighborhood parks' capital needs.
- $120 million will be used to establish a Long Term Income Reserve Fund. Net annual parking garage revenues of $5 million will be replaced with earnings from the fund.
- $35 million will be set aside as a reserve for rebuilding Daley Bicentennial Park when the East Monroe Street garage is reconstructed in five years by its new private operator.
- $70 million will be used to pay off existing parking garage debt.[2]

The Civic Federation believes that the long-term lease of the District's three downtown parking garages is a sound move. By transferring the management of the garages, the District is shedding a non-core asset and reducing its existing high debt burden. It is also using the transaction proceeds responsibly, both by creating a $120 million Long Term Income Reserve Fund that will earn interest over time, and by using $157 million for current and future capital investments.

Continued Emphasis on Rental and Fee Revenues Rather than Property Taxes

The Chicago Park District continues to expand its use of rental and fee revenues, which allows it to rely less heavily on tax revenues from property taxes.

In FY2007 Soldier Field rentals will increase by $495,102 or 2.2%, from $22.0 million to $22.5 million. There will be a 3% increase in rental and permit fees, and revenues from these sources will rise by $370,000, from $4.6 million to $4.9 million. Finally, harbor fee revenues will increase by 12%, from $18.2 million to $20.4 million, due to an 8% increase in fees.

The Civic Federation is encouraged by the District's efforts to diversify its revenue structure and move toward diminishing its reliance on property taxes.

Continued Use of Public-Private Partnerships

The District once again estimates that it will leverage $9.0 million in donations and grants from corporations and foundations to pay for programs in FY2007. This is a good example of utilizing public-private partnerships. The revenues generated through the District's public-private partnership have helped to make property tax increases unnecessary.

Budget Format Improvements

The FY2007 Budget has been substantially improved with the publication of a user-friendly Budget Summary that is accessible on-line.

In past years the Civic Federation has offered recommendations for improving the transparency of the Chicago Park District budget. We are very pleased that the District's new financial team has implemented many of these suggestions. The Budget Summary now includes the following important features:

[2] Steve Hughes (Chief Financial Officer, the Chicago Park District), in a meeting with the Civic Federation, November 13, 2006.

- A transmittal letter from the General Superintendent that describes the highlights of the budget (this letter is also contained in the full budget document);
- A discussion of how major achievements accomplished the CPD's core value objectives;
- An appropriation and revenue overview that includes narrative discussions and two years of data;
- An overview of positions and position changes by area;
- A listing of public-private partnerships; and
- A brief narrative discussion of the Park District's financial relationship with the Museums in the Park and the Lincoln Park Zoo.

The Civic Federation encourages the District to build on this very promising start by adding features that will further increase the budget's transparency, including:

- An organizational chart;
- Five-year summaries of appropriations and revenue data;
- A crosswalk that explains changes in budget categories and provides comparable information; and
- Clearly labeling the FTE figures in the Budget Summary as "actual" or "budgeted."

<u>More Time Allowed for Public Review and Comment</u>

This year, the CPD will give the public nearly three weeks to review the FY2007 budget. This is a great improvement over last year when the public was afforded only six working days to analyze the District's financial plan. We commend the District for being responsive to the need for stakeholders to have adequate time to review a complex budget document.

Civic Federation Concerns

The Civic Federation cautions the Chicago Park District about two items: the decline in the financial status of the District's pension fund and increasing personnel costs.

<u>Decline in Financial Status of Pension Fund</u>

The Civic Federation is concerned about the decline in the fiscal health of the CPD Pension Fund over the last five years.

In FY2005, the last year for which complete data are available, the audited financial statements of the Chicago Park District Pension Fund showed that it remained in relatively good fiscal health, with an 80% funded ratio. However, the Fund has shown several troubling negative trends over the five-year period from FY2001 to FY2005. In FY2001 the Fund's funded ratio was 96.7%. Since that time, unfunded liabilities have risen dramatically, by 564% or $124.5 million. This represents an increase from $22.0 million to $146.5 million.

The CPD accelerated the decline of its Pension Fund's fiscal health by taking an ill-advised partial pension holiday in both FY2004 and FY2005, reducing its annual contributions from $9.8 million to $4.8 million..[3] The Federation **strongly opposed** these actions.

[3] A 2004 law, Public Act 93-654, allowed the District to levy the full pension amount for 2004 and 2005, while reducing its employer contributions to the fund by $5 million each year. The $10.0 million withheld from the District's 2004 and 2005 annual pension contributions will be transferred to the District's Corporate fund in FY2007

The Civic Federation cautions the CPD that it is time to begin seeking authorization from the General Assembly to begin implementing cost-saving measures that can slow the growth of retirement benefit costs. Left unchecked, the steady decline of the Pension Fund's fiscal health could move from an area of concern to one of crisis.

Increasing Personnel Costs

In FY2006 the CPD Budget reported a projected 1.1% increase in personnel service appropriations for salaries and benefits. This represented an increase from $110.9 million to $112.6 million. Salaries and wages were expected to rise by 1.5%, benefits were actually expected to decrease by 1.8%, and payroll taxes were projected to remain flat. In FY2007, though, personnel costs will rise more dramatically, by 8.1%, from $130.4 million to $141.0 million. This increase is the result of double digit increases in health and dental insurance costs, a 3.6% annual cost of living increase negotiated in the most recent collective bargaining agreement, and a 4.5% increase in FTE employment from 3,124 to 3,264.[4] *This trend should be carefully monitored to ensure that the District does not undo its efforts to contain personnel costs over the past several years.* We caution that the District must hold the line on personnel. Since FY2005, FTEs have increased by 7.3% or 221 positions.

We understand that many of the new FTEs actually represent an increase in lower-cost seasonal and part-time workers. We believe that it would be useful for the CPD to provide more detail in the Budget Book on how using non-full-time employees helps the District control labor costs. Specifically, the District should fully explain how many of these FTEs are seasonal and part-time rather than full-time positions, and it should quantify the gains in efficiency and the cost-savings that have resulted from these personnel changes.

Civic Federation Recommendations

The Civic Federation offers several recommendations on ways to improve the District's financial management and the transparency of its operations.

Implement Comprehensive Pension Benefit Reform

The Civic Federation offers the following recommendations on ways in which the Chicago Park District could improve the long-term financial health of the CPD Pension Fund. These measures would require General Assembly authorization. We strongly urge the District to seek such approval as soon as possible.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new

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and will be used to pay for District operating expenses. Steve Hughes (Chief Financial Officer, the Chicago Park District), in a telephone conversation with the Civic Federation, November 30, 2006.

[4] The FTE figures cited here represent FY2006 actual FTEs and FY2007 budgeted FTEs. See *Chicago Park District FY2007 Budget Summary*, p. 15.

employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the District should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, CPD pension fund beneficiaries receive 3% annual cost of living increases. However, this rate can and often does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements for the CPD and other local governments are added to public pensions by the Illinois General Assembly without any provision for accompanying contribution increases. The Civic Federation urges the CPD to closely monitor the General Assembly's proposed pension legislation, and to insist that any new benefit increase must identify additional funding that pays for the resulting annual accrued cost. This is a reasonable measure for controlling future benefit costs and for avoiding unnecessary local property tax increases.

Require Employer Contributions to Relate to Funding Levels

The Chicago Park District's employer contributions are determined by a multiplier that is not tied to the fund's funded ratio. The CPD's multiplier is set by state statute at 1.10 times the total employee contribution made two years prior. Unfortunately, meeting this statutory funding requirement does not ensure that the CPD will provide sufficient resources to keep its Pension Fund financially healthy. The Civic Federation believes that, at a minimum, employer contributions should be tied to funded ratios so that additional contributions are required whenever the ratio drops below a given level. Linking pension contributions to actuarially required contribution (ARC) levels would be an even more effective way of guaranteeing the Pension Fund's financial health.

<u>Park District Pension Fund Governance Reform</u>

The Park Employees' Annuity and Benefit Fund of Chicago is governed by a seven-member Board of Trustees that includes four active employees and three representatives from management.[5] The proper role of a pension board is to safeguard the fund's assets and to balance the interests of the employees and retirees who receive benefits and the taxpayers who pay for pension benefits. The employer, employees, retirees, and taxpayers all have an interest in the management of the fund. However, the tilt toward employees and retirees on the Park District Pension Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards,
- Include financial experts on pension boards, and
- Require financial training for non-experts.

[5] Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois* (February 13, 2006), www.civicfed.org.

We urge the Chicago Park District to seek reform of the Park District Employees' Fund governing structure to ensure a greater balance of interests.

Include More Information About Capital Resources and Spending in Operating Budget

The CPD should include a brief description of capital budget resources and spending, as well as an explanation of the relationship between the capital and operating budges in the Operating Budget Book or Budget Summary. Currently, there is only a single page in the Operating Budget Book (on page 340) that provides minimal information about the District's capital spending and resources.

Develop and Implement Performance Measures

The Civic Federation encourages the Chicago Park District to move quickly toward full implementation of a performance management system. All governments should evaluate the performance of the programs and services they provide. This is the best means available to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results keeps all citizens and stakeholders apprised of how actual results compare to expectations.[6]

Adopt Formal Financial Policies Including a Fund Balance Policy

Formal or written financial policies are plans that guide and determine a government's present and future financial operations decision-making. Both the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association recommend that all jurisdictions adopt formal written financial policies.[7]

The Civic Federation recommends that the Chicago Park District adopt written financial policies to guide the development of its annual budget. **We strongly urge the District to move quickly to adopt a fund balance or reserve policy requiring that a certain percentage of expenditures or revenues be set aside for contingencies.** The GFOA standard of 5% to 15% of General Fund operating revenues or expenditures is a good guideline for such a policy. Meeting the GFOA standard would require a FY2007 fund balance of at least $12.3 million (5% of the proposed Corporate fund appropriation of $246.3 million).

Implement a Formal Long-Term Financial Plan

The Chicago Park District employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and the modeling of various revenue and expenditure options. However, the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the CPD develop and implement a formal long-term financial planning process

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[6] See Recommended Practice 11.1 "Monitor, Measure, and Evaluate Program Performance," in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).
[7] See Recommended Practices 4.1 – 4.7 in National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998), and Committee on Governmental Budgeting and Management, "Adopting Financial Policies," *Recommended Practice* (2001).

that is not just reviewed internally, but that solicits input from the Board of Commissioners and other key policy stakeholders, including the public.

ACKNOWLEDGEMENTS

The Civic Federation would like to thank General Superintendent Timothy Mitchell, Chief Financial Officer Steve Hughes, Budget Director Tanya Anthony, and the Chicago Park District's financial management staff for their efforts in preparing this budget. We greatly appreciate the cooperation we have received from all of them in preparing our analysis.

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to affect the District's financial situation in the upcoming fiscal year, including expenditure, appropriation, and revenue trends.

All Fund Appropriations

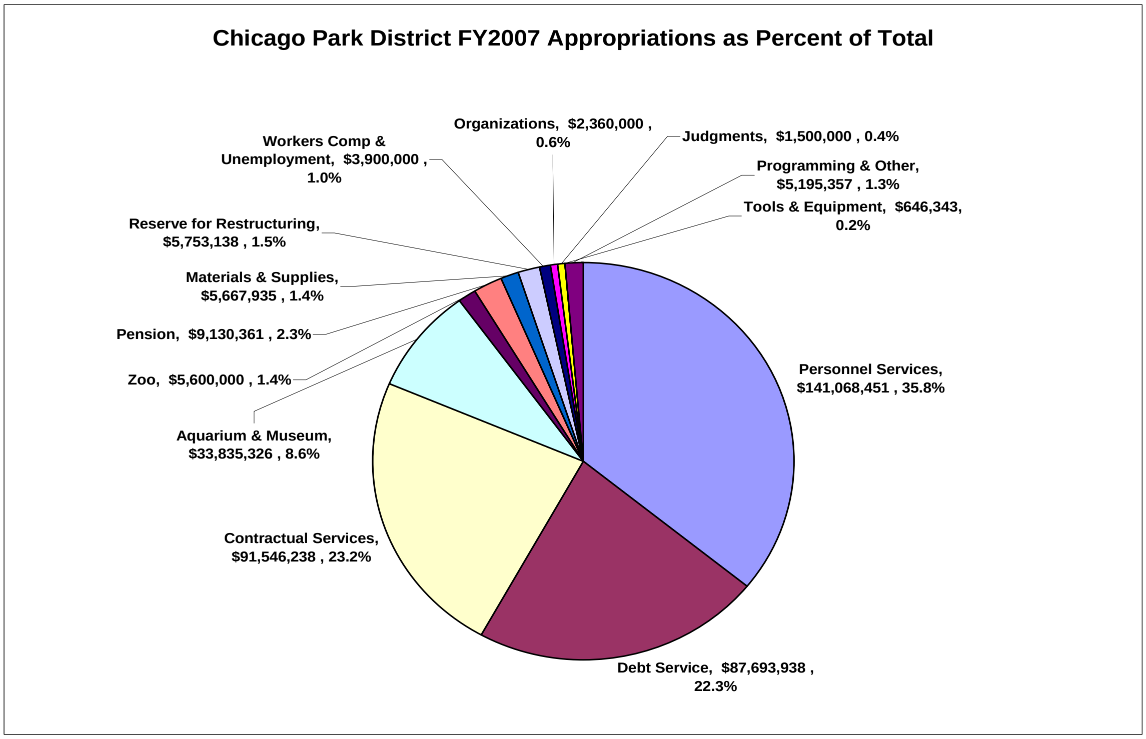
Total Chicago Park District appropriations are projected to increase from $385.6 million in FY2006 to $393.9 million in FY2007, an $8.3 million or 2.2% increase. Personnel appropriations are expected to increase by 8.1%, from $130.5 million to $141.1 million, in part because of salary increases negotiated with the employees' union, but also because of 153 more FTEs in the FY2007 budget than in the FY2006 budget. Appropriations for pensions will decrease by 6.0% or $0.6 million in FY2007, falling to $9.1 million. The District's contribution is set by statute at 1.1 times the amount contributed by District employees two years prior. Debt service appropriations will fall by 7.8%, from $95.1 million to $87.7 million. The decrease in debt service appropriations is due to debt being retired following the long-term lease of the parking garages.

Chicago Park District Appropriations by Object: FY2006-FY2007

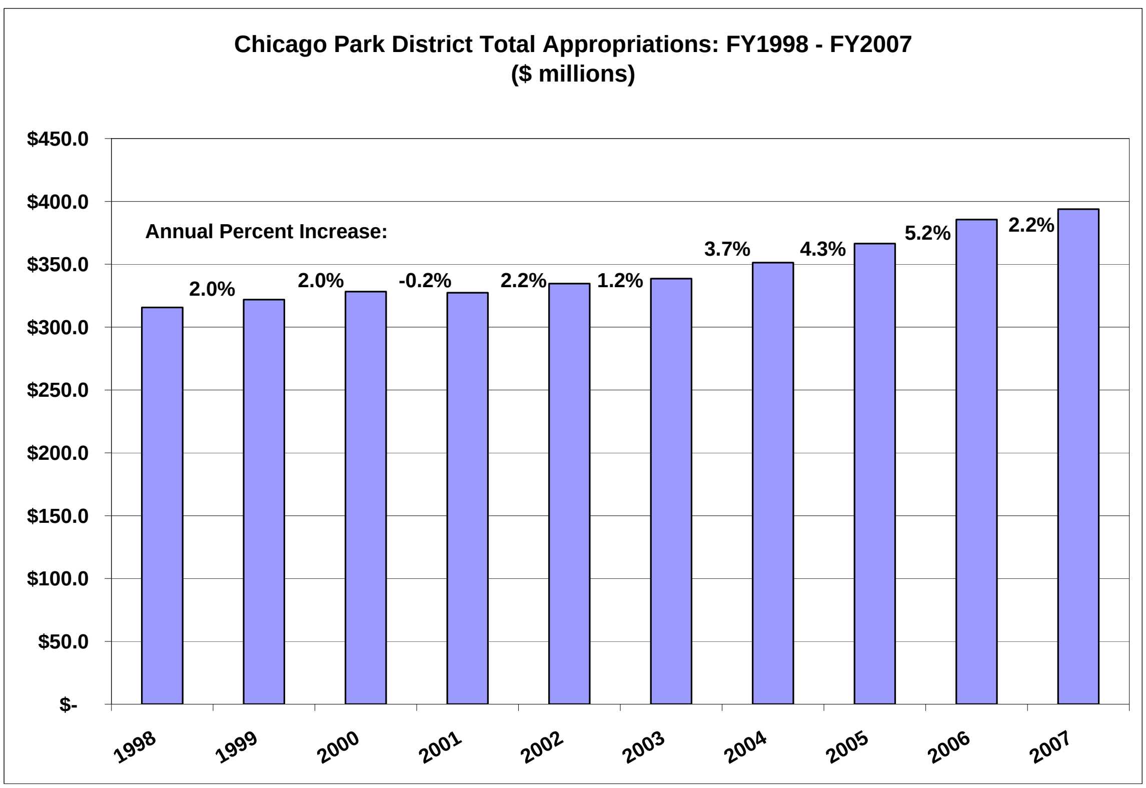
	FY2006 Recommended	FY2007 Recommended	$ change	% change
Personnel Services	$ 130,454,003	$ 141,068,451	$ 10,614,448	8.1%
Debt Service	$ 95,107,758	$ 87,693,938	$ (7,413,820)	-7.8%
Contractual Services	$ 88,799,752	$ 91,546,238	$ 2,746,486	3.1%
Aquarium & Museum	$ 33,533,966	$ 33,835,326	$ 301,360	0.9%
Zoo	$ 5,584,000	$ 5,600,000	$ 16,000	0.3%
Pension	$ 9,715,922	$ 9,130,361	$ (585,561)	-6.0%
Materials & Supplies	$ 4,951,299	$ 5,667,935	$ 716,636	14.5%
Reserve for Restructuring	$ 4,176,000	$ 5,753,138	$ 1,577,138	37.8%
Workers Comp & Unemployment	$ 3,900,000	$ 3,900,000	$ -	0.0%
Organizations	$ 2,380,020	$ 2,360,000	$ (20,020)	-0.8%
Judgments	$ 1,550,000	$ 1,500,000	$ (50,000)	-3.2%
Tools & Equipment	$ 525,131	$ 646,343	$ 121,212	23.1%
Programming & Other	$ 4,904,269	$ 5,195,357	$ 291,088	5.9%
GRAND TOTAL	**$ 385,582,120**	**$ 393,897,087**	**$ 8,314,967**	**2.2%**

Source: Chicago Park District FY2006 Budget Recommendations, p. 353, Chicago Park District FY2007 Budget Recommendations, p. 336

Approximately 35.8% of FY2007 appropriations are budgeted for Personnel Services, while Contractual Services represent 23.2% of total appropriations. Debt Service represents 22.3% of appropriations.



Over the last ten years, total appropriations have grown by 24.8%, or $78.3 million. Between FY1998 and FY2007, annual appropriation growth averaged 2.5%.



The next exhibit provides a detailed listing of Contractual Services appropriations. Overall, the District will increase Contractual Services appropriations by 3.1%, from $88.8 million to $91.5

million. Rent and Utilities expenditures will increase by $4.1 million, or 17.1%. Dramatic increases in the cost of natural gas are primarily responsible for this increase. General Contractual Expenses will increase by 40.1% ($2.6 million), Landscape Services by 15.1% ($0.4 million), and Other Contractual Expenses by 8.6% ($1.4 million). Park Services Management expenditures will decrease by 21.3% or $5.9 million. These savings are largely due to the District's deal to lease its three downtown parking garages, which obviates the District's need to provide for their management.

Chicago Park District Contractual Serivces Appropriations: FY2006-FY2007				
Contractual Services	**2006 Budget**	**2007 Budget**	**$ change**	**% change**
Park Services Management	$ 27,516,234	$ 21,651,634	$ (5,864,600)	-21.3%
General Contractual Expenses*	$ 6,420,457	$ 8,996,459	$ 2,576,002	40.1%
Other Contractual Expenses*	$ 16,248,574	$ 17,650,035	$ 1,401,461	8.6%
Landscape Services	$ 2,519,700	$ 2,900,000	$ 380,300	15.1%
Rent & Utilities	$ 23,630,619	$ 27,682,167	$ 4,051,548	17.1%
Expenditures of Grants	$ 9,005,000	$ 9,000,000	$ (5,000)	-0.1%
Insurance	$ 3,459,168	$ 3,665,943	$ 206,775	6.0%
TOTAL	**$ 88,799,752**	**$ 91,546,238**	**$ 2,746,486**	**3.1%**

* General Contractual Expenses includes Communications Expenses and other General Contractual Serices; and Other Contractual Expenses includes Professional Services, City of Chicago (Police and GPMF), and Repographic Services.
Source: Chicago Park District FY2006 Budget Recommendations, p. 353, and FY2007 Budget Recommendations, p. 336

Revenues and Resources Trends

Tax revenues for the District are budgeted to increase by 1.2% in FY2007, from $290.3 million to $293.8 million. This increase is projected to come from a $3.5 million or 8.9% increase in Personal Property Replacement Tax (PPRT) receipts. The PPRT is an income tax levied on corporations and utilities, and its substantial increase reflects the economic recovery in Illinois. There is no increase in the District's property tax levy for FY2007.

Revenues from the rental of District facilities will decrease by 4.6%, falling from $28.4 million to $27.1 million. Revenue from the rental of Soldier Field will increase by 2.2%, bringing in an additional $0.5 million in FY2007. Northerly Island revenues earmarked for the FY2007 Operating Budget will by increase by $37,890 or 23.2% over FY2006 appropriations.[8] Rentals and Miscellaneous, which includes revenues generated from gym rentals, hall rentals, ice rink rentals, locker fees, pool rentals, tennis court rentals, and other revenues, will decrease by $1.3 million, or 4.6%.

Permit and fee revenues are projected to decrease by $10.5 million, or 19.9%. Following the long-term lease of the District's parking garages, parking revenues in FY2007 will drop by $15.1 million or 69.4%. Other permit and fee revenues will rise in FY2007. Harbor Fees will increase by $2.2 million (12.2%), Park Fees by $1.6 million (15.3%), and Permits by $0.8 million (41.8%). The increase in harbor fees will come from an 8% increase in boating fees, in exchange for which the 2007 harbor season will be extended by one month.[9]

[8] Northerly Island events will generate a total of $1.3 million in revenue, but the District will reserve approximately $1.1 million of that amount will for on-site capital expenses. Information provided by the Chicago Park District, November 13, 2006.
[9] *Chicago Park District 2007 Budget Summary*, 11.

Grants and Donations revenue will remain flat in FY2007 at $9.0 million, but investment income will increase by 88.0% from $1.3 million to $2.4 million. Concessions revenue will also increase by $1.6 million or 42.7%.

In FY2007 the District will transfer $10.0 million from its Pension Fund into its Corporate Fund and will use this money to pay for operations. This $10.0 million is available because of a 2004 law that allowed the District to levy the full amount necessary for its 2004 and 2005 pension contribution while making an actual contribution of $4.8 million in each year, $5 million less than the District levied. The FY2007 budget ordinance will authorize the transfer of this $10.0 million from the Pension Fund to the Corporate Fund.[10]

The $2.7 million SRA Fund Balance that will be carried over into FY2007 is earmarked for capital improvement projects, most of which help bring parks into compliance with Americans with Disabilities Act regulations. The specific projects to be undertaken by the District will be designated when the District adopts its five-year Capital Improvement Plan in the spring.[11] The $1.2 million capital contribution to the District's operating resources will cover labor costs for capital projects.[12]

Chicago Park District Resources by Source: FY2006 and FY2007

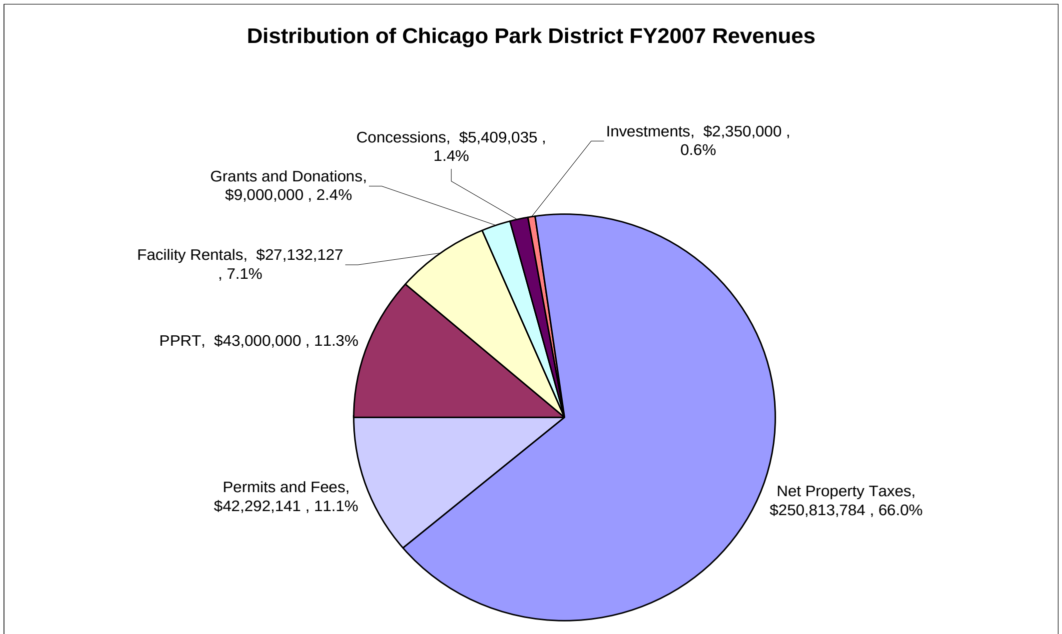
	2006 Budget	2007 Budget	$ change	% change
Gross Property Tax Levy	$ 253,910,657	$ 253,910,657	$ -	0.0%
Special Recreation Property Tax Levy	$ 6,000,000	$ 6,000,000	$ -	0.0%
Property Tax Loss in Collection	$ (9,096,873)	$ (9,096,873)	$ -	0.0%
Personal Property Replacement Tax	$ 39,500,000	$ 43,000,000	$ 3,500,000	8.9%
Subtotal Tax Revenues	**$ 290,313,784**	**$ 293,813,784**	**$ 3,500,000**	**1.2%**
Rental of Soldier Field	$ 22,066,062	$ 22,561,164	$ 495,102	2.2%
Rentals and Miscellaneous	$ 6,218,700	$ 4,369,969	$ (1,848,731)	-29.7%
Northerly Island Pavilion	$ 163,104	$ 200,994	$ 37,890	23.2%
Subtotal Facility Rentals	**$ 28,447,866**	**$ 27,132,127**	**$ (1,315,739)**	**-4.6%**
Parking Fees	$ 21,774,214	$ 6,668,034	$ (15,106,180)	-69.4%
Harbor Fees	$ 18,199,468	$ 20,426,400	$ 2,226,932	12.2%
Park Fees	$ 10,372,763	$ 11,955,132	$ 1,582,369	15.3%
Permits	$ 1,934,288	$ 2,742,575	$ 808,287	41.8%
Golf Course Fees	$ 500,000	$ 500,000	$ -	0.0%
Subtotal Permits and Fees	**$ 52,780,733**	**$ 42,292,141**	**$ (10,488,592)**	**-19.9%**
Concessions	$ 3,789,737	$ 5,409,035	$ 1,619,298	42.7%
Grants and Donations	$ 9,000,000	$ 9,000,000	$ -	0.0%
Investments	$ 1,250,000	$ 2,350,000	$ 1,100,000	88.0%
Capital Contributions	$ -	$ 1,200,000	$ 1,200,000	100.0%
Corporate Fund Designated Fund Balance	$ 5,000,000	$ -	$ (5,000,000)	-100.0%
Transfer from Pension Fund	$ -	$ 10,000,000	$ 10,000,000	100.0%
SRA Fund Balance	$ -	$ 2,700,000	$ 2,700,000	100.0%
GRAND TOTAL	**$ 390,582,120**	**$ 393,897,087**	**$ 3,314,967**	**0.8%**

Source: Chicago Park District FY2006 Budget, pp. 353-4, and FY2007 Budget, p. 335, 347

The following exhibit shows the distribution of District revenues in FY2007, not including the $1.2 million in Capital Contributions, the $10.0 million that will be transferred from the Pension Fund to the Corporate Fund, or the $2.7 million in SRA Fund Balance that will be carried over from FY2006. Total tax revenues (property tax and PPRT) constitute 77.3% of District

[10] Steve Hughes, in a telephone conversation with the Civic Federation, November 30, 2006.
[11] Steve Hughes, in an e-mail message to the Civic Federation, November 29, 2006.
[12] Ibid.

revenues. The next largest revenue source is Permits and Fees, at 11.1%, followed by Facility Rentals at 6.6%.

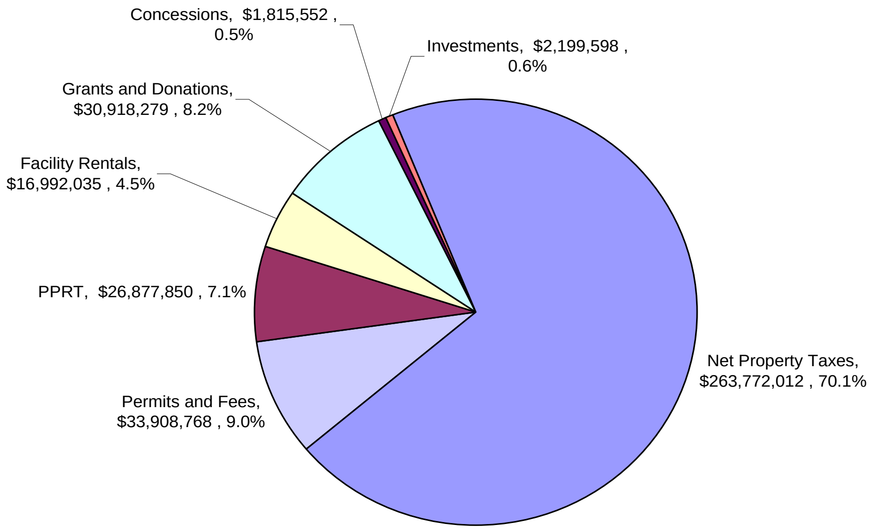


Source: *Chicago Park District 2007 Budget Recommendations*, 335

Five years ago, the District's reliance on tax revenue was approximately the same as it will be in FY2007: 77.2% of District revenues were derived from taxes in FY2003, as compared with a projected 77.3% in FY2007.[13] Facility Rentals and Permits and Fees made up 3.9% and 9.0% of revenues respectively in FY2003. Permits and Fees revenues have increased by $8.4 million or 24.7% over this five-year period. Harbor fees alone, which generated $2.9 million in FY2003 are projected to increase by $17.5 million and will generate $20.4 million in FY2007. Due to the long-term lease of the District's parking garages, between FY2003 and FY2007, parking revenues will have fallen by $9.8 million or 59.4%, from $16.4 million to $ 6.7 million.

[13] Due to the unavailability of comparable FY2003 budget data, all five-year revenue comparisons use data from the District's FY2003 audited financial statement and its FY2007 budget recommendations.

Distribution of Chicago Park District FY2003 Revenues

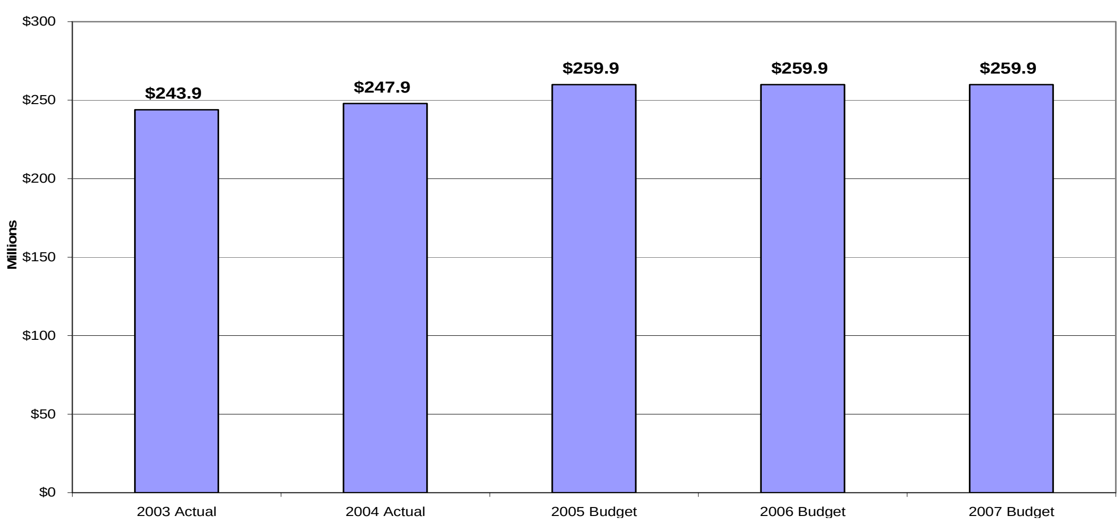


Source: *Chicago Park District Financial Statements, December 31, 2003*, 18

Property Tax Levy

The Chicago Park District's FY2007 gross property tax levy is expected to be $259.9 million, the same amount as in FY2005 and FY2006. This includes a $253.9 million levy for general operations and $6.0 million for Special Recreation. FY2005 was the first year that the District had a separate levy for Special Recreation. The net levy of $250.8 million is the amount that the District expects to collect after it factors out approximately $9.1 million for uncollected taxes and for the cost of collections. The net levy has increased by 6.6% over the last five years.

Chicago Park District Gross Property Tax Levy: 2003-2007
(in millions of dollars)



Source: Chicago Park District Audited Financial Statements for 2003 and 2004, and Budgets for 2005 to 2007

The gross levy for the Corporate Fund will decrease slightly by $1.9 million or 1.4% in FY2007. The levy for the Park District employees pension fund will decline by $586,951 or 6.1%. This amount reflects the statutory formula for the pension fund levy, which requires that the District levy 1.1 times the total employee contribution made two years prior.

The Operations and Maintenance and Liability levies will decrease slightly by 2.7%, and the levy for Aquarium and Museum Purposes will stay flat in FY2007, at $30.6 million. The Special Recreation levy will also be held constant at $6.0 million.

The levies for Liability, Workers Compensation & Unemployment and for Bond Debt Service are the only ones that will increase, by 23.5% and 4.4% respectively.

The Special Recreation property tax levy may not exceed 0.04% of the equalized assessed value (EAV) of taxable property in the District. The 2005 EAV (the most recent available) was $59.3 billion, so the maximum Special Recreation levy for that year would have been roughly $23.7 million.

Chicago Park District Property Tax Gross Levy by Fund: FY2006 and FY2007

Fund	2006	2007	$ change	% change
Corporate	$ 136,624,769	$ 134,735,810	$ (1,888,959)	-1.4%
Special Recreation	$ 6,000,000	$ 6,000,000	$ -	0.0%
Park District Employees Pension	$ 9,700,241	$ 9,113,290	$ (586,951)	-6.1%
Municipal Employees Pension	$ -	$ -	$ -	0.0%
Public Building Commission				
Rental of Facilities	$ 4,198,788	$ 3,897,452	$ (301,336)	-7.2%
Operations & Maintenance	$ 11,436,286	$ 11,125,822	$ (310,464)	-2.7%
Liability, Workers Comp., Unemployment	$ 7,476,668	$ 9,233,443	$ 1,756,775	23.5%
Bond Debt Service Fund	$ 41,587,669	$ 43,408,689	$ 1,821,020	4.4%
Aquarium and Museum Bond Debt Service	$ 12,290,531	$ 11,800,445	$ (490,086)	-4.0%
Aquarium and Museum Purposes	$ 30,595,706	$ 30,595,706	$ -	0.0%
Total	**$ 259,910,658**	**$ 259,910,657**	**$ -**	**0.0%**

Source: Chicago Park District FY2006 Budget, p. 354, and FY2007 Budget, p. 337
Note: the apparent discrepancy between FY2006 and FY2006 property tax levy totals is due to rounding.

In the five-year period between FY2003 and FY2007, the total gross levy has increased by 6.6%, or $16.0 million. The Corporate Fund levy will have increased by $6.3 million, or 4.9%. The Operations & Maintenance levy for the Public Building Commission will have increased by $6.0 million, or 115.0%. This sharp increase primarily reflects the return of operating costs for running Soldier Field, which only reopened in late 2003 after having been closed for renovations.[14] The property tax levy for Aquarium and Museum purposes will have declined by 8.9% or $3.0 million over five years.

[14] Information provided by the Chicago Park District, November 23, 2005.

Chicago Park District Property Tax Gross Levy by Fund: FY2003 and FY2007				
Fund	**2003**	**2007**	**$ change**	**% change**
Corporate	$ 128,462,010	$ 134,735,810	$ 6,273,800	4.9%
Special Recreation	$ -	$ 6,000,000	$ 6,000,000	100.0%
Park District Employees Pension	$ 10,116,700	$ 9,113,290	$ (1,003,410)	-9.9%
Municipal Employees Pension	$ 5,900	$ -	$ (5,900)	0.0%
Public Building Commission				
Rental of Facilities	$ 4,198,954	$ 3,897,452	$ (301,502)	-7.2%
Operations & Maintenance	$ 5,174,906	$ 11,800,445	$ 6,625,539	128.0%
Liability, Workers Comp., Unemployment	$ 7,325,183	$ 9,233,443	$ 1,908,260	26.1%
Bond Debt Service Fund	$ 42,142,000	$ 43,408,689	$ 1,266,689	3.0%
Aquarium and Museum Bond Debt Service	$ 12,840,013	$ 11,125,822	$ (1,714,191)	-13.4%
Aquarium and Museum Purposes	$ 33,595,706	$ 30,595,706	$ (3,000,000)	-8.9%
Total	**$ 243,861,372**	**$ 259,910,657**	**$ 16,049,285**	**6.6%**

Source: Chicago Park District FY20036 Budget, p. 340, and FY2007 Budget, p. 337

Since 2001, the share of the levy earmarked to support the Aquarium and Museum's debt service has appeared as a separate line item on tax bills.

PERSONNEL AND PERSONAL SERVICES TRENDS

The District will increase full-time personnel by 16 positions, and will also add 50 part-time and 87 seasonal full-time equivalents (FTE). In total, the District will increase its number of FTEs by 153 or 4.9%, from 3,112 to 3,265. The following table compares FY2006 and FY2007 budgeted FTEs.[15]

Chicago Park District Personnel: FY2006 & FY2007				
FTEs	**FY2006**	**FY2007**	**# change**	**% change**
Full-Time	1,736	1,752	16	0.9%
Part-Time	727	777	50	6.9%
Seasonal	649	736	87	13.4%
Total	**3,112**	**3,265**	**153**	**4.9%**

Source: Chicago Park District FY2006 Budget Recommendations, p. 358; information provided by the Chicago Park District, November 29, 2006

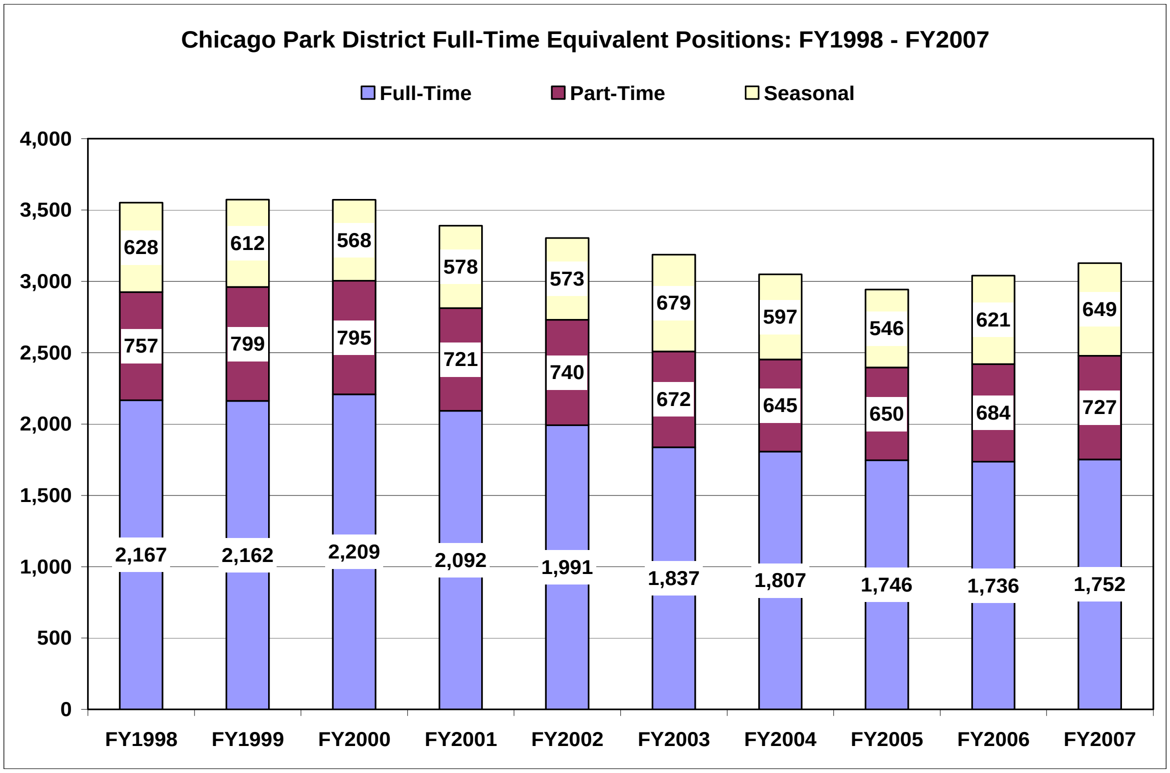
Over the last five years, the district has reduced full-time personnel by 85 positions, but has increased part-time positions by 89 FTEs and seasonal personnel by 96 FTEs. Since FY2003 the Chicago Park District's personnel has increased by 100 FTE positions or 3.2%.

Chicago Park District Personnel: FY2003 & FY2007				
FTEs	**FY2003**	**FY2007**	**# change**	**% change**
Full-Time	1,837	1,752	-85	-4.6%
Part-Time	688	777	89	12.9%
Seasonal	640	736	96	15.0%
Total	**3,165**	**3,265**	**100**	**3.2%**

Source: Chicago Park District FY2003 Budget Recommendations, p. 343; and information provided by the Chicago Park District, November 29, 2006

Since FY1998, 415 full-time positions and a net total of 313 FTEs have been eliminated.

[15] For accuracy of comparisons over time, the Civic Federation compares budgeted to budgeted figures. However, the actual number of positions filled in a given year may differ from the budgeted number; in FY2006, the District actually employed a total of 3,124 FTEs.



The following exhibit presents personnel services appropriations in FY2006 and FY2007. Personnel services will increase by 8.1%, or $10.6 million, from $130.4 million in FY2006 to $141.0 million in FY2007. In FY2007 the District is budgeting for a 7.6% increase in salaries and wages and a 10.8% increase in health, dental, and life insurance benefits.

Chicago Park District Budgeted Personnel Services Appropriations: FY2006 and FY2007 (in $ millions)

	2006	2007	$ change	% change
Salaries and Wages	$ 112.6	$ 121.2	$ 8.6	7.6%
Health, Dental, and Life Insurance Benefits	$ 15.8	$ 17.5	$ 1.7	10.8%
Payroll Taxes	$ 2.0	$ 2.3	$ 0.3	15.0%
Total	**$ 130.4**	**$ 141.0**	**$ 10.6**	**8.1%**

Source: Information provided by the Chicago Park District and the CPD FY2007 Budget Recommendations, p. 335

UNDESIGNATED FUND BALANCE

The Chicago Park District reported recurring deficits in its undesignated General Fund balances between FY2002 and FY2004. General Fund expenditures greatly exceeded revenues during those years. The situation was rectified in FY2005, when the District reported a 7.1% or $18.8 million undesignated fund balance. This fund balance is within the guidelines proposed by the Government Finance Officers Association (GFOA). GFOA recommends that governments establish a general fund balance of 5 to 15% of regular general fund operating revenues or expenditures. The increase in fund balance in FY2005 was due to better than expected tax collections and lesser spending than budgeted for Personnel Services.[16]

[16] *FY2005 Chicago Park District Financial Statements*, p. 9.

CHICAGO PARK DISTRICT UNDESIGNATED CORPORATE FUND BALANCE RATIO (FY2001-FY2005)			
	Unreserved, Undesignated Corporate Fund Balance	**Operating Expenditures**	**Ratio**
FY2001	$58,803,811	$246,709,237	23.8%
FY2002	-$70,407,024	$264,758,272	-26.6%
FY2003	-$65,679,132	$267,646,072	-24.5%
FY2004	-$87,569,536	$256,813,250	-34.1%
FY2005	$18,880,676	$265,796,563	7.1%

Sources: Chicago Park District Comprehensive Annual Financial Reports, FY2001-FY2005

Despite the Corporate Fund's deficits between FY2002 through FY2004, the aggregate undesignated fund balances for all four Governmental Funds showed a positive balances in each one of the five years reviewed.

CHICAGO PARK DISTRICT UNRESTRICTED NET ASSETS FOR GOVERNMENTAL ACTIVITIES (FY2001-FY2005)			
	Undesignated Governmental Fund Balance	**Operating Expenditures**	**Ratio**
FY2001	$61,154,287	$430,762,110	14.2%
FY2002	$56,476,929	$417,374,927	13.5%
FY2003	$40,826,839	$419,311,732	9.7%
FY2004	$14,348,272	$344,376,611	4.2%
FY2005	$135,235,768	$394,067,680	34.3%

Sources: Chicago Park District Comprehensive Annual Financial Reports, FY2001-FY2005

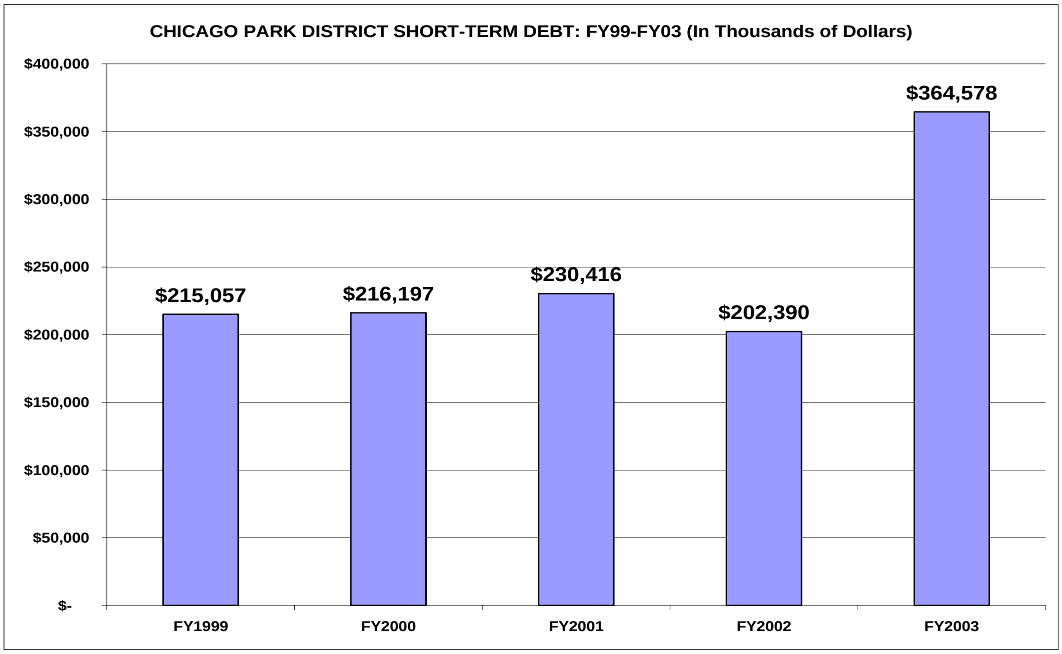
DEBT TRENDS

The Civic Federation has employed two measures of debt for the purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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 future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. Short-term debt in governmental activities includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences, and long-term debt.

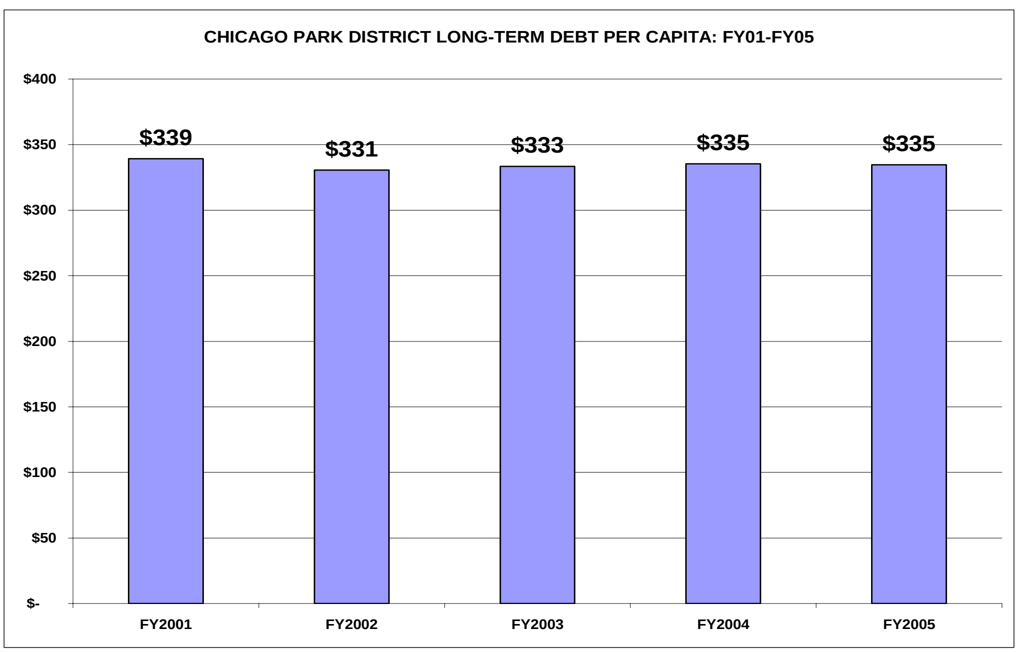
Between FY2001 and FY2005, CPD short-term debt increased by 74.2%. This represents a $171.0 million increase from $230.4 million to $401.4 million. However, short-term debt declined between FY2004 and FY2005, falling by 1.8% or $7.5 million. This is a positive sign.



Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. The Chicago Park District's long-term debt includes general obligation bonds, revenue bonds, and Public Building Commission capital lease debt. Increases in this indicator bear watching as a potential sign of increasing financial risk.

The exhibit that follows shows that the Chicago Park District's long-term debt burden declined by 1.3% during the five-year period between FY2001 and FY2005. In FY2001 long-term debt per capita was $339. Five years later, it had decreased slightly to $335.



The CPD had a total of $1.0 billion in long-term obligations outstanding as of December 31, 2005. Of that amount, $872.4 million was owed for General Obligation bonds that funded capital improvements and $81.8 million was outstanding G.O. debt owed for Aquarium and Museum capital projects. A compete list of outstanding long-term obligations is provided below.

CPD LONG-TERM OBLIGATIONS FY2005		
General Obligation Bonds	**Balance 12/31/05**	
Capital Improvement	$	872,445,000
Aquarium and Museums	$	81,840,000
Unamortized Premiums	$	20,772,965
Deferred Amount on Refunding	$	(29,092,345)
Subtotal G. O. Bonds	**$**	**945,965,620**
Capital Lease PBC	$	23,390,000
Compensated Absences	$	7,203,689
Claims & Judgments	$	5,937,000
Property Tax Claim Payable	$	20,937,650
Worker's Compensation	$	14,256,089
Total Governmental Activities	**$**	**1,017,690,048**
Total Business-Type Activities	**$**	**-**
Grand Total	**$**	**1,017,690,048**

Source: Note 6 (a), C*hicago Park District FY2005 Financial Statements* , p. 36.

Debt Service Appropriations

Chicago Park District debt service appropriations in FY2007 are expected to constitute 22.3% of the District's total $393.8 million appropriation. The District will appropriate $87.6 million for debt service.

Debt service expenditures as a percentage of General Fund and Bonded Debt Service expenditures in FY2005, the last year for which audited financial information is available, were 26.0%.[17] A debt burden is considered high by the rating agencies when debt-service payments represent 15-20% of the combined operating and debt-service fund expenditures. However, the District's outstanding debt will decrease in the future because a number of its capital improvement projects have been completed, and because it will pay off $70 million in outstanding debt on its three parking garages when the long-term lease of those assets is finalized.

PENSION FUND TRENDS

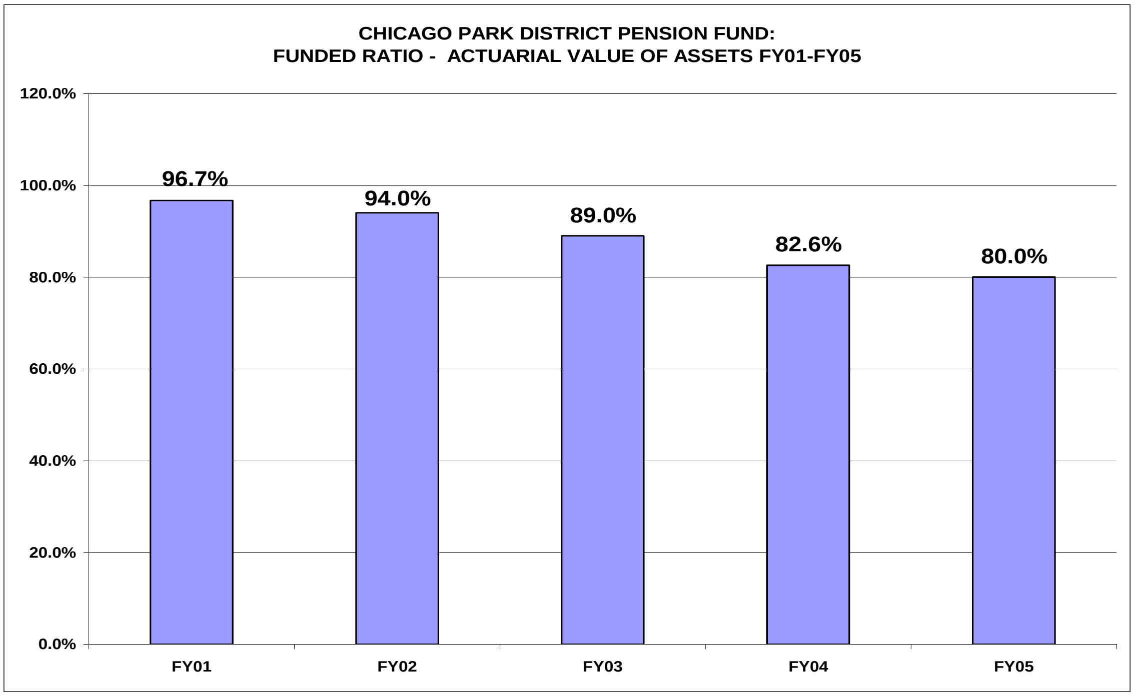
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Chicago Park District's pension fund: funded ratios, the value of unfunded liabilities, and the investment rate of return. A comparison of ten local government pension funds, including the Chicago Park District, can be found in the Civic Federation's annual Status of Local Pensions reports.

[17] *Chicago Park District FY2005 Financial Statements*, p. 17.

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the funded ratio for the Chicago Park District's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The funded ratio for the CPD's pension fund decreased from 96.7% in FY2001 to 80.0% five years later. This steady decline is cause for concern, and the fund appears poised to dip below 80% in FY2006. In general, a funded ratio below 80% is considered to be an indication that the fund is in poor health.



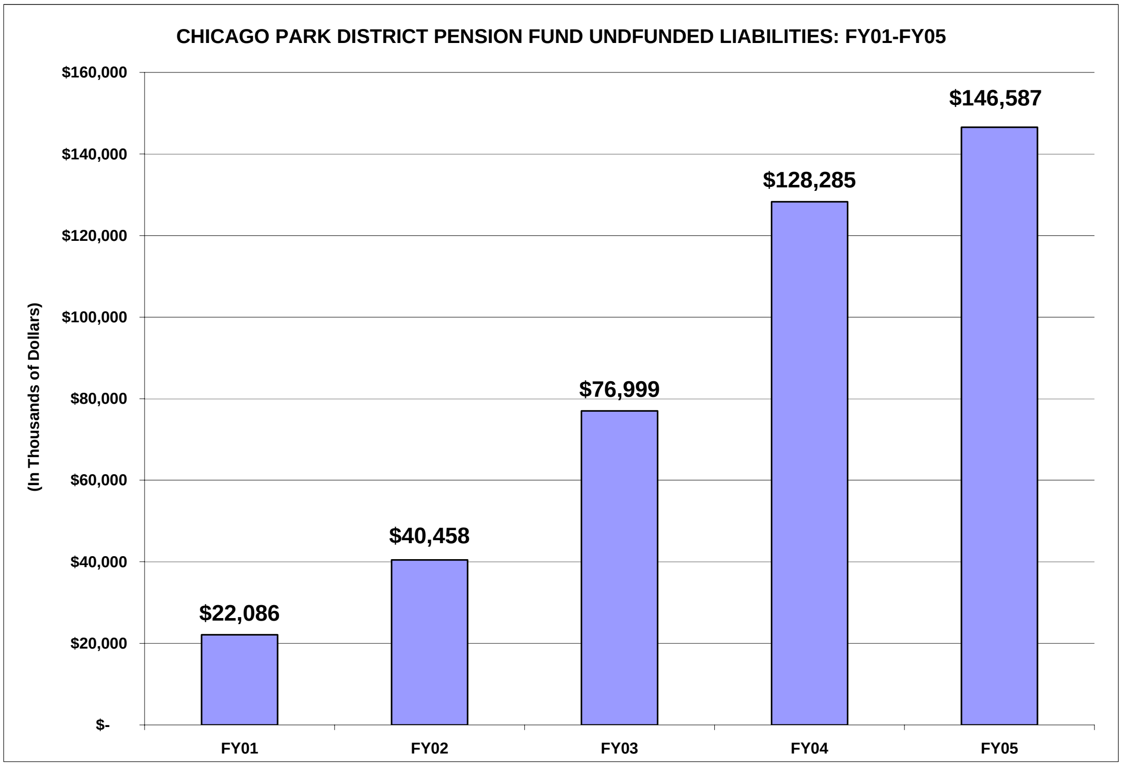
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CPD's pension fund totaled $146.6 million in FY2005. There was a 14.3%, $18.3 million increase in unfunded liabilities in FY2005 over the previous year. Over the five-year period of analysis, unfunded liabilities rose by 564%, or $124.5 million.

The Park District successfully sought legislation in 2003 that allowed it to reduce its employer contributions by $5 million in FY2004 and FY2005 (Public Act 93-654).[18] FY2005 employer contributions were thereby reduced by more than half, from $9.8 million to $4.8 million.[19] Even if the full employer contribution had been made, however, it still would not have been sufficient to fund the actuarially required contribution (ARC) for funding normal cost plus the amortization

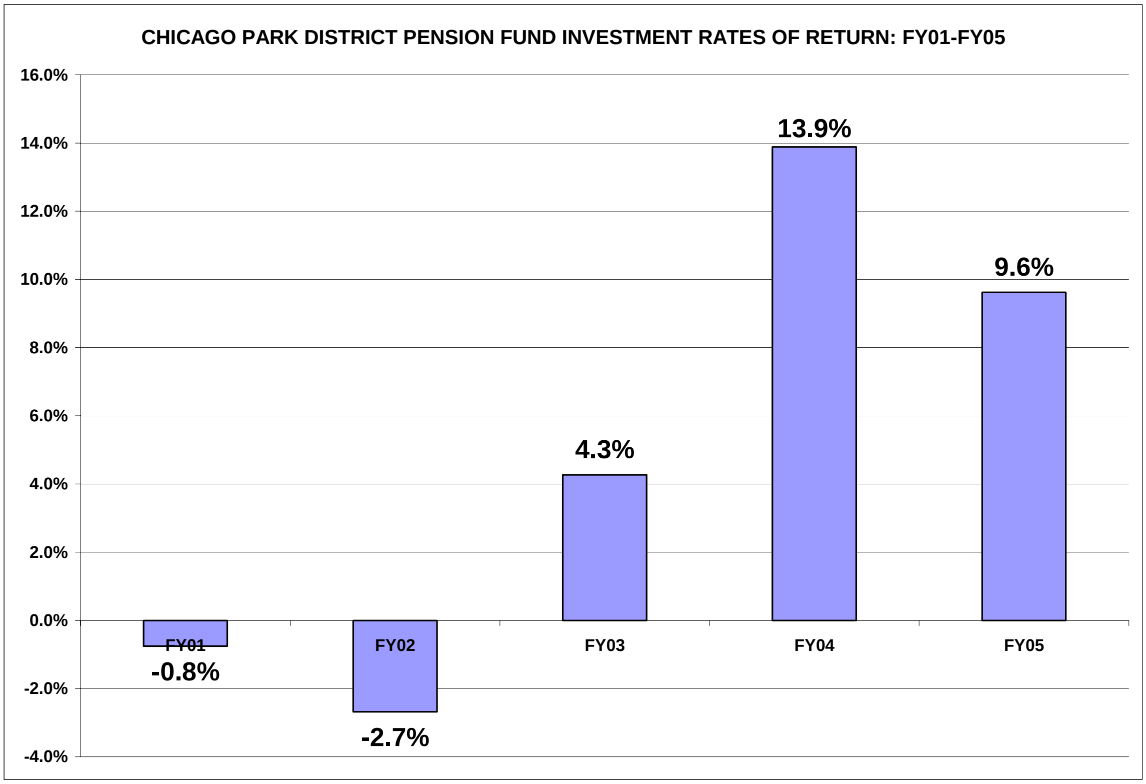
[18] In those years the Park District still levied the full amount of property taxes required for the pension funds by statutory formula, but transferred $5 million of the receipts to the Corporate Fund. The Civic Federation opposed this diversion of property taxes from the pension fund.
[19] 40 ILCS 5/12-149 requires the District to levy for the pension fund an amount equal to 1.1 times the total employee contribution made two years prior.

of the unfunded liability. The ARC payment would have been $14.8 million, $10.0 million more than the District actually contributed. This shortfall increased the unfunded liability by $10.0 million. The lingering effects of the market downturn in 2001-2002 also contributed to the increase in unfunded liability.



Investment Rates of Return

Investment income typically provides a significant portion (over 50%) of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. In FY2001 and FY2002, effected by a general economic downturn, CPD investment rates of return declined. However, in FY2003, as the economy began to recover, pension fund investment rates of return were a positive 4.3%. In FY2004 this positive trend continued and the investment rate of return increased substantially to 13.9%, before dropping to a healthy 9.6% in FY2005.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the Chicago Park District's financial management and reduce its expenditures.

Implement Comprehensive Pension Benefit Reform

The Civic Federation offers the following specific recommendations to improve the long-term financial health of the Chicago Park District Pension Fund. These measures would require General Assembly authorization. We strongly urge the District to seek such approval as soon as possible.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the District should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, CPD pension fund beneficiaries receive 3% annual cost of living increases. However, this rate can and often does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements for the CPD and other local governments are added to public pensions by the Illinois General Assembly without any provision for accompanying contribution increases. The Civic Federation urges the CPD to closely monitor the General Assembly's proposed pension legislation, and to insist that any new benefit increase must identify additional funding that pays for the resulting annual accrued cost. This is a reasonable measure for controlling future benefit costs and for avoiding unnecessary local property tax increases.

Require Employer Contributions to Relate to Funding Levels

The Chicago Park District's employer contributions are determined by a multiplier that is not tied to the fund's funded ratio. The CPD's multiplier is set by state statute at 1.10 times the total employee contribution made two years prior. Unfortunately, meeting this statutory funding requirement does not ensure that the CPD will provide sufficient resources to keep its Pension Fund financially healthy. The Civic Federation believes that, at a minimum, employer contributions should be tied to funded ratios so that additional contributions are required whenever the ratio drops below a given level. Linking pension contributions to actuarially required contribution (ARC) levels would be an even more effective way of guaranteeing the Pension Fund's financial health.

Park District Pension Fund Governance Reform

The Park Employees' Annuity and Benefit Fund of Chicago is governed by a seven-member Board of Trustees that includes four active employees and three representatives from management.[20] The proper role of a pension board is to safeguard the fund's assets and to balance the interests of the employees and retirees who receive benefits and the taxpayers who pay for pension benefits. The employer, employees, retirees, and taxpayers all have an interest in the management of the fund. However, the tilt toward employees and retirees on the Park District Pension Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards,
- Include financial experts on pension boards, and
- Require financial training for non-experts.

We urge the Chicago Park District to seek reform of the Park District Employees' Fund governing structure to ensure a greater balance of interests.

Include More Information about Capital Resources and Spending in Operating Budget

The CPD should include a brief description of capital budget resources and spending, as well as an explanation of the relationship between the capital and operating budgets in the Operating Budget Book or Budget Summary. Currently, there is only a single page in the Operating

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[20] Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois* (February 13, 2006), www.civicfed.org.

Budget Book (on page 340) that provides minimal information about the District's capital spending and resources.

Develop and Implement Performance Measures

The Civic Federation encourages the Chicago Park District to move quickly toward full implementation of a performance management system. All governments should evaluate the performance of the programs and services they provide. This is the best means available to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results keeps all citizens and stakeholders apprised of how actual results compare to expectations.[21]

Adopt Formal Financial Policies Including a Fund Balance Policy

Formal or written financial policies are plans that guide and determine a government's present and future financial operations decision-making. Both the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association recommend that all jurisdictions adopt formal written financial policies.[22]

The Civic Federation recommends that the Chicago Park District adopt written financial policies to guide the development of its annual budget. **We strongly urge the District to move quickly to adopt a fund balance or reserve policy requiring that a certain percentage of expenditures or revenues be set aside for contingencies.** The GFOA standard of 5% to 15% of General Fund operating revenues or expenditures is a good guideline for such a policy. This would require a FY2007 fund balance of at least $12.3 million (5% of the proposed Corporate Fund appropriation of $246.3 million).

Implement a Formal Long-Term Financial Plan

The Chicago Park District employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and the modeling of various revenue and expenditure options. However, the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the CPD develop and implement a formal long-term financial planning process that is not just reviewed internally, but that solicits input from the Board of Commissioners and other key policy stakeholders, including the public.

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[21] See Recommended Practice 11.1 "Monitor, Measure, and Evaluate Program Performance," in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

[22] See Recommended Practices 4.1 – 4.7 in National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998), and Committee on Governmental Budgeting and Management, "Adopting Financial Policies," *Recommended Practice* (2001).