



CIVIC FEDERATION OPPOSES FY2008 CHICAGO BUDGET, URGES CITY COUNCIL TO REJECT MASSIVE PROPERTY TAX INCREASE

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Standing up for weary taxpayers throughout Chicago, the Civic Federation announced its opposition to Chicago Mayor Richard Daley's \$5.9 billion FY2008 budget today at a public hearing at City Hall. The Federation believes the budget's proposed 15.1%, \$108 million property tax increase should be rejected and that the city should stick to its self-imposed property tax cap.

The stated purpose of the property tax increase is to fund libraries. "While the Civic Federation agrees that libraries are important," said Laurence Msall, president of the Civic Federation, "the city has failed to provide a compelling reason for why libraries should be the beneficiaries of such a large property tax increase or even how library services would be enhanced by the increased funding." The Federation believes that Chicago has several more pressing financial issues that it must address before increasing taxes for libraries. The City Council should therefore reject the record property tax increase and instead maintain the City of Chicago's self-imposed tax cap. This would limit the FY2008 tax increase to the rate of inflation: a more reasonable 2.5% or \$17.8 million. Proposed spending increases should then be reduced by a corresponding \$90.2 million.

In order to restrain spending, the Civic Federation's analysis finds that the city must continue to move forward on its efforts to contain costs and better manage its existing resources. Most importantly, the city must continue its efforts in the area of alternative service delivery and reducing personnel expenditures. The Federation commends the city for the substantial savings it has achieved in the area of employee health care through private sector-style employee cost sharing and other initiatives. The joint purchasing of employee prescription drug plans with other local governments, for example, has saved the city nearly \$20 million so far. Similar savings in other areas of city government would go a long way toward mitigating the need for huge tax increases.

The Civic Federation's analysis identified two areas of financial distress that the city must address without delay: its pension funding crisis and chronically underfunded emergency reserve fund. The funding levels of the city's four pension funds continue to deteriorate at an alarming rate with the Fire, Police, and Municipal funds dipping to 40.4%, 49.3%, and 67.2%, respectively. These funded ratios are far below the 90% level that is widely-agreed to be necessary for a fund to be considered healthy. The Federation is encouraged that the city plans to use a portion of the proceeds from future asset sales or leases to shore up its pension funds, but the rapidity with which the city's pensions have slid from relative health into crisis demands immediate action. Although pension benefits for current employees are constitutionally protected, the city can and must reduce pension benefit costs for new employees in order to bring pension liabilities under control.

The fact that the city's expected budget deficit was exacerbated by the unexpected expenses incurred during last February's cold snap is an excellent illustration of why it is important for all governments to maintain healthy fund balances for contingencies. The recommended balance is 5-15% of operating expenditures or revenues; Chicago will carry over only 0.5% or \$15.5 million for the new budget year. The city would have to increase its reserves by \$144.5 million to meet the minimum recommended reserve.

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.



CITY OF CHICAGO FY2008 PROPOSED BUDGET

Analysis and Recommendations

**Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Civic Federation **opposes** the FY2008 City of Chicago budget of \$5.9 billion. The budget proposes an additional \$266.6 million in new spending and includes a \$108.0 million property tax increase, the largest in recent Chicago history. We believe that the 15.1% property tax increase should be rejected. The stated purpose of the large property tax increase is to fund libraries. However, this enormous tax increase is not linked to a comprehensive plan that either identifies where new libraries will be built or details how library services will be improved. In sum, the City has not made a compelling case that taxes and spending must be substantially increased to finance an expansion of library services.

The Civic Federation offers the following **key findings** on the City of Chicago FY2008 budget:

- The City proposes a total FY2008 budget of over \$5.9 billion. This is a 4.7% or \$266.6 million increase over the FY2007 appropriation of \$5.7 billion;
- The Corporate Fund budget proposal is \$3.2 billion, a 3.5% or \$109.2 million increase over the FY2007 proposal of \$3.0 billion. The Corporate Fund represents 54.2% of the total budget in FY2008;
- The portion of Corporate Fund appropriations earmarked for personnel services will increase from 80.4% in FY2007 to 81.4% this year. Total personnel service appropriations will also increase, from \$2.49 billion in FY2007 to \$2.61 billion in FY2008;
- The property tax levy will be increased to \$821.5 million for FY2008, an increase of \$108.0 million or 15.1% over FY2007's levy of \$713.5 million. Approximately \$95.3 million of the \$108.0 million proposed levy increase will be for short-term debt in anticipation of the levy, \$4.3 million will fund the cost of this short-term borrowing, and \$8.7 million will fund long-term debt for a \$130 million Library capital program;
- Due to a shift to a two-year business license initiative, Licenses & Permits revenues are projected to decrease by 7.5% or \$40.3 million over the previous year. Offsetting this decrease are expected increases in sales taxes (up 2.4%) and income taxes (up 13.4%);
- The \$217.6 million budget deficit was closed by enacting management efficiencies that resulted in \$69.4 million in savings and by creating revenue enhancements totaling \$224.1 million; and,
- The City proposes a net decrease of 47 positions from FY2007, resulting in a total of 40,160 full-time equivalent positions (FTEs) for FY2008. Despite the decrease in actual FTEs, FY2008 personnel service appropriations will increase by 3.5% or \$117.1 million over FY2007.

The Civic Federation offers the following specific **recommendations** on ways to improve the City of Chicago's financial management:

- The City should not abandon its long-standing and self-imposed property tax cap that preempted possible similar action by the State Legislature. The FY2008 property tax increase should be limited to the rate of inflation. This would permit a 2.5% increase or \$17.8 million in FY2008, not a 15.1%, \$108.0 million increase;
- The City should increase its Corporate Fund reserves to an amount that meets the Government Finance Officers Association's recommendations. A reserve equal to the

recommended minimum of 5% of operating appropriations would equal \$160.0 million in FY2008;

- The proposed bottled water tax should mirror the existing 3% soft drink tax. There is no sound policy to exclude bottled water from taxation, but there is also no sound policy reason to tax water at a different rate than other drinks;
- A portion of future asset leases or sales should be used to end the City's costly practice of issuing tax anticipation notes (short-term borrowing) prior to receiving property tax funds. Short term borrowing for the library levy alone is expected to cost the City \$4.3 million in interest costs in FY2008;
- The City pension system should be reformed to require reduced benefits for new hires, increased employee contributions, and a cap of annuity increases at 3% or CPI - whichever is less; and,
- The City of Chicago should develop and implement a formal, long-term financial planning process that would allow for input from the City Council as well as other key policy stakeholders, including the public.

CIVIC FEDERATION POSITION ON FY2008 BUDGET

The Civic Federation **opposes** the FY2008 City of Chicago budget of \$5.9 billion. The budget proposes an additional \$266.6 million in new spending and includes a \$108.0 million property tax increase, the largest in recent Chicago history.

We believe that the 15% property tax increase should be rejected. The City should abide by the terms of its voluntary tax cap and limit any property tax increase to no more than the rate of inflation. Meaning, a levy increase this year should not be more than 2.5%, or \$17.8 million. Correspondingly, the FY2008 budget spending plan should be scaled back by \$90.2 million to reflect a reduced levy.

The stated purpose of the property tax increase is to fund libraries. We agree that libraries are an important educational resource for the entire community. However, this enormous tax increase is not linked to a comprehensive plan regarding where new libraries will be built, nor has it clearly identified which library services will be improved. In sum, the City has not made a compelling case that taxes must be substantially increased to finance an expansion of library services.

Budgeting is about choosing priorities. While libraries are important, we believe there are other fiscal matters that have a more pressing claim on City resources, such as the establishment of a prudent reserve fund, retiring costly short-term debt and increasing funding for the City's woefully underfunded Police, Fire and Municipal Pension Funds.

The City must continue to push forward on efforts to better manage existing resources and contain costs. This requires pursuing alternative service delivery options, embracing cost-saving re-engineering techniques and reducing unnecessary staffing. For example, the City's standard practice is to have three workers on a garbage truck: one to drive and two to dispose of the

refuse. Other municipalities have different arrangements, some with only a single worker who both drives and loads the refuse. The Civic Federation estimates that the City of Chicago could save roughly \$21 million in salaries alone if it reduced its garbage crews from three to two workers.¹

The City must address its pension funding crisis. The funded ratios of the Fire, Police and Municipal Pension Funds are 40.4%, 49.3% and 67.2% respectively. These funded ratios are far below levels considered financially healthy. The City must act to improve the financial health of the funds and to reduce the mounting costs and liabilities of the funds. This can be done by implementing common sense pension funding reforms, such as reducing benefits for new employees and limiting annuity increases for new hires at the lesser of 3% or the rate of inflation.

Chicago must also address its chronically underfunded Corporate Fund reserves. In FY2008, the Corporate Fund reserves will total only \$15.5 million, just 0.5% of Corporate Fund appropriations of \$3.2 billion. A reasonable fund balance would be the 5% minimum recommended by the Government Finance Officers Association. This would require reserves of \$160 million.

Issues The Civic Federation Supports

The Civic Federation supports the following issues related to the FY2008 City of Chicago budget.

Management of Healthcare Costs

Between FY2004 and FY2008, the City estimated that its share of employee benefit costs increased by only 6.0%, or \$21.6 million. This modest increase is large part due to a concerted effort by the City to contain the rising cost of health care. During recent years the City has implemented greater cost-sharing initiatives with employees in much the same manner as the private sector and other governments have done. Some of the cost-saving measures implemented by the City include successful negotiations for a reduction of Blue Cross administrative fees, increased employee contributions to their health care plans, and improved prescription pricing.² The City has also implemented employee wellness and disease management programs, negotiated with providers for more favorable rates and conducted dependant-coverage audits.³

It has also achieved substantial cost savings through the joint-purchasing of prescription drug and healthcare plans. The City saved \$19.6 million from September 2004 through September 2007 due to the creation of a joint-purchasing prescription program alone.⁴ The City estimates that it will save an additional \$6.6 million from this program in FY2008.⁵

¹ Extrapolation based on information provided by the City of Chicago Office of Budget and Management, October 19, 2007.

² The City of Chicago Office of Budget and Management, in a meeting with the Civic Federation, October 9, 2007.

³ *City of Chicago FY2008 Overview and Revenue Estimates*, p. 89.

⁴ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 18, 2007.

⁵ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 18, 2007.

The Civic Federation **commends** the City of Chicago for proactively negotiating and implementing health care cost-containment measures that will significantly help stabilize some budgetary pressures in the long term.

Issues of Concern to The Civic Federation

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

Large Property Tax Increase

The City of Chicago proposed 2008 property tax levy for City government purposes is \$821.5 million. This is a \$108.0 million, or 15.1%, increase over the FY2007 levy of \$713.5 million.

As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, in 1993 the City instituted a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.⁶

The property tax levy for City government purposes had been maintained at \$713.5 million since FY2003. The \$108.0 million increase is designated for the Library and will require a change in the City's self-imposed property tax limit to exclude the Library levy from this limit, since the total increase greatly exceeds the rate of inflation (2.5%).⁷ If the City were to adhere to its self-imposed limit the levy could increase up to 2.5%, or \$17.8 million, to \$731.3 million for FY2008.

In the absence of a compelling reason for an enhanced library system, the Civic Federation cannot support the proposed 15.1% property tax increase. Any property tax increase considered should be no more than the rate of inflation, or 5%, whichever is less.

Fire, Police and Municipal Pension Funds in a State of Crisis

Three of the City of Chicago's pension funds are in a severe funding crisis. The funded ratios of the Fire Fund in FY2006 reported a funded ratio of just 40.4 %, tumbling from 57.9% in FY2002. The Police Fund's funded ratio dropped from 64.6% in FY2002 to 49.3% in FY2006. The Municipal Fund dropped to a funded ratio of 67.2% in FY2006, declining sharply from a 84.5 % ratio in FY2002.

⁶ The City ordinance is municipal code chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions.

⁷ The Cook County Clerk uses the Consumer Price Index (CPI) for U.S. All Urban Consumers December-December of the previous year to calculate property tax extension limits. This CPI was 2.5% for December 2005-December 2006, and is the most recent available.

The continued decline in the funded ratios of the Fire, Police and Municipal Pension Funds is a serious matter that requires immediate action. These retirement systems' funded ratios are **far below levels considered financially healthy**.

The Civic Federation is encouraged that the City proposes to use a portion of proceeds from asset leases or sales to help fund its retirement systems. However, the gravity of the situation demands that even more be done. The City simply cannot afford further increases in employee benefit levels that would continue to exacerbate liabilities. The City must control benefit costs for new employees in order to reduce their long-term liabilities and costs.

Dangerously Low Reserve Fund

It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a Corporate or General Fund balance ratio of 5% to 15% of operating expenditures or revenues. For the City of Chicago, this would require a reserve of at least \$160 million in FY2008. However, the City will only carry over an unreserved Corporate Fund balance of \$15.5 million in the new budget year, just 0.5% of the Corporate Fund appropriations of \$3.2 billion.

Personnel Costs Rising

The number of non-grant funded positions in the City of Chicago workforce will fall by 35 full-time equivalent (FTE) positions to 35,832. When all positions are considered, the number of FTEs will fall from 40,207 to 40,160, a decrease of 47 positions. But, even with the reductions, Corporate Fund personal service appropriations will increase by 4.7% in FY2008, from \$3.0 billion to \$3.1 billion. The percentage of Corporate Fund resources earmarked for personnel will increase from 80.4% in FY2007 to 81.4% in this fiscal year (after falling between FY2006 and FY2007). Some of these expenditures reflect increases resulting from the conclusion of union contractual negotiations.

Personnel spending pressures drive budgetary costs, and we believe the rising personnel cost trend reported for FY2008 should be carefully watched. To avoid future financial problems, the City must take steps to manage its personnel costs prudently in this and future years.

City Maintains a High Debt Burden

The City of Chicago continues to have relatively high debt burden according to three key commonly-used indicators. Between FY1997 and FY2006, Chicago net direct debt rose by 183.4% or \$3.5 billion. This represents an increase from over \$1.9 billion to approximately \$5.4 billion. During the five-year period between FY2002 and FY2006, net direct debt rose by 27.4% or \$866.4 million. Debt service appropriations in FY2008 are projected to be 20% of total appropriations, or \$1.2 billion out of \$5.9 billion. Rating agencies consider a debt burden high if this ratio is between 15% and 20%. Finally, between FY1997 and FY2006, overlapping debt from other governments combined increased by 64.5% at the same time as the City of Chicago's debt rose by 183.4%. Total debt from all eight major governments rose by 98.8%. Thus, the rate

of increase for the City of Chicago's debt service is much greater than the rate of increase for other governments in the region.

Short-Term Borrowing in Anticipation of Property Tax Revenues

The City issues short-term debt (tax anticipation notes) for the Library in order to bridge the roughly 18-month gap between approval of the property tax levy and collection of taxes. Taxes levied for FY2008 will not begin to be collected until the autumn of 2009. Of the \$108.0 million proposed levy increase for the Library, \$95.3 million will be for short-term debt in anticipation of the levy; \$4.3 million will fund the cost of this short-term borrowing; and \$8.7 million will fund long-term debt for a \$130 million Library capital program.⁸ It is unfortunate that the City will spend \$4.3 million of taxpayer dollars simply to cover the cost of borrowing in anticipation of tax collections.

Other local governments have faced this problem and found creative solutions. More substantial reserve funds could avoid the need for such borrowing. The City of Chicago should seek a one-time funding source, such as an asset sale, to bridge the gap. The City will benefit in the long run from saving several millions of dollars in costs annually.

ACKNOWLEDGMENTS

The Civic Federation is grateful to Chief Financial Officer Paul Volpe, Office of Budget and Management (OBM) Director Bennett Johnson III, First Deputy Budget Director Andrea Gibson, Projects Administrator Ann McNabb and the entire OBM Department staff for their hard work in producing the City of Chicago's FY2008 budget. We also appreciate their willingness to provide us with a budget briefing, as well as answers to our budget questions.

FY2008 BUDGET HIGHLIGHTS

The City proposes a total FY2008 budget of \$5.9 billion. This is a 4.7% increase from the FY2007 appropriation of \$5.6 billion. The Corporate Fund budget proposal is \$3.2 billion, a 3.2% increase over the FY2007 budget of \$3.0 billion. The Corporate Fund represents 54.0% of the total budget.

FY2008 Corporate Fund Deficit of \$217.6 Million

In July of 2007, the City initially projected a \$217.6 million Corporate Fund deficit. In the release of the Preliminary Budget Estimates, the City stated the deficit was due to a combination of increasing costs and decreasing revenues. The principal drivers of the deficit were expenditure increases totaling \$168.5 million. Nearly 91%, or \$152.8 million, of these expenses were related to rising personnel costs. Included in this figure are contractual wage increases of \$97.9 million, employee benefit increases for health insurance and pensions of \$46.8 million and higher non-personnel costs of \$15.6 million.

⁸ *City of Chicago FY2008 Budget Overview and Revenue Estimates*, p. 45.

In addition to expenditure increases, the City also anticipated a net decrease in revenue of \$49.1 million. The Real Estate Transfer Tax, the Recreation Tax and non-tax revenue sources all experienced significant reductions in revenue projections. Due to the slowdown in the real estate market, the formerly robust Real Estate Transfer Tax fell short of original FY2007 estimates by \$27 million. Non-tax revenues fell short of projections due to decreases in permit revenues, revenue losses from the Chicago Housing Authority as it reduced its public safety forces and less-than-anticipated revenues from the sale of land.

City of Chicago Corporate Fund Deficit Drivers: FY2008	
Measure	Amount (in \$ millions)
Projected Increase for Expenses	
Employee Wages	\$ 97.9
Employee Health Benefits	\$ 11.5
Non-Personnel Costs	\$ 15.6
Increase in Employee Pension Costs	\$ 35.3
Fire Department Contractual Pay	\$ 8.2
Subtotal Increase for Expenses	\$ 168.5
Projected Decrease in Revenues	\$ 49.1
Total	\$ 217.6

Source: FY2008 City of Chicago Preliminary Budget Presentation, 07/30/2007.

The FY2008 \$217.6 million projected budget deficit was closed by means of \$69.4 million in management efficiencies and \$224.1 million in revenue enhancements. The dollar amounts generated from these gap closing measures exceeds the deficit amount because funds were also used to pay for new and expanded services. These expenses include increasing the appropriation for Chicago Public Library operating and capital expenditures.

Management Improvement Savings

The City proposes Management Improvement Savings totaling \$69.4 million for FY2008. The largest efficiency savings reported for FY2008 will be \$40 million realized from debt restructuring. The City also estimated savings of \$17 million from budget reductions announced throughout 2007, including unpaid furlough days, suspension of hiring across all non-critical departments and suspending all non-emergency overtime pay.

City of Chicago Efficiency Measures: FY2008	
Measures	Amount (in \$ millions)
Management Improvement Savings	
Restructuring of Debt	\$ 40.0
Delaying Non-Union Wage Increases	\$ 4.0
Reduction of 80 F/T Positions	\$ 2.6
Closing Business Tax Loopholes	\$ 2.2
Waste Disposal Savings	\$ 1.4
Parking Tickets for Bus Lanes	\$ 1.0
Consolidating Two City Departments	\$ 0.7
Reduce Employee Car Lease Program	\$ 0.5
2007 Budget Reductions	\$ 17.0
Total	\$ 69.4

Source: City of Chicago FY2008 Overview and Revenue Estimates p. 2.

Corporate Fund Revenue Enhancements

The City proposes \$224.1 million in Corporate Fund revenue enhancements for FY2008. These funds will be used to eliminate the FY2008 budget deficit and for new and enhanced programs. They include:

- \$108.0 million from a separate property tax levy designated for the City’s library system;
- A plan to increase the 911 surcharge from \$1.25 to \$2.50 per phone line for an expected revenue increase of \$48.0 million;⁹
- The implementation of a “Bottled Water Tax”, which will impose a new tax of 10 cents for each bottle of water sold regardless of volume. The City anticipates this new tax will generate \$21.0 in new revenue;
- The City’s increased Lease Transaction Tax, which will increase the tax rate from 6% to 7.5% for a revenue gain of \$19.5 million;
- A liquor tax increase which is expected to produce \$13.1 million in additional revenues. The tax will increase by the following amounts:
 - 8 cents per six-pack of beer;
 - 7 cents per bottle of wine; and
 - 24 cents per liter of spirits;
- Increased parking fine rates for an additional \$8.7 million;
- The City is planning to optimize the sale of city-owned land, which is expected to yield the City \$3.8 million; and
- Implementation of a new Planned Development Review Fee, which would impose a fee for the review of planned development construction. The City expects to obtain an additional \$2.0 million in revenue from this new program.

⁹ The implementation of the 911 surcharge requires state legislative action. Senate Bill 837, allowing for this measure, has been approved by the General Assembly and is waiting for approval from Governor Blagojevich. Bennett Johnson III (Budget Director, City of Chicago) in a meeting with The Civic Federation, October 9, 2007.

City of Chicago Corporate Fund Revenue Enhancements: FY2008	
Revenue	Amount (in \$ millions)
Library Property Tax Levy	\$ 108.0
Increase 911 Surcharge Rate	\$ 48.0
Increase Liquor Tax Rate	\$ 13.1
Water Bottle Tax	\$ 21.0
Increase Lease Transaction Tax	\$ 19.5
Planned Development Review Fee	\$ 2.0
Increase Parking Fines	\$ 8.7
Optimize Sales of City-Owned Land	\$ 3.8
Total	\$ 224.1

Source: FY2008 City of Chicago Overview and Revenue Estimates, p. 10.

Non-Corporate Fund Revenue Enhancements

In addition to the Corporate Fund revenue enhancements, the City is also proposing the creation of three new revenue enhancements for other city funds. These revenue enhancements total \$72.7 million and include:

- Increasing the city's water and sewer rates incrementally over the next three years. For FY2008, the expected revenue gain of this action will be \$64.7 million for the Water and Sewer Fund;
- Implementing a larger vehicle sticker cost for heavier vehicles, generating an expected \$6.4 million in additional revenue for the Vehicle Tax Fund; and
- Raising the Special Events amenity fee at certain city festivals for a gain of \$1.6 million for the Special Events Fund.

Enhanced and New Initiatives

The City proposes increases expenditures for a number of current programs, as well as expanding funding for pilot programs, by \$20.8 million for FY2008. The City allocated an additional \$6.7 million for a pilot recycling program, \$4.1 million for 50 additional police officers and an additional \$2.0 million for aldermanic expenses.

City of Chicago New and Enhanced Initiatives: FY2008	
Initiative	Amount (in \$ millions)
Expansion of Separate Recycling Program	\$ 6.7
Increased Number of Tree Trimmers	\$ 2.0
Addition of 50 New Police Officers	\$ 4.1
New Anti-Crime Camera Installation	\$ 1.0
Increased Funding for Operation of Aldermanic Offices	\$ 2.0
Allowing for Sworn Vacancies to Fill Quickly	\$ 5.0
Total	\$ 20.8

Source: FY2008 City of Chicago Overview and Revenue Estimates, pp. 8-9.

REVENUES

This section of the analysis provides an overview of All Fund and Corporate Fund revenue trends, as well as property tax levy trends.

All Fund Revenue Trends

The City of Chicago's total resources are projected to increase by 4.7% in FY2008, from nearly \$5.7 billion to \$5.9 billion; this represents a \$266.6 million increase. The table below compares the City of Chicago's total resources in FY2007 and FY2008. The category "Other Resources," which is expected to rise by 23.8% in FY2008, includes debt proceeds, transfers-in from other governments, miscellaneous fees and charges, and revenues specified as "other" in the City's FY2008 budget document. Some of the resource highlights include:

- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to decrease slightly by \$7.4 million or 0.7%. The amount budgeted in FY2008 is just over \$1.0 billion;
- Sales tax revenues will rise by 2.4% or \$13.5 million over FY2007 budgeted projections, from \$557.1 million to \$570.6 million;
- Income tax receipts, including revenues from a corporate income tax called the Personal Property Replacement Tax (PPRT), will increase by \$46.1 million, or 13.4%, to \$390.8 million;
- Licenses & Permits revenues are projected to generate \$141.3 million in FY2008, a decrease of 7.5% or \$40.3 million over the previous year. This decrease is due in part to the City's two-year business license initiative, which accounted for \$18 million in budgeted additional revenues in FY2007. In this year, the second year of the phase-in, revenues have decreased as anticipated. The decrease can also be partly attributed to a drop in building permit activity¹⁰; and,
- The Emergency Communications surcharge is expected to generate \$76.0 million, a 68.9% increase. The revenue rise is due to the proposed increase in the emergency telephone system surcharge from \$1.25 to \$2.50 per landline and wireless connection. This change is pending approval by the State of Illinois.¹¹

The top five City of Chicago revenue sources account for 58.6% of all resources, or nearly \$3.5 billion. They are:

1. Aviations Fees and Taxes: \$1,003.5 million or 16.9% of total resources;
2. Property Taxes: \$821.5 million or 13.8% of all resources;
3. Sewer & Water Fees and Taxes: \$587.5 million or 9.9% of the total;
4. Sales Taxes: \$570.6 million or 9.6% of total resources; and
5. Utility Taxes & Fees: \$496.1 million or 8.4% of all City resources.

¹⁰ *City of Chicago FY2008 Overview and Revenue Estimates*, p. 62.

¹¹ *City of Chicago FY2008 Overview and Revenue Estimates*, p. 70.

City of Chicago Resources All Funds: FY2007 & FY2008				
(in \$ millions)				
Revenue	FY2007	FY2008	\$ Change	% Change
Aviation	\$ 1,010.9	\$ 1,003.5	\$ (7.4)	-0.7%
Property Taxes	\$ 713.5	\$ 821.5	\$ 108.0	15.1%
Sewer & Water	\$ 547.7	\$ 587.5	\$ 39.8	7.3%
Sales Taxes	\$ 557.1	\$ 570.6	\$ 13.5	2.4%
Utility Taxes & Fees	\$ 472.6	\$ 496.1	\$ 23.5	5.0%
Income Taxes/PPRT	\$ 344.7	\$ 390.8	\$ 46.1	13.4%
Vehicle, Transportation & Motor Fuel Taxes	\$ 385.2	\$ 383.7	\$ (1.5)	-0.4%
Other Resources	\$ 278.9	\$ 345.4	\$ 66.5	23.8%
Transaction Taxes	\$ 328.5	\$ 328.4	\$ (0.1)	0.0%
Fines, Forfeitures & Penalties	\$ 243.8	\$ 256.7	\$ 12.9	5.3%
Recreation Taxes	\$ 127.4	\$ 164.9	\$ 37.5	29.4%
Licenses & Permits	\$ 152.7	\$ 141.3	\$ (11.4)	-7.5%
Proceeds & Transfers In	\$ 157.0	\$ 109.7	\$ (47.3)	-30.1%
Business Taxes	\$ 85.9	\$ 90.7	\$ 4.8	5.6%
Emergency Communications Surcharge	\$ 45.0	\$ 76.0	\$ 31.0	68.9%
Charges for Services	\$ 87.1	\$ 74.6	\$ (12.5)	-14.4%
Municipal Utilities (Parking)	\$ 26.0	\$ 29.5	\$ 3.5	13.5%
Lease, Rentals & Sales	\$ 26.6	\$ 25.0	\$ (1.6)	-6.0%
Festival Fees & Charges	\$ 20.5	\$ 24.1	\$ 3.6	17.6%
Revenue Subtotal	\$ 5,611.1	\$ 5,920.0	\$ 308.9	5.5%
Prior Year Unreserved Corporate Fund Balance	\$ 57.5	\$ 15.5	\$ (42.0)	-73.0%
Total	\$ 5,668.7	\$ 5,935.5	\$ 266.8	4.7%

Note: The sums of the figures in the "FY2008" and "\$ Change" columns do not equal the totals listed, due to rounding.

The totals listed in these columns are correct.

Sources: City of Chicago FY2007 & FY2008 Budget Overview & Revenue Estimates.

Over the five-year period between FY2004 and FY2008, all fund resources are projected to increase by 23.2%. The following trends can be projected for the top-five sources of City revenues:

- Aviation fees and taxes are expected to increase by 44.5%, rising from \$694.3 million to \$1.0 billion;
- Property taxes will increase by 15.1% as a result of the proposed \$108.0 million increase in FY2008;
- Sales tax revenues will increase by \$169.8 million, from \$400.8 million to \$570.6 million;
- Sewer and water revenues will rise from \$543.4 million to \$570.6 million; and
- Utility taxes and fees will generate an additional \$31.4 million over the five-year period.

City of Chicago Resources All Funds: FY2004 & FY2008				
(in \$ millions)				
Revenue	FY2004	FY2008	\$ Change	% Change
Aviation	\$ 694.3	\$ 1,003.5	\$ 309.2	44.5%
Property Taxes	\$ 713.5	\$ 821.5	\$ 108.0	15.1%
Sewer & Water	\$ 543.4	\$ 587.5	\$ 44.1	8.1%
Sales Taxes	\$ 400.8	\$ 570.6	\$ 169.8	42.4%
Utility Taxes & Fees	\$ 464.7	\$ 496.1	\$ 31.4	6.8%
Income Taxes/PPRT	\$ 219.9	\$ 390.8	\$ 170.9	77.7%
Vehicle, Transportation & Motor Fuel Taxes	\$ 379.5	\$ 383.7	\$ 4.2	1.1%
Other Resources	\$ 302.2	\$ 345.4	\$ 43.2	14.3%
Transaction Taxes	\$ 235.9	\$ 328.4	\$ 92.5	39.2%
Fines, Forfeitures & Penalties	\$ 195.3	\$ 256.7	\$ 61.4	31.4%
Recreation Taxes	\$ 85.5	\$ 164.9	\$ 79.4	92.9%
Licenses & Permits	\$ 94.9	\$ 141.3	\$ 46.4	48.9%
Proceeds & Transfers In	\$ 195.5	\$ 109.7	\$ (85.8)	-43.9%
Business Taxes	\$ 67.5	\$ 90.7	\$ 23.2	34.4%
Emergency Communications Surcharge	\$ 33.5	\$ 76.0	\$ 42.5	126.9%
Charges for Services	\$ 90.2	\$ 74.6	\$ (15.6)	-17.3%
Municipal Utilities	\$ 26.8	\$ 29.5	\$ 2.7	10.1%
Lease, Rentals & Sales	\$ 36.3	\$ 25.0	\$ (11.3)	-31.1%
Festival Fees & Charges	\$ 19.0	\$ 24.1	\$ 5.1	26.8%
Revenue Subtotal	\$ 4,798.7	\$ 5,920.0	\$ 1,121.3	23.4%
Prior Year Unreserved Fund Balance	\$ 21.2	\$ 15.5	\$ (5.7)	-26.9%
Total	\$ 4,818.9	\$ 5,935.5	\$ 1,116.6	23.2%

Note: The sums of the figures in the "FY2008" and "\$ Change" columns do not equal the totals listed, due to rounding.

The totals listed in these columns are correct.

Sources: City of Chicago FY2004 Revenue Estimates & FY2008 Budget Overview & Revenue Estimates.

Corporate Fund Revenue Trends

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation, and transportation. The City projects a 3.5%, \$109.2 million increase in Corporate Fund revenues for FY2008.

The Corporate Fund's tax revenues are projected to rise by 7.5%, up from \$2.0 billion in FY2007 to nearly \$2.2 billion in FY2008. Sales and Use Tax revenue, which includes both the City's own home rule sales tax and its share of sales taxes collected by the State, is expected to increase by 7.4% or \$39.4 million. Income tax receipts, which include the personal property replacement tax levied on corporations and utilities, is projected to rise by 13.4% to \$390.8 million. Utility taxes and franchise fees will increase by 5.0%, rising from \$472.6 million to \$496.1 million.

Non-tax Corporate Fund revenues will increase by 5.5% or \$46.1 million this budget year, rising from \$837.9 million to \$884.0 million. A large 14.4% decrease in current service charges is due to a modification of the City's agreement with the Chicago Housing Authority to provide designated police services. Leases, rentals and sales will decline by 6.0%, from \$26.6 million to \$25.0 million, because of the downturn in the real estate market.¹²

¹² City of Chicago FY2008 Overview and Revenue Estimates, p. 64.

The category of Proceeds and Transfers-In will decrease by 30.1% in FY2008, from \$157.0 million to \$109.7 million. This category includes tax revenue from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes non-tax revenue derived from transfers of nonrecurring revenue sources. The decrease is due to two reasons: 1) a loss of proceeds received to cover legal judgment expenses; and 2) revenues from the downtown density bonus will be reclassified in the business permit category.¹³

City of Chicago Corporate Fund Revenues: FY2007 & FY2008				
(in \$ millions)				
Tax Revenue	FY2007	FY2008	\$ Change	% Change
Sales & Use Taxes	\$ 531.2	\$ 570.6	\$ 39.4	7.4%
Utility Tax & Franchise Fees	\$ 472.6	\$ 496.1	\$ 23.5	5.0%
Income Taxes (Incl. PPRT)	\$ 344.7	\$ 390.8	\$ 46.1	13.4%
Transaction Taxes	\$ 328.5	\$ 328.4	\$ (0.1)	0.0%
Transportation Taxes	\$ 151.5	\$ 152.4	\$ 0.9	0.6%
Recreation Taxes	\$ 127.4	\$ 164.9	\$ 37.5	29.4%
Business Taxes	\$ 85.9	\$ 90.7	\$ 4.8	5.6%
Municipal Auto Rental Tax	\$ 3.5	\$ 3.8	\$ 0.3	8.6%
Total Tax Revenue	\$ 2,045.3	\$ 2,197.7	\$ 152.4	7.5%
Non-Tax Revenue				
Fines & Forfeitures	\$ 243.8	\$ 256.7	\$ 12.9	5.3%
Licenses & Permits	\$ 152.7	\$ 141.3	\$ (11.4)	-7.5%
Current Service Charges	\$ 87.1	\$ 74.6	\$ (12.5)	-14.4%
Leases, Rentals & Sales	\$ 26.6	\$ 25.0	\$ (1.6)	-6.0%
Municipal Utilities	\$ 26.0	\$ 29.5	\$ 3.5	13.5%
Reimbursement, Interest, Other	\$ 301.7	\$ 356.9	\$ 55.2	18.3%
Total Non-Tax Revenue	\$ 837.9	\$ 884.0	\$ 46.1	5.5%
Prior Year Unreserved Fund Balanc	\$ 57.5	\$ 15.5		
Proceeds & Transfers In	\$ 157.0	\$ 109.7	\$ (47.3)	-30.1%
Total Corporate Revenue	\$ 3,097.7	\$ 3,206.9	\$ 109.2	3.5%

Source: FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 53, and FY2008 City of Chicago Budget Overview and Revenue Estimates, p. 47.

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2004 and FY2008, all Corporate Fund revenues will increase by 23.1%, a \$601.8 million increase, that pushed Corporate Fund revenues from \$2.6 billion up to \$3.2 billion. During this period, Corporate Fund tax revenues will rise by 36.0% and non-tax revenues will increase by 14.4%. Proceeds and Transfers-In fell by 49.3%.

¹³ City of Chicago FY2008 Overview and Revenue Estimates, p. 65.

City of Chicago Corporate Fund Revenues: FY2004 & FY2008				
(in \$ millions)				
Tax Revenue	FY2004	FY2008	\$ Change	% Change
Sales & Use Taxes	\$ 400.8	\$ 570.6	\$ 169.8	42.4%
Utility Tax & Franchise Fees	\$ 464.7	\$ 496.1	\$ 31.4	6.8%
Income Taxes (Incl. PPRT)	\$ 219.9	\$ 390.8	\$ 170.9	77.7%
Transaction Taxes	\$ 235.9	\$ 328.4	\$ 92.5	39.2%
Transportation Taxes	\$ 138.2	\$ 152.4	\$ 14.2	10.3%
Recreation Taxes	\$ 85.5	\$ 164.9	\$ 79.4	92.9%
Business Taxes	\$ 67.5	\$ 90.7	\$ 23.2	34.4%
Municipal Auto Rental	\$ 3.1	\$ 3.8	\$ 0.7	22.6%
Total Tax Revenue	\$ 1,615.6	\$ 2,197.7	\$ 582.1	36.0%
Non-Tax Revenue				
Fines & Forfeitures	\$ 195.3	\$ 256.7	\$ 61.4	31.4%
Licenses & Permits	\$ 94.9	\$ 141.3	\$ 46.4	48.9%
Current Service Charges	\$ 90.2	\$ 74.6	\$ (15.6)	-17.3%
Leases, Rentals & Sales	\$ 33.2	\$ 25.0	\$ (8.2)	-24.7%
Municipal Utilities	\$ 26.8	\$ 29.5	\$ 2.7	10.1%
Reimbursement, Interest, Other	\$ 332.4	\$ 356.9	\$ 24.5	7.4%
Total Non-Tax Revenue	\$ 772.8	\$ 884.0	\$ 111.2	14.4%
Prior Year Unreserved Fund Balance	\$ 21.2	\$ 15.5	\$ (5.7)	-26.9%
Proceeds & Transfers In	\$ 195.5	\$ 109.7	\$ (85.8)	-43.9%
Total Corporate Revenue	\$ 2,605.1	\$ 3,206.9	\$ 601.8	23.1%

Sources: FY2004 City of Chicago Revenue Estimates, p. 3, and FY2008 City of Chicago Budget Overview and Revenue Estimates, p. 47.

Skyway Revenues

The FY2008 budget contains approximately \$92 million in proceeds from the Skyway sale for neighborhood, human and business assistance programs. The Plan to End Homelessness and the project to create a citywide case management system will receive \$3.0 million and \$2.0 million, respectively. To further support the City's affordable housing plan, Skyway proceeds are also being used to fund a host of housing initiatives, including an affordable housing loan program, a home energy assistance program as well as funding for emergency housing repairs. These programs are being funded from three Skyway revenue sources created at the time of the long-term lease: 1) \$17 million from the Skyway Neighborhood and Human Investment Fund; 2) \$50 million from the fund's mid-term annuity; and 3) \$25 million in interest from the Skyway's \$500 million long-term reserve fund.¹⁴

¹⁴ Chicago Tribune, "Daley's budget way: Not Skyway", October 25, 2007 and *City of Chicago FY2008 Overview and Revenue Estimates*, p. 4.

City of Chicago Skyway Proceeds Appropriations: FY2008 (in \$ millions)	
Program	Amount
Plan to End Homelessness	\$ 3.0
Citywide Case Management System	\$ 2.0
Meals on Wheels	\$ 1.7
Senior Satellite Centers	\$ 1.6
Affordable Housing Development Loans	\$ 1.6
Out-of-School Youth Programs	\$ 1.0
Low-Income Housing Trust Fund	\$ 1.0
Small Business Grants	\$ 1.0
Transportation Studies	\$ 1.0
City Blocks Façade Improvement	\$ 0.8
Ex-Offender Job and Job Training	\$ 0.8
Low-Income Home Emergency Assistance	\$ 0.6
Emergency Housing Assistance	\$ 0.6
HomeMod	\$ 0.4
Total	\$ 17.1

Source: City of Chicago FY2008 Overview and Revenue Estimates p. 4.

*Total numbers differ slightly due to rounding.

Property Tax Levy

As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.¹⁵

The City of Chicago proposed property tax levy for City government purposes is \$821.5 million. This includes property taxes levied for the Chicago Public Library, which is a branch of city government. Since 1996, the Library has been listed as a separate line item on Chicago property tax bills.

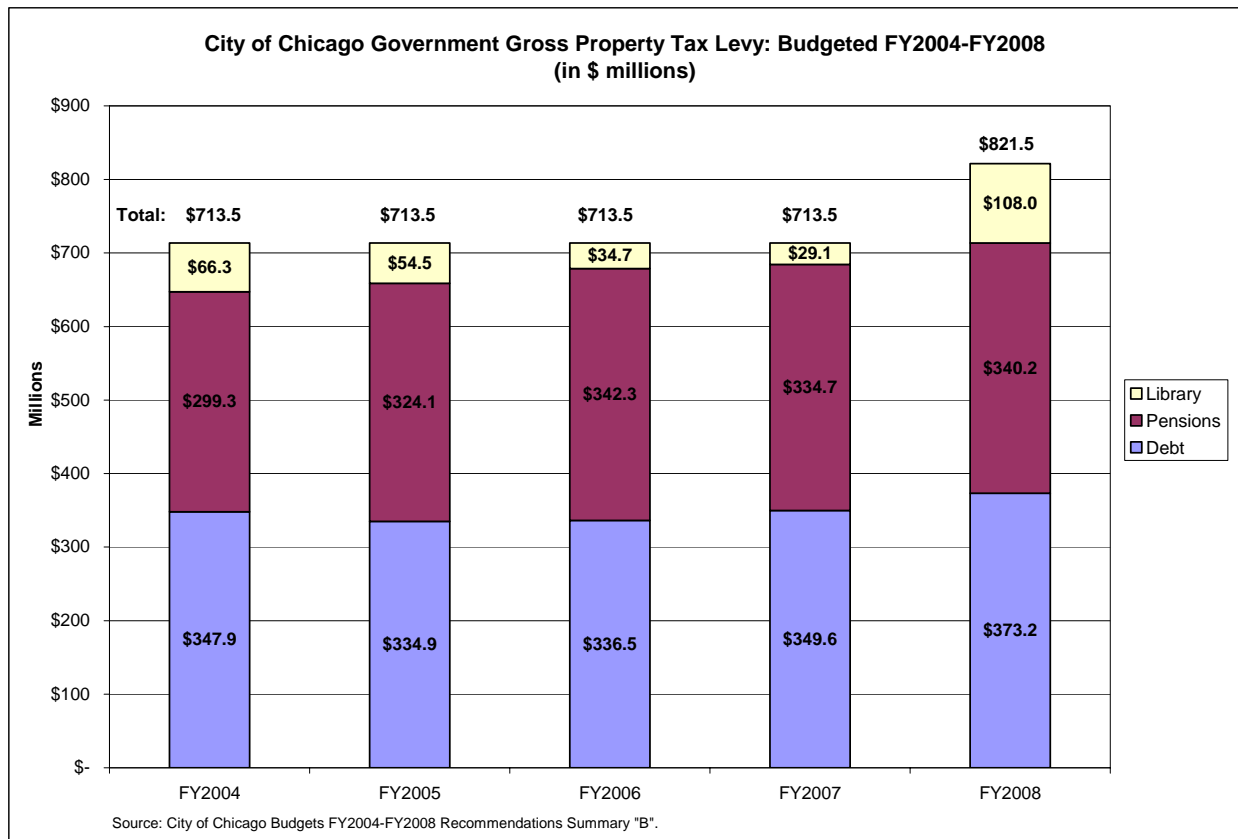
The FY2008 levy of \$821.5 million is a \$108.0 million, or 15.1%, increase over the FY2007 levy of \$713.5 million. The levy for City government purposes had been maintained at \$713.5 million since FY2003. The \$108.0 million increase is designated for the Library and will require a change in the City's self-imposed property tax limit to exclude the Library levy from this limit, since the total increase greatly exceeds the rate of inflation (2.5%).¹⁶ **If the City were to adhere to its self-imposed limit, the levy could increase up to 2.5%, or \$17.8 million, to \$731.3 million.**

¹⁵ The City ordinance is municipal code chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions.

¹⁶ The Cook County Clerk uses the Consumer Price Index (CPI) for U.S. All Urban Consumers December-December of the previous year to calculate property tax extension limits. This CPI was 2.5% for December 2005-December 2006, and is the most recent available.

Of the \$108.0 million proposed levy increase, \$95.3 million will be for short-term debt in anticipation of the levy; \$4.3 million will fund the cost of this short-term borrowing; and \$8.7 million will fund long-term debt for a \$130 million Library capital program.¹⁷ The City issues short-term debt (tax anticipation notes) for the Library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes. Taxes levied for FY2008 will not begin to be collected until the autumn of 2009.

Property taxes levied for pensions are a direct result of payroll increases, including retroactive increases, since the City’s employer contributions to pensions are set in the state statute as a multiple of employee contributions made two years prior. Employee contributions are a percentage of pay.



Additional Property Tax Dollars Collected

The City also levies property taxes for other non-City government purposes. The levy for Special Service Area #1 is collected from property owners along State Street from Wacker Drive to Congress Parkway.¹⁸ This tax appears on the bills of property owners in the Area as a separate tax rate, and the FY2008 levy will be \$1.4 million.

¹⁷ *City of Chicago FY2008 Budget Overview and Revenue Estimates*, p. 45.

¹⁸ A Special Service Area (SSA) is an economic development tool created by state statute and city ordinance that permits additional property taxes to be levied for supplemental services in a defined geographic area.

The City levies property taxes to fund capital improvements to the City Colleges of Chicago, a separate unit of government with its own property tax levy collected from all property owners in the City of Chicago. As shown in the exhibit below, the City's levy for the City Colleges debt was flat at \$5.7 million for several years, and then jumped to \$33.5 million in FY2007 and \$33.6 million in FY2008. This levy is part of the City of Chicago tax rate and does *not* appear as a separate line item on property tax bills. This levy is *not* discussed in the property tax revenue estimates in either the City or the City Colleges budgets.

Finally, the City of Chicago receives and distributes the property tax revenue for Tax Increment Financing Districts within its boundaries. In FY2005, the most recent data available, Chicago TIFs generated \$386.5 million.¹⁹ This revenue is not collected or appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are currently 145 TIFs in Chicago.

It is important to note that the property tax dollars collected for TIF are not a levy per se. A levy is the amount a government asks for each year for which a tax rate is calculated. TIF doesn't have its own rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district. Therefore, the amount of revenue for TIF is a reallocation of property tax revenue.²⁰

The exhibit below shows the City of Chicago property tax levy, the two additional City levies: Special Service Area #1 and City Colleges debt, and the amount of property tax dollars collected for TIF. Added together, they totaled over \$1.1 billion in property taxes collected by the City of Chicago in FY2005 and are likely to surpass \$1.3 billion in FY2008.²¹

City of Chicago Gross Property Tax Levy: Budgeted FY2004-FY2008						
Fund #	Fund Name	FY2004	FY2005	FY2006	FY2007	FY2008
Subtotal City Government Funds		\$ 713,452,000	\$ 713,452,000	\$ 713,452,000	\$ 713,452,000	\$ 821,452,000
326	Special Service Area #1	\$ 1,056,000	\$ 1,056,000	\$ 1,056,000	\$ 1,056,000	\$ 1,392,000
549	City Colleges Bond Redemption/Interest Fund	\$ 5,729,000	\$ 5,729,000	\$ 5,729,000	\$ 33,509,000	\$ 36,632,000
Subtotal Additional City Levies		\$ 6,785,000	\$ 6,785,000	\$ 6,785,000	\$ 34,565,000	\$ 38,024,000
TIF Property Tax Revenues		\$ 329,343,683	\$ 386,502,771	n/a	n/a	n/a
GRAND TOTAL*		\$ 1,049,580,683	\$ 1,106,739,771	\$ 720,237,000	\$ 748,017,000	\$ 859,476,000

*Because TIF revenue can only be calculated once tax rates for a given year are known, the FY2006-FY2008 TIF total will not be known until 2010.

Source: City of Chicago Budgets FY2004-FY2008 Recommendations Summary "B", Cook County Clerk Tax Agency Reports 2005 and 2006

CHICAGO PUBLIC LIBRARY

The City's proposed \$108.0 million property tax increase is designated for the Chicago Public Library system. Of the \$108.0 million, \$95.3 million will be for short-term debt in anticipation of the levy, \$4.3 million will fund the cost of this short-term borrowing, and \$8.7 million will fund long-term debt for a new \$130 million Library capital program.²²

¹⁹ See "Tax Increment Financing: A Civic Federation Issue Brief," forthcoming.

²⁰ Information provided by Bill Vaselopulos, Cook County Clerk's Extension Office, October 19, 2007.

²¹ Because TIF revenue can only be calculated once tax rates for a given year are known, the FY2008 TIF total will not be known until 2010.

²² *City of Chicago FY2008 Budget Overview and Revenue Estimates*, p. 45.

Of the \$95.3 million in operating funds, \$4.6 million will be appropriated to the Library Buildings and Sites Fund, which is used for the acquisition, construction, repair, alteration, rental, and equipment of library buildings. \$90.7 million will be appropriated in the Library Maintenance and Operation Fund, which is used for the general maintenance and operation of the Library system.

Since 1996 the Library has been listed as a separate line item on Chicago property tax bills, and has been funded by property taxes, as well as revenues from grants, fines, and rentals. Beginning in FY2005, however, the City began subsidizing library funds with Corporate Fund revenues. This was necessary in order for the City to keep its property tax levy flat at \$713.5 million, as it had been since FY2003. The other two uses of the property tax levy—pensions and debt—have crowded out the levies for the Library Fund and the Corporate Fund as the City has strived to keep the overall levy flat.

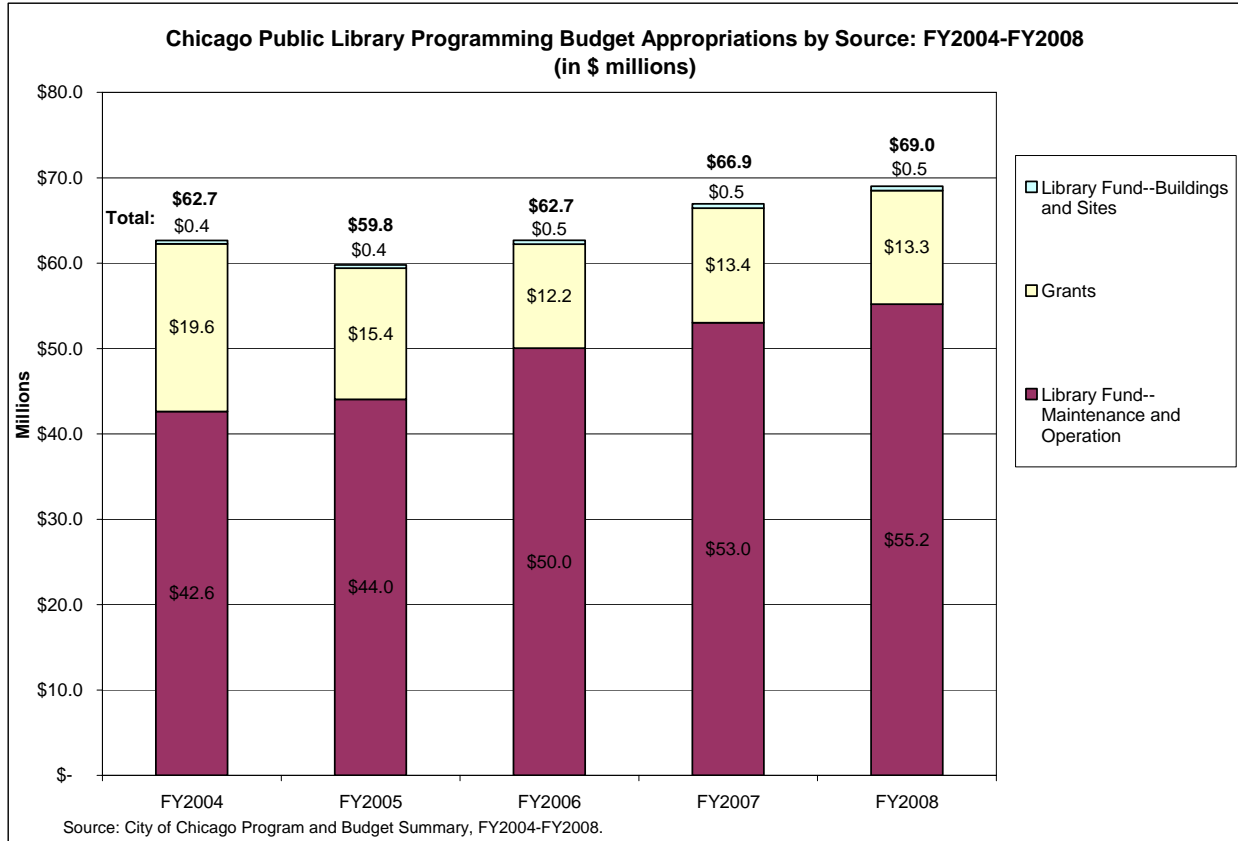
The following table shows the estimated revenues for the Library Maintenance and Operation Fund from FY2004 to FY2008. Total revenues for this fund are projected to be \$95.9 million in FY2008. The \$90.8 million in property tax revenues will represent 94.6% of total revenues for the Library Maintenance and Operation Fund. The Fund is expected to receive \$1.2 million in fines, \$1.0 million from interest, \$0.2 million from facility rentals, and \$2.7 million from transfers-in. As the property tax revenues declined from FY2005 to FY2007, the Corporate Fund revenues grew to compensate. In FY2007 the Corporate Fund provided \$47.9 million for the Library, and was originally projected to provide \$84.1 million in FY2008.²³ By increasing the property tax levy designated for the Library, the City will free up Corporate Fund resources for other uses.

Estimated Revenue--Library Maintenance and Operation Fund					
Source	FY2004	FY2005	FY2006	FY2007	FY2008
Corporate Fund	\$ -	\$ 24,200,000	\$ 39,000,000	\$ 47,850,000	\$ -
Fines	\$ 1,000,000	\$ 1,079,000	\$ 1,100,000	\$ 1,200,000	\$ 1,200,000
Interest	\$ 2,000,000	\$ 400,000	\$ 450,000	\$ 1,000,000	\$ 1,000,000
Other Revenue	\$ 5,191,000	\$ 2,000,000	\$ 2,000,000	\$ -	\$ -
Proceeds of Debt (Property Tax)	\$ 55,792,000	\$ 47,508,000	\$ 29,288,000	\$ 23,257,000	\$ 90,762,000
Rental of Facilities	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Skyway Sale Proceeds	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -
Transfers In	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 3,250,000	\$ 2,750,000
Total Appropriate Revenue	\$ 65,183,000	\$ 81,387,000	\$ 78,038,000	\$ 76,757,000	\$ 95,912,000

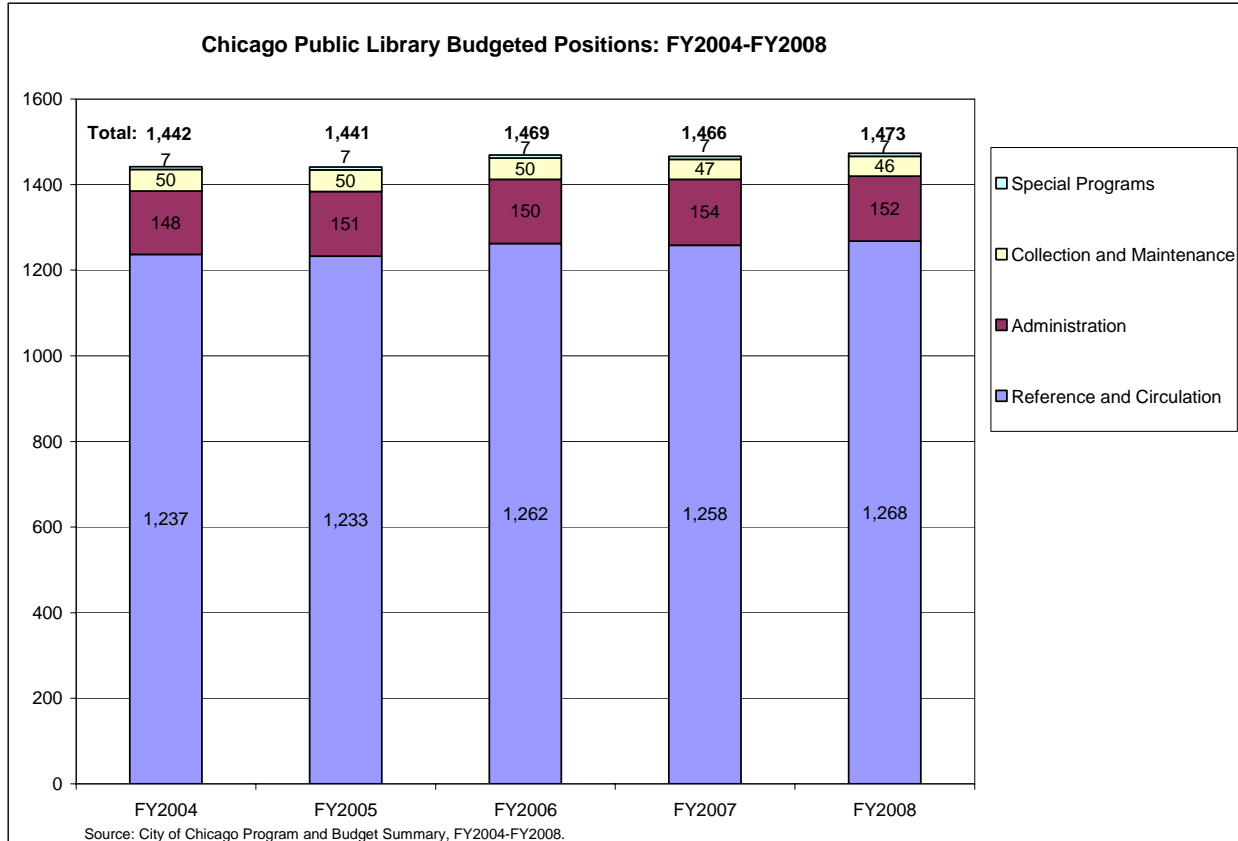
Source: City of Chicago Budgets FY2004-FY2008 Recommendations Fund Estimates

The Library Funds finance the direct programming and maintenance of the Library system, as well as its associated costs, such as employee health insurance, interest on short-term debt and services performed by the City's General Services department (e.g., property and security management). The following table illustrates the sources of appropriations specifically for Library programming operations and maintenance, not associated costs. The programming appropriations have risen from \$62.7 million in FY2004 to \$69.0 million in FY2008, an increase of \$6.4 million or 10.1% over five years. In recent years, roughly 20% of Library budget has been funded by grants.

²³ City of Chicago Preliminary FY2008 Budget, p. 21.



The City is recommending a total of 1,473 positions for the Library in FY2008. Reference and Circulation will represent 86.1% of all positions, and Administration will represent 10.3%. Total positions have increased by 2.1%, or 31 positions, since FY2004.



RESERVE FUNDS

Between FY2002 and FY2006, unreserved, undesignated Corporate Fund balances increased by 106.2%, from \$13.0 million to \$26.3 million.²⁴ During those same years, the unreserved fund balance in the Corporate Fund as a percentage of Corporate Fund operating expenditures rose from 0.5% to 0.9%. However, between FY2005 and FY2006, the unreserved fund balance fell sharply from \$57.6 million to \$26.8 million, a decline of 53.5%.

The City of Chicago's fund balance figures are far below the amount recommended by the Government Finance Officers Association (GFOA). GFOA recommends that general purpose governments establish a general fund balance of 5% to 15% of regular general fund operating revenues or expenditures.²⁵ A Corporate Fund reserve of 5% of Corporate Fund expenditures would require approximately \$145.1 million. This is over \$118.2 million more than what the City reported in FY2006.

The fund balance ratio dipped to a low of 0.5% in FY2002 and 0.7% one year later. Since FY2002, it steadily rose because of a policy of increasing the reserve fund.

²⁴ See City of Chicago *Comprehensive Annual Financial Reports*, FY2002-FY2006.

²⁵ Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).

In the FY2008 Budget, the City projects a FY2007 year-end unreserved Corporate Fund balance of \$15.5 million that will be carried over into the new fiscal year.²⁶

The City of Chicago's Corporate Fund balance is at a level far below an amount that is fiscally prudent for a government of its size. The Civic Federation urges the City to move forward on the establishment of a reasonable contingency fund that meets the minimum GFOA standard.

City of Chicago Unreserved, Undesignated Corporate Fund Balance Ratio (FY2002-FY2006)			
	Unreserved, Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2002	\$ 13,014,000	\$ 2,527,642,000	0.5%
FY2003	\$ 19,458,000	\$ 2,661,102,000	0.7%
FY2004	\$ 42,246,000	\$ 2,567,658,000	1.6%
FY2005	\$ 57,648,000	\$ 2,739,570,000	2.1%
FY2006	\$ 26,834,000	\$ 2,902,202,000	0.9%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY2002-FY2006

APPROPRIATIONS

The FY2008 City of Chicago budget proposes a net appropriation of approximately \$5.9 billion. This is an increase of 4.7% or approximately \$266.6 million from the previous fiscal year. Personnel Services appropriations are projected to rise by 4.7% due to increases in salaries and benefits, even as the number of positions is reduced by 35.

City of Chicago Appropriations by Object: FY2007 & FY2008 (in \$ millions)				
Object	FY2007	FY2008	\$ Change	% Change
Personnel Services	\$ 3,029.8	\$ 3,173.0	\$ 143.2	4.7%
Contractual Services	\$ 715.1	\$ 761.7	\$ 46.6	6.5%
Travel	\$ 4.4	\$ 4.0	\$ (0.4)	-9.1%
Commodities	\$ 122.0	\$ 131.6	\$ 9.6	7.9%
Equipment	\$ 10.7	\$ 9.8	\$ (0.9)	-8.4%
Permanent Improvements	\$ 2.0	\$ 2.9	\$ 0.9	45.0%
Specific Items/Contingencies	\$ 2,102.0	\$ 2,238.1	\$ 136.1	6.5%
Subtotal	\$ 5,986.0	\$ 6,321.1	\$ 335.1	5.6%
Less Internal Transfers	\$ 285.5	\$ 290.4	\$ 4.9	1.7%
Less Proceeds of Debt	\$ 31.7	\$ 95.3	\$ 63.6	200.6%
Total	\$ 5,668.8	\$ 5,935.4	\$ 266.6	4.7%

Source: FY2007 City of Chicago Budget Recommendations, p. x, and FY2008 City of Chicago Budget Recommendations, p. iv.

²⁶ FY2008 City of Chicago Budget Overview and Revenue Estimates, p. 47.

Over the five-year period from FY2004 to FY2008, net appropriations have risen by 23.2%, or approximately \$1.1 billion. Personnel Services appropriations have increased by roughly 17.0% over the five-year span from FY2004 to FY2008.

City of Chicago Appropriations by Object: FY2004 & FY2008 (in \$ millions)				
Object	FY2004	FY2008	\$ Change	% Change
Personnel Services	\$ 2,711.6	\$ 3,173.0	\$ 461.4	17.0%
Contractual Services	\$ 594.8	\$ 761.7	\$ 166.9	28.1%
Travel	\$ 3.1	\$ 4.0	\$ 0.9	29.0%
Commodities	\$ 95.7	\$ 131.6	\$ 35.9	37.5%
Equipment	\$ 6.6	\$ 9.8	\$ 3.2	48.5%
Permanent Improvements	\$ 3.0	\$ 2.9	\$ (0.1)	-3.3%
Specific Items/Contingencies	\$ 1,736.6	\$ 2,238.1	\$ 501.5	28.9%
Subtotal	\$ 5,151.4	\$ 6,321.1	\$ 1,169.7	22.7%
Less Internal Transfers	\$ 236.2	\$ 290.4	\$ 54.2	22.9%
Less Proceeds of Debt	\$ 96.3	\$ 95.3	\$ (1.0)	-1.0%
Total	\$ 4,818.9	\$ 5,935.4	\$ 1,116.5	23.2%

Source: FY2004 City of Chicago Budget Recommendations, p. x, and FY2008 City of Chicago Budget Recommendations, p. iv.

Appropriations by Fund

The FY2008 budget projects that the largest increase in expenditures by fund will occur in the City's Corporate Fund, which accounts for the general operations of City government. Appropriations for the Corporate Fund will increase to over \$3.2 billion, or 3.5% over the previous fiscal year. Debt Service and Special Revenue Fund appropriations will see the largest increases, by 19.5% and 14.8% respectively.

City of Chicago Appropriations by Fund: FY2007 & FY2008 (in \$ millions)				
	FY2007	FY2008	\$ Change	% Change
Corporate Fund	\$ 3,097.7	\$ 3,206.8	\$ 109.1	3.5%
Special Revenue Fund	\$ 399.7	\$ 459.0	\$ 59.3	14.8%
Pension Funds	\$ 421.7	\$ 457.0	\$ 35.3	8.4%
Debt Service Fund	\$ 508.2	\$ 607.5	\$ 99.3	19.5%
Enterprise Fund	\$ 1,558.5	\$ 1,590.9	\$ 32.4	2.1%
Total Resources	\$ 5,985.8	\$ 6,321.2	\$ 335.4	5.6%
Less Proceeds of Debt	\$ 31.7	\$ 95.3	\$ 63.6	200.6%
Less Internal Transfer	\$ 285.5	\$ 290.4	\$ 4.9	1.7%
Net Appropriation	\$ 5,668.6	\$ 5,935.5	\$ 266.9	4.7%

Source: FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 50, and FY2008 City of Chicago Budget Overview and Revenue Estimates p. 44.

Net appropriations are projected to rise by approximately 23.2% in the five-year period since FY2004. The largest increase of 25.1% is projected to be in appropriations for the City's Debt Service Fund. Corporate Fund expenditures are expected to rise by 23.1%, from approximately \$2.6 billion to \$3.2 billion. Appropriations for the Special Revenue Fund are also expected to increase, by 16.2% or \$63.9 million.

City of Chicago Appropriations by Fund: FY2004 & FY2008 (in \$ millions)				
	FY2004	FY2008	\$ Change	% Change
Corporate Fund	\$ 2,605.1	\$ 3,206.8	\$ 601.7	23.1%
Special Revenue Fund	\$ 395.1	\$ 459.0	\$ 63.9	16.2%
Pension Funds	\$ 382.9	\$ 457.0	\$ 74.1	19.4%
Debt Service Fund	\$ 485.7	\$ 607.5	\$ 121.8	25.1%
Enterprise Fund	\$ 1,282.6	\$ 1,590.9	\$ 308.3	24.0%
Total Resources	\$ 5,151.4	\$ 6,321.2	\$ 1,169.8	22.7%
Less Proceeds of Debt	\$ 96.3	\$ 95.3	\$ (1.0)	-1.0%
Less Internal Transfer	\$ 236.2	\$ 290.4	\$ 54.2	22.9%
Net Appropriation	\$ 4,818.9	\$ 5,935.5	\$ 1,116.6	23.2%

Source: FY2004 City of Chicago Revenue Estimates, p. 1, and FY2008 City of Chicago Budget Overview and Revenue Estimates, p. 44.

Appropriations by Program Area

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

- **Finance and Administration** departments manage the City's finances, personnel, legal functions, and day-to-day operations. Such departments include the Office of the Mayor and the Departments of Finance, Revenue, Law, and General Services.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections, and administer appropriations for the City Council and its various committees.
- **City Development** departments, including the City's Department of Planning and Development, handle community, economic, cultural, and infrastructure development in the City.
- **Community Services** departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs, and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and includes the Department of Buildings, the Department of Construction and Permits, and the Office of the Inspector General.
- **Streets and Sanitation** is the category label for the Department of Streets and Sanitation.
- **Infrastructure Services**, formerly called the Department of Transportation, is responsible for the reconstruction of streets, sidewalks, and bridges, as well as the issuance of permits.
- **Public Service Enterprises**, comprising the Departments of Water Management and Aviation, manages O'Hare and Midway Airports.
- **General Financing Requirements** departments administer pension benefits, long term debt payments, and other cross-departmental expenses.

The largest increase in appropriations between FY2007 and FY2008 is projected to occur in the Regulatory program area. Regulatory appropriations will increase by 21.8%, or approximately

\$22.8 million, despite the recent cost-saving measure of re-combining the Department of Buildings with the Department of Construction and Permits.²⁷ General Financing Requirements will rise by 10.7% and Public Service Enterprises by 9.3%. The additional \$253.5 million that will be appropriated for General Financing Requirements in 2008 is the largest single-year program area increase. The General Financing Requirements increase is driven by a \$85.2 million spike in the appropriation required for the City's debt service²⁸, as well as a \$35.3 million increase in the City's contributions to employee pensions and a \$6.2 million increase in the cost of employee health care benefits. The only projected decrease by program area is in Legislative and Elections, whose appropriations will fall by \$2.3 million or 5.4%. This decrease is due to the nature of the election cycle, with the City responsible for the full cost of the municipal elections held last year. In FY2008, Cook County will share the City's expenses related to the general primary and general election for the President of the United States.²⁹

City of Chicago Appropriations by Program Area: FY2007 & FY2008 (in \$ millions)				
	FY2007	FY2008	\$ Change	% Change
Finance and Administration	\$ 478.0	\$ 503.3	\$ 25.3	5.3%
Legislative and Elections	\$ 42.3	\$ 40.0	\$ (2.3)	-5.4%
City Development	\$ 302.8	\$ 326.6	\$ 23.8	7.9%
Community Services	\$ 627.0	\$ 661.2	\$ 34.2	5.5%
Public Safety	\$ 2,034.0	\$ 2,079.1	\$ 45.1	2.2%
Regulatory	\$ 104.6	\$ 127.4	\$ 22.8	21.8%
Streets and Sanitation	\$ 358.7	\$ 367.9	\$ 9.2	2.6%
Infrastructure Services	\$ 353.8	\$ 370.6	\$ 16.8	4.7%
Public Services Enterprises	\$ 725.8	\$ 793.2	\$ 67.4	9.3%
General Financing Requirements	\$ 2,372.7	\$ 2,626.2	\$ 253.5	10.7%
Subtotal	\$ 7,399.7	\$ 7,895.5	\$ 495.8	6.7%
Proceeds and Reimbursements	\$ 317.2	\$ 385.8	\$ 68.6	21.6%
Grant Funds	\$ 1,413.6	\$ 1,574.2	\$ 160.6	11.4%
Total	\$ 5,668.9	\$ 5,935.5	\$ 266.6	4.7%

Source: FY2007 City of Chicago Program & Budget Summary, p. 1, and FY2008 City of Chicago Program & Budget Summary, p. 3.

Appropriations by major program area between FY2004 and FY2008 are presented in the next exhibit. The two largest increases by percentage occurred in Regulatory and in Public Service Enterprises, with increases of 55.6% and 31.7% respectively. Since FY2004, Infrastructure Services appropriations have decreased by 24.2%, falling from \$489.1 million to \$370.6 million in FY2008. This decrease is attributable to the receipt of fewer federal and state grants.³⁰ The Department of Streets and Sanitation only increased by 2.8% over the five year period due to a

²⁷ The reorganization of these two departments is expected to save the city \$0.7 million. Bennett Johnson III (Budget Director, City of Chicago) in a meeting with the Civic Federation, October 9, 2007.

²⁸ FY2007 saw a \$221 million increase in debt service expenses. FY2008 experienced a significantly smaller increase, \$85.2 million, in part due to the restructuring of debt service which resulted in a savings of \$40 million. Bennett Johnson III (Budget Director, City of Chicago) in a meeting with the Civic Federation, October 9, 2007.

²⁹ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 18, 2007.

³⁰ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 19, 2007.

loss of federal funding and loss of maintenance duties following the sale of the Chicago Skyway.³¹

City of Chicago Appropriations by Program Area: FY2004 & FY2008 (in \$ millions)				
	FY2004	FY2008	\$ Change	% Change
Finance and Administration	\$ 393.8	\$ 503.3	\$ 109.5	27.8%
Legislative and Elections	\$ 31.8	\$ 40.0	\$ 8.2	25.8%
City Development	\$ 256.2	\$ 326.6	\$ 70.4	27.5%
Community Services	\$ 556.5	\$ 661.2	\$ 104.7	18.8%
Public Safety	\$ 1,606.2	\$ 2,079.1	\$ 472.9	29.4%
Regulatory	\$ 81.9	\$ 127.4	\$ 45.5	55.6%
Streets and Sanitation	\$ 358.0	\$ 367.9	\$ 9.9	2.8%
Infrastructure Services/Transportation	\$ 489.1	\$ 370.6	\$ (118.5)	-24.2%
Public Services Enterprises	\$ 602.5	\$ 793.2	\$ 190.7	31.7%
General Financing Requirements	\$ 2,032.6	\$ 2,626.2	\$ 593.6	29.2%
Subtotal	\$ 6,408.6	\$ 7,895.5	\$ 1,486.9	23.2%
Proceeds and Reimbursements	\$ 332.5	\$ 385.8	\$ 53.3	16.0%
Grant Funds	\$ 1,257.2	\$ 1,574.2	\$ 317.0	25.2%
Total	\$ 4,818.9	\$ 5,935.5	\$ 1,116.6	23.2%

Source: FY2004 City of Chicago Program & Budget Summary, p. 1, and FY2008 City of Chicago Program & Budget Summary, p. 3.

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

Corporate Fund personal service appropriations are projected to increase by \$117.1 million in FY2008, a 3.5% increase over the previous budgeted amount.

City of Chicago Corporate Fund Appropriations For Personal and Non-Personal Services: FY2007 & FY2008				
	FY2007	FY2008	\$ Change	% Change
Personal Services	\$ 2,492,042,506	\$ 2,609,154,432	\$ 117,111,926	4.7%
Non-Personal Services	\$ 605,693,494	\$ 597,685,568	\$ (8,007,926)	-1.3%
Total	\$ 3,097,736,000.0	\$ 3,206,840,000.0	\$ 109,104,000.0	3.5%

Source: FY2007 City of Chicago Budget Recommendations, p. v, and FY2008 City of Chicago Budget Recommendations, p. iv

Between FY2004 and FY2008, personal service appropriations in the Corporate Fund will increase by 20.0%, from approximately \$2.1 billion to \$2.6 billion. This represents a \$435.0 million rise. The percentage of Corporate Fund appropriations earmarked for personal services, however, decreased, falling from 83.5% to 81.4% over the five-year period. It is noteworthy that the percentage of Corporate Fund appropriations dedicated for personal services rose to 81.4% from 80.4% in FY2007.

City of Chicago Corporate Fund Appropriations For Personal Services: FY2004 & FY2008				
	FY2004	FY2008	\$ Change	% Change
Personal Services	\$ 2,174,137,784	\$ 2,609,154,432	\$ 435,016,648	20.0%
% of Corporate Fund	83.5%	81.4%		

Source: FY2004 City of Chicago Budget Recommendations, p. v, and FY2008 City of Chicago Budget Recommendations, p. iv

³¹ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 19, 2007.

For FY2008, the City of Chicago recommends funding 40,160 full-time equivalent (FTE) positions. This represents a decrease of 0.1%, or 47 positions, from the number of FTEs budgeted in FY2007. There will be an increase of 92 FTEs in the Streets and Sanitation program area, representing a 2.5 % rise, and an increase of 56 FTEs in the Public Safety program area, representing a 0.2% rise. The greatest reduction will occur in the area of Public Service Enterprises, which will see the elimination of 117 FTEs, a 2.9% reduction. The Community Services area will see the elimination of 51 FTEs, a 1.3% reduction, and the City Development area will see the elimination of 32 FTEs, a 5.8% reduction. The totals for full-time equivalents were obtained from the *City of Chicago FY2008 Program & Budget Summary* – these totals are larger than those reported in the *FY2008 Budget Overview and Revenue Estimates* because they include positions funded by grants.

Full-Time Equivalent Positions by Agency: FY2007 & FY2008				
Agency	FY2007 Budgeted	FY2008 Recommended	# Change	% Change
Finance & Administration	3,202	3,210	8	0.2%
Legislative & Elections	371	371	0	0.0%
City Development	549	517	(32)	-5.8%
Community Services	3,909	3,858	(51)	-1.3%
Public Safety	22,725	22,781	56	0.2%
Regulatory	998	1,002	4	0.4%
Streets & Sanitation	3,609	3,701	92	2.5%
Transportation	829	822	(7)	-0.8%
Public Service Enterprises	4,015	3,898	(117)	-2.9%
Total	40,207	40,160	(47)	-0.1%

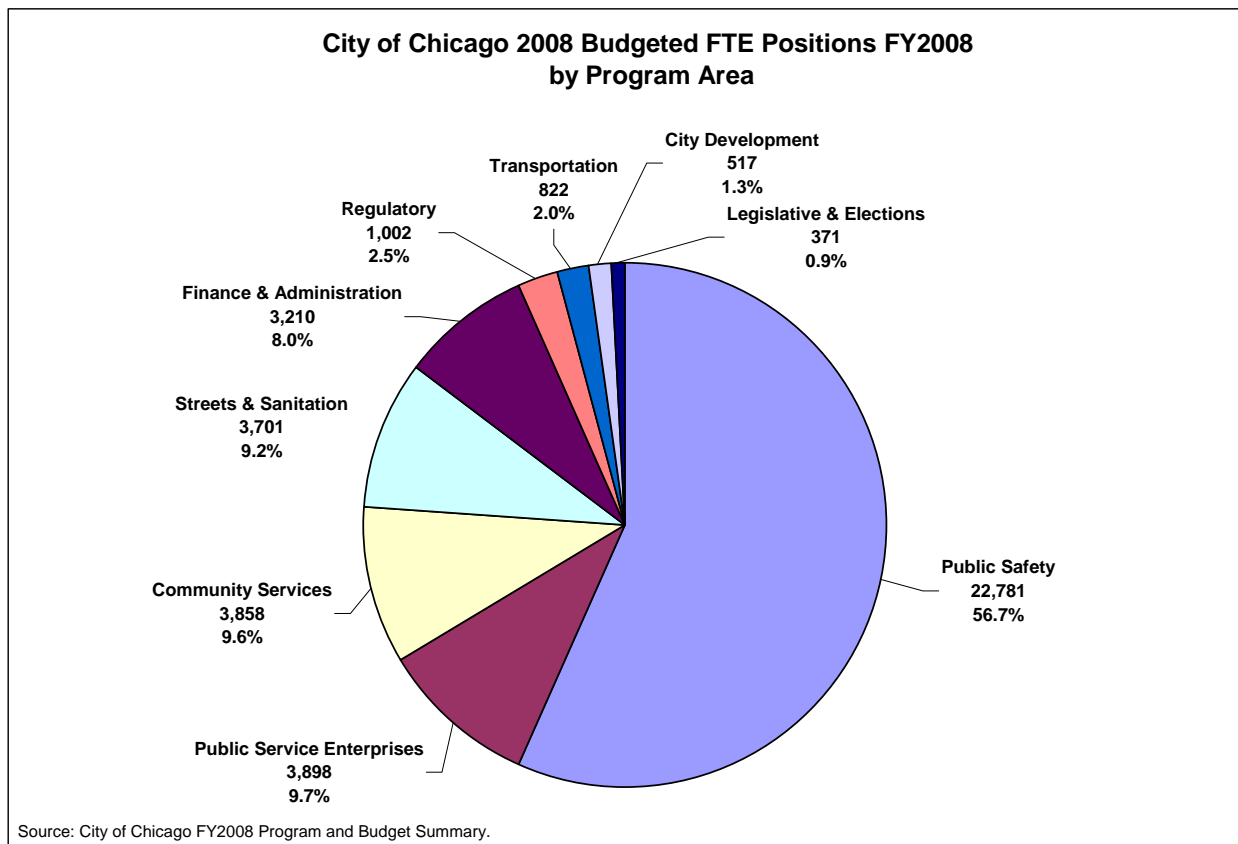
Source: FY2007 and FY2008 City of Chicago Program and Budget Summary.

During the five-year period from FY2004 to FY2008, there has been a 2.9% reduction in the level of total full-time equivalent (FTE) positions. This is a reduction of 1,195 FTE positions, from the 41,355 FTE positions budgeted in FY2004 to the 40,160 FTE positions recommended for FY2008. Over this five-year period, there has been a trend of reduction in seven of the nine program areas, excluding only public safety and regulatory agencies. The greatest unit decreases occurred in the areas of Public Service Enterprises and Transportation, which experienced reductions of 851 FTE positions and 212 FTE positions respectively. Community Services, Finance and Administration, and City Development all experienced reductions of more than 135 FTEs. The greatest percentage declines for the years between FY2004 and FY2008 were in the program areas of City Development and Transportation, which saw decreases of 20.7% and 20.5%, respectively. Public Service Enterprises saw a decrease of 17.9%.

Full-Time Equivalent Positions by Agency: FY2004 & FY2008				
Agency	FY2004 Recommended	FY2008 Recommended	# Change	% Change
Finance & Administration	3,350	3,210	(140)	-4.2%
Legislative & Elections	379	371	(8)	-2.1%
City Development	652	517	(135)	-20.7%
Community Services	4,001	3,858	(143)	-3.6%
Public Safety	22,487	22,781	294	1.3%
Regulatory	900	1,002	102	11.3%
Streets & Sanitation	3,803	3,701	(102)	-2.7%
Transportation	1,034	822	(212)	-20.5%
Public Service Enterprises	4,749	3,898	(851)	-17.9%
Total	41,355	40,160	(1,195)	-2.9%

Source: FY2003 and FY2007 City of Chicago Program and Budget Summary.

Approximately 56.7% of all budgeted FTE positions in the proposed FY2008 budget are in the area of Public Safety. The next largest percentages are in the categories of Public Service Enterprises and Community Services, at 9.7% and 9.6% respectively.



EMPLOYEE HEALTH CARE TRENDS

After experiencing substantial increases in health care costs during recent years, the City has begun to take significant steps to curb the rate at which their employee benefit costs rise. During recent years the City has implemented greater cost-sharing initiatives with employees in much the same manner as the private sector and other governments have done. Some of the cost-saving measures implemented by the City include successful negotiations for a reduction of Blue Cross administrative fees, increased employee contributions to their health care plans, and improved prescription pricing.³² The City has also implemented employee wellness and disease management programs, negotiated with providers for more favorable rates and conducted dependant-coverage audits.³³

It has also achieved substantial cost savings through the joint-purchasing of prescription drug and healthcare plans. The City saved \$19.6 million from September 2004 through September 2007 due to the creation of a joint-purchasing prescription program alone.³⁴ The City estimates that it will save an additional \$6.6 million from this program in FY2008.³⁵

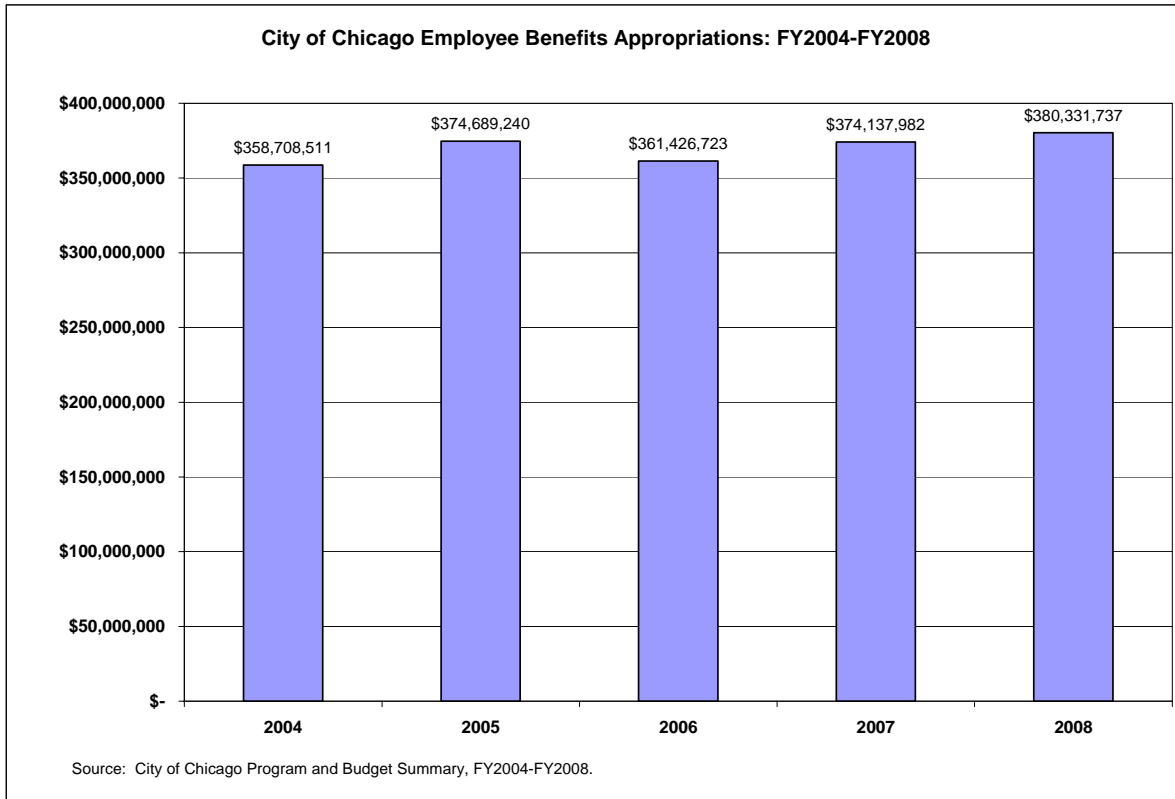
The following graph shows the increase in the City's employee benefits costs from FY2004 through FY2008. Between FY2004 and FY2008, the City estimated that its share of employee benefit costs increased by only 6.0% or \$21.6 million.

³² The City of Chicago Office of Budget and Management, in a meeting with the Civic Federation, October 9, 2007.

³³ *City of Chicago FY2008 Overview and Revenue Estimates*, p. 89.

³⁴ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 18, 2007.

³⁵ Information provided by Chicago Office of Budget and Management in an email communication with the Civic Federation dated October 18, 2007.



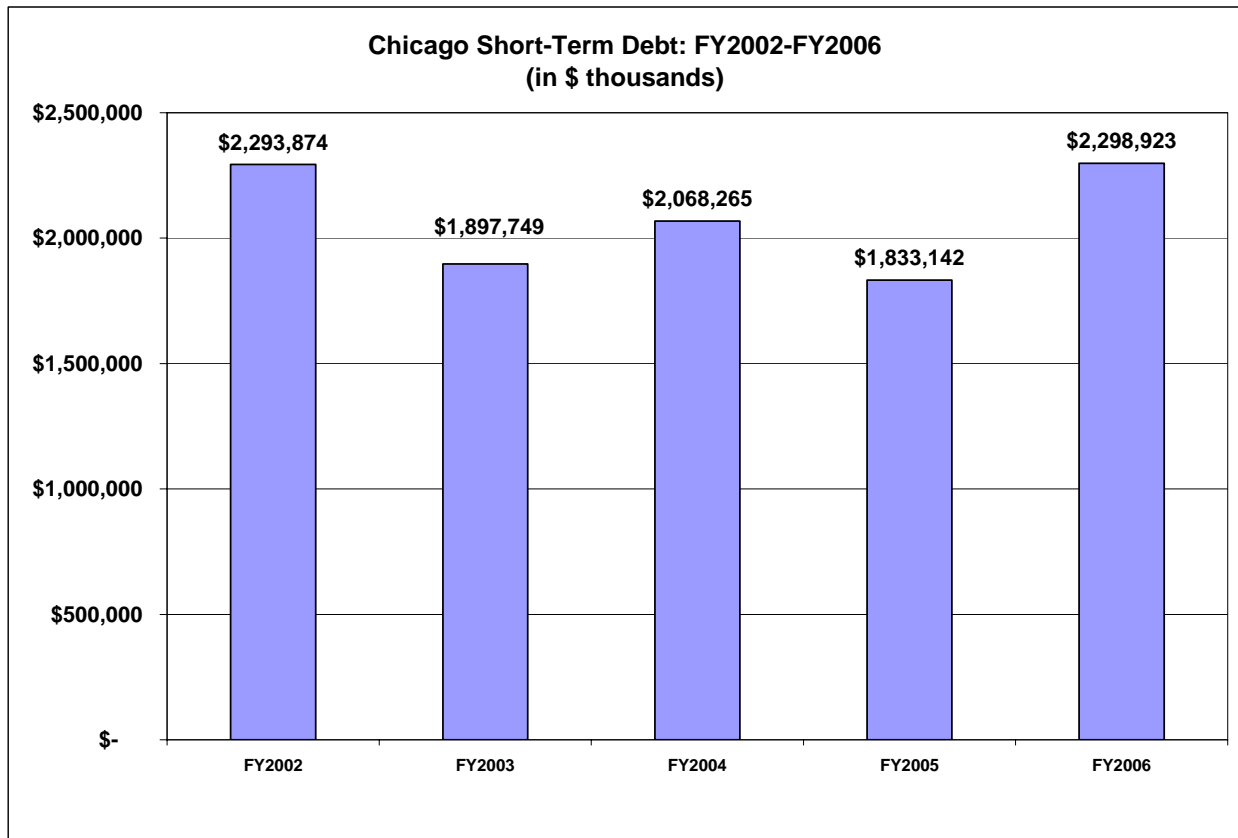
DEBT TRENDS

The Civic Federation employs several measures of debt for purposes of this analysis: short-term debt trends, long-term net direct debt and net direct per capita trends, debt service appropriation trends and bond ratings.

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. City of Chicago short-term debt includes all current liabilities except accrued salaries and wages, accrued payroll, compensated absences, accrued interest and accrued and other liabilities. For purposes of consistency over time, short-term debt is calculated for Governmental Activities, or activities in the four Governmental Funds.

In FY2006, short-term debt for the City of Chicago's Governmental Activities increased by 25.4% from the previous fiscal year. This represented a \$465.7 million increase from \$1.8 billion to nearly \$2.3 billion. However, since FY2002, short-term debt has increased by 0.2%. The amount of short-term debt has fluctuated over the five years analyzed here, averaging \$2.0 billion.



Long-Term Direct Debt Trends

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

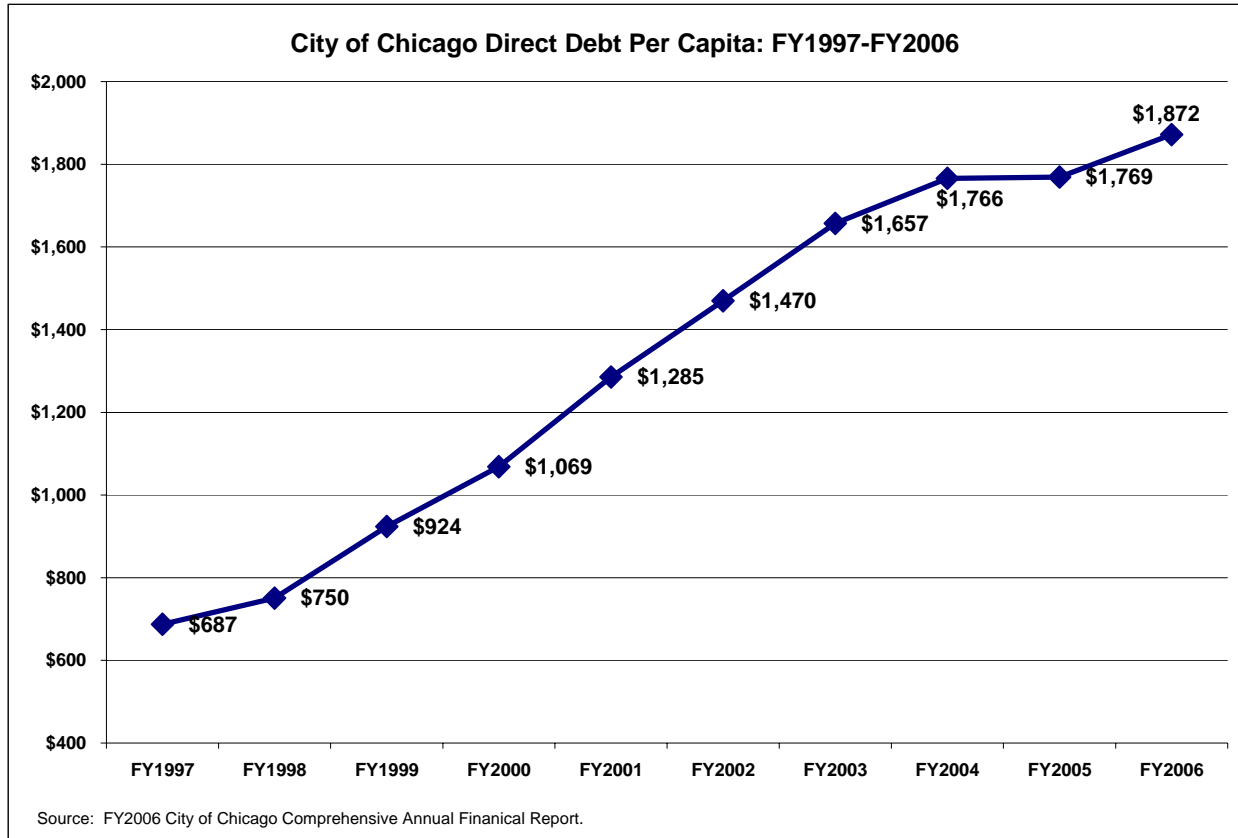
The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time period, total net direct debt rose by 183.4% or \$3.5 billion. This represents an increase from over \$1.9 billion to approximately \$5.4 billion. During the five year period between FY2002 and FY2006, net direct debt rose by 27.4% or \$1.2 billion.

City of Chicago Direct Debt: FY1997-FY2006	
FY1997	\$1,913,120,000
FY1998	\$2,088,913,000
FY1999	\$2,571,412,000
FY2000	\$3,094,839,000
FY2001	\$3,722,403,000
FY2002	\$4,257,256,000
FY2003	\$4,798,541,000
FY2004	\$5,113,565,000
FY2005	\$5,123,729,000
FY2006	\$5,422,232,000
\$ Change	\$3,509,112,000
% Change	183.4%

Source: FY2006 Chicago Comprehensive Annual Financial Report, pp. 140-141.

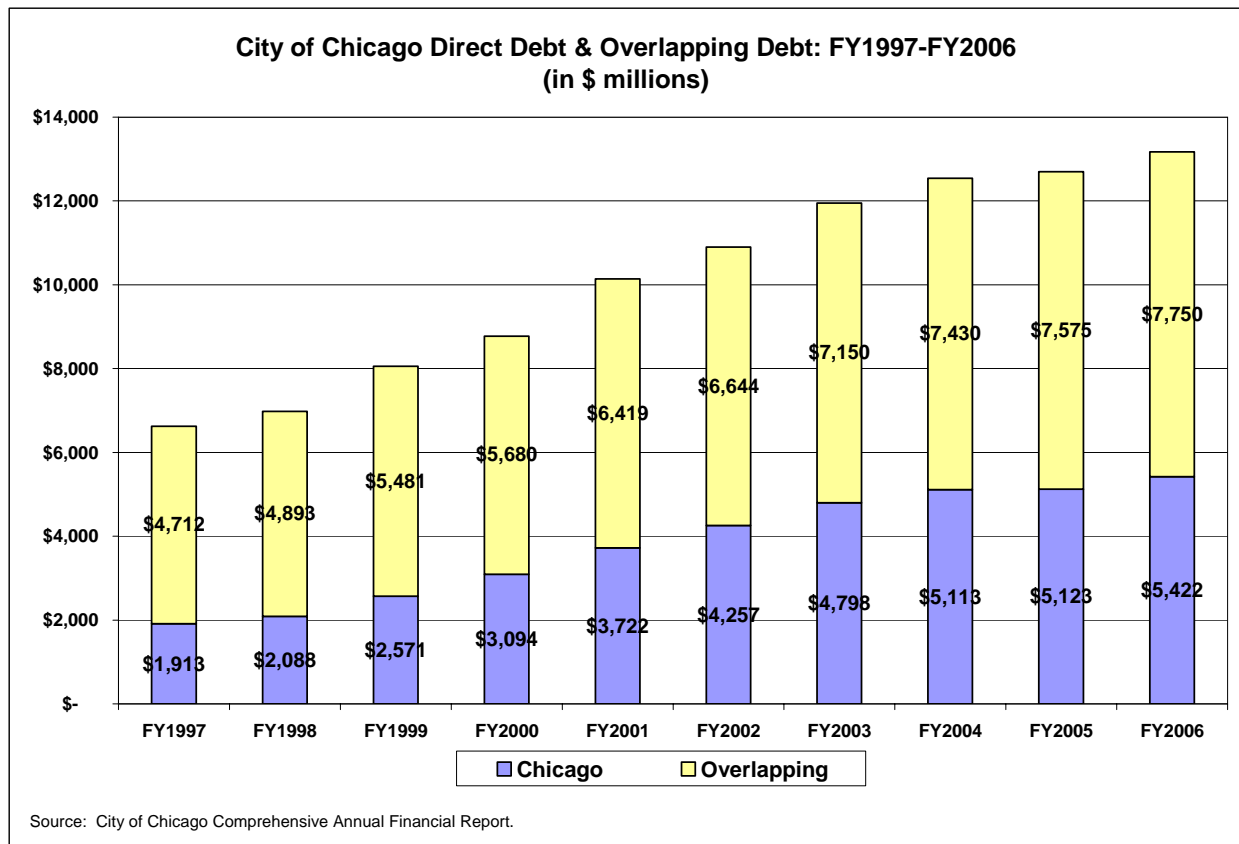
Long-Term Net Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Between FY1997 and FY2006, net direct debt per capita rose by 172.4%, from \$687 to \$1,872. Over the five-year period between FY2002 and FY2006, net direct debt per capita increased by 27.3%.



Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY1997 and FY2006, overlapping debt from other governments combined increased by 64.5% at the same time City of Chicago debt rose by 183.4%. Total debt from all eight major governments rose by 98.8%. Thus, the rate of increase in City of Chicago direct debt vastly outstripped increases for the other governments in the region.



Debt Service Appropriations

Debt service appropriations in FY2008 are projected to be 20% of total appropriations, or \$1.2 billion out of \$5.9 billion. This figure is relatively high, as the rating agencies consider a debt burden high if this ratio is between 15% and 20%. The debt service to total appropriation ratio will have risen for three years in a row, increasing from 17% in FY2006 to 20% in the coming fiscal year.

City of Chicago Debt Service Appropriations: FY2004-FY2008			
	Debt Service	Total Appropriation	Ratio
FY2004	\$ 855,996,149	\$ 4,818,892,000	17.8%
FY2005	\$ 895,752,246	\$ 5,088,409,000	17.6%
FY2006	\$ 895,752,246	\$ 5,247,120,808	17.1%
FY2007	\$ 1,105,073,826	\$ 5,668,719,000	19.5%
FY2008	\$ 1,190,634,139	\$ 5,935,514,000	20.1%

Source: Chicago Program and Budget Summaries FY2004-FY2008, General Financing Requirements.

Bond Ratings and Rating Agency Outlook

As of December 31, 2006, the three major rating agencies have awarded various City of Chicago bond issues high credit ratings, reflecting the agencies' confidence in the financial management of the government. A comprehensive list of credit ratings for the City's General Obligation and Revenue bonds as well as a description of the meaning of the various ratings follows.

City of Chicago Credit Ratings (12/31/06)						
Rating Agency	Moody's	<i>Description</i>	Standard & Poor's	<i>Description</i>	Fitch	<i>Description</i>
General Obligation City	Aa3	High Quality	AA-	Highest Quality	AA	Very High Credit Quality
Revenue Bonds <i>O'Hare Airport</i>						
First Lien	Aa3	High Quality	AA	High Quality	AA+	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA+	Very High Credit Quality
Third Lien	A2	Upper Medium Grade	A	Strong capacity to pay	A	High Credit Quality
First Lien PFC	A1	Upper Medium Grade	AA-	High Quality	A+	High credit quality
Second Lien PFC	A2	Upper Medium Grade	A	Strong capacity to pay	A	High credit quality
<i>Midway Airport</i>						
First Lien	A2	Upper Medium Grade	A-	Strong capacity to pay	A+	High credit quality
Second Lien	A3	Upper Medium Grade	A-	Strong capacity to pay	A+	High credit quality
<i>Water</i>						
First Lien	Aa3	High Quality	AA-	High Quality	AA+	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA	Very High Credit Quality
<i>Wastewater</i>						
First Lien	n/a	n/a	n/a	n/a	n/a	n/a
Second Lien	A2	Upper Medium Grade	A	Strong capacity to pay	AA-	Very High Credit Quality

Source: *City of Chicago FY2006 CAFR*, p. 27 and Douglas and Miranda, *Elected Official's Guide to Rating Agency Presentations*, p. 8.

PENSION TRENDS

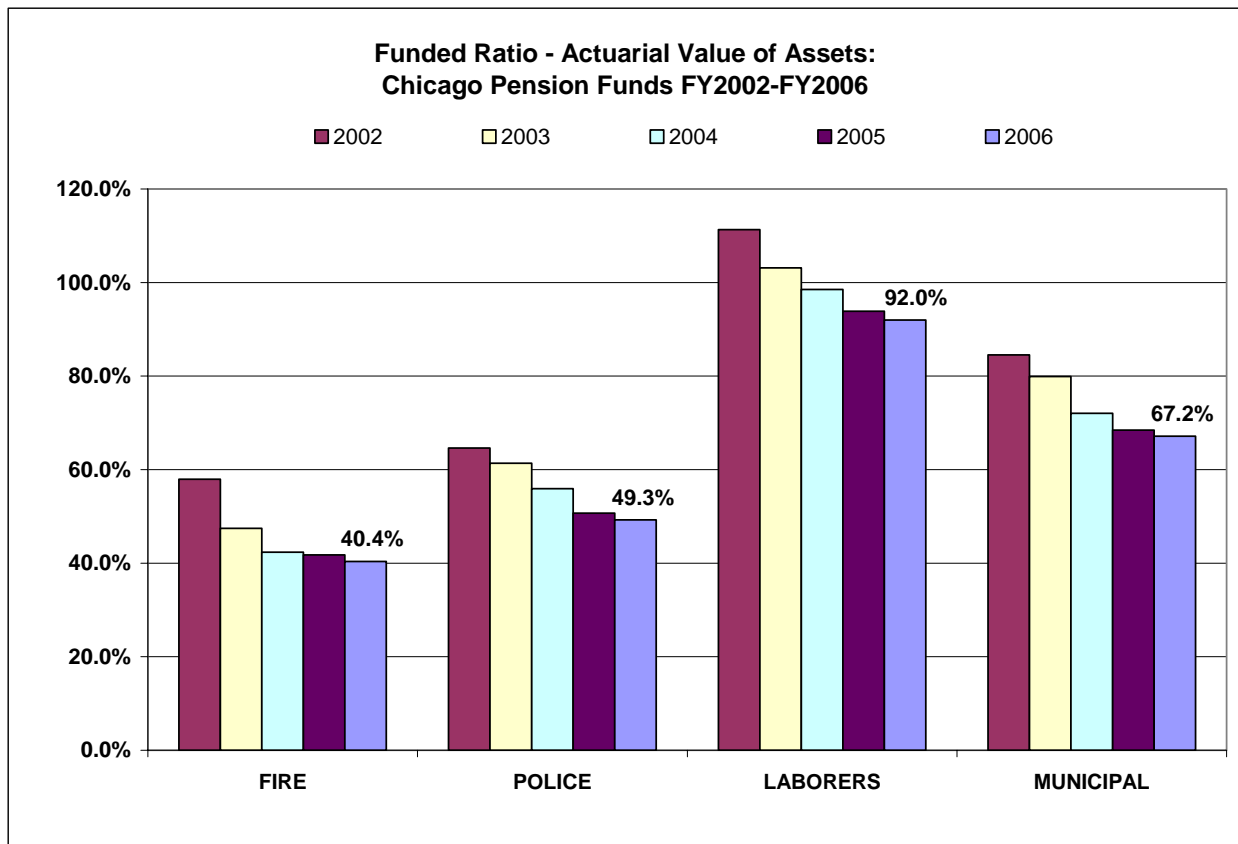
The City of Chicago maintains four employee pension funds: Fire, Police, Municipal and Laborer's Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds' fiscal health: funded ratios, the value of unfunded liabilities, and the investment rate of return.

Funded Ratios – Actuarial Value of Assets

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

For the fifth year in a row, the funded ratios of all four City pension funds have dropped. The Fire Fund in FY2006 reported a funded ratio of just 40.4 %, tumbling from 57.9% in FY2002. The Police Fund's funded ratio dropped from 64.6% in FY2002 to 49.3% in FY2006. The Municipal Fund dropped to a funded ratio of 67.2% in FY2006, declining sharply from a 84.5 % ratio in FY2002. The Laborers Funds continues to remain healthy, with a funded ratio of 92.0%.

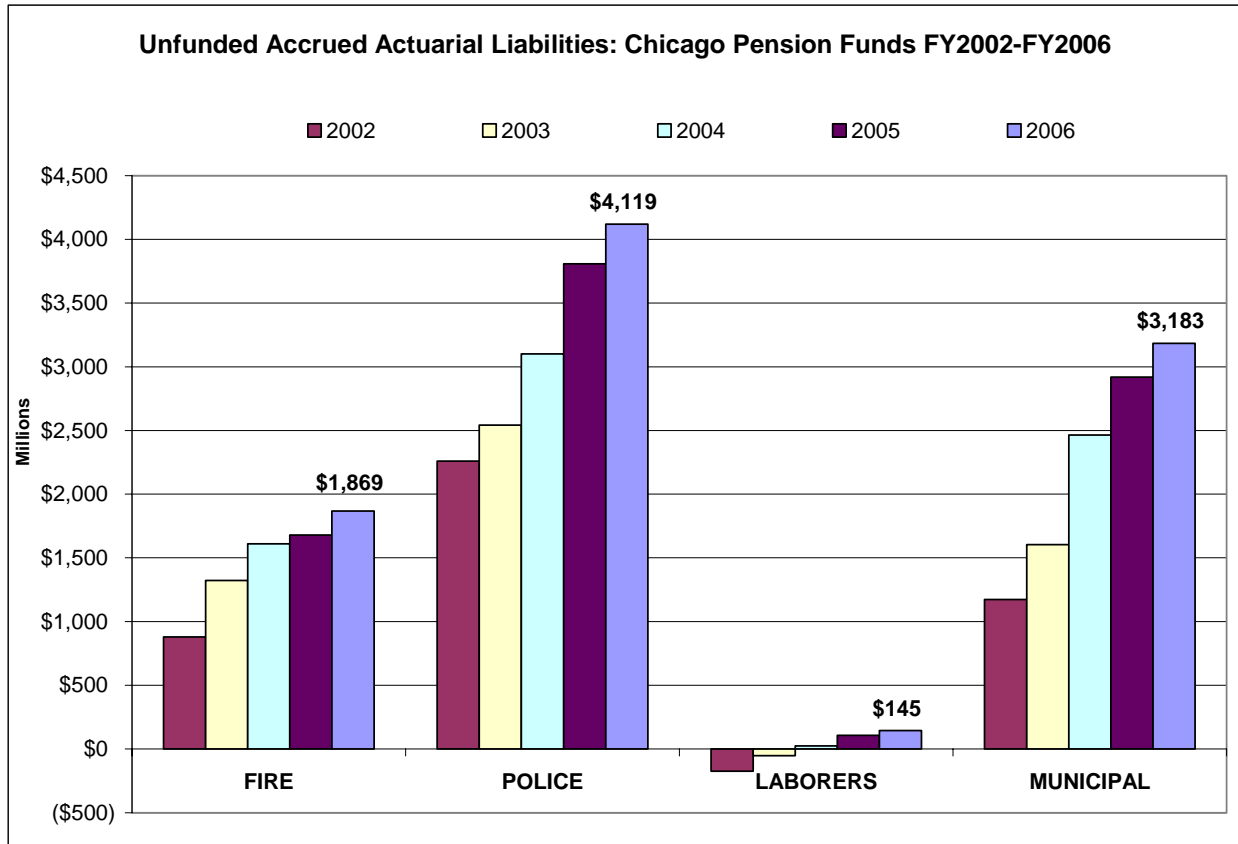
The continued declines in the funded ratios of the Fire and Police Pension Funds are a serious cause for concern. They are well below levels considered financially healthy.



Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2002 and FY2006, unfunded liabilities for the City's pension funds increased by 125.1% or nearly \$5.2 billion, from \$4.1 billion to \$9.3 billion. This increase reflects the decreases in the funded ratios of all four City pension funds over the period analyzed. A summary of the five-year changes in unfunded liabilities is shown below:

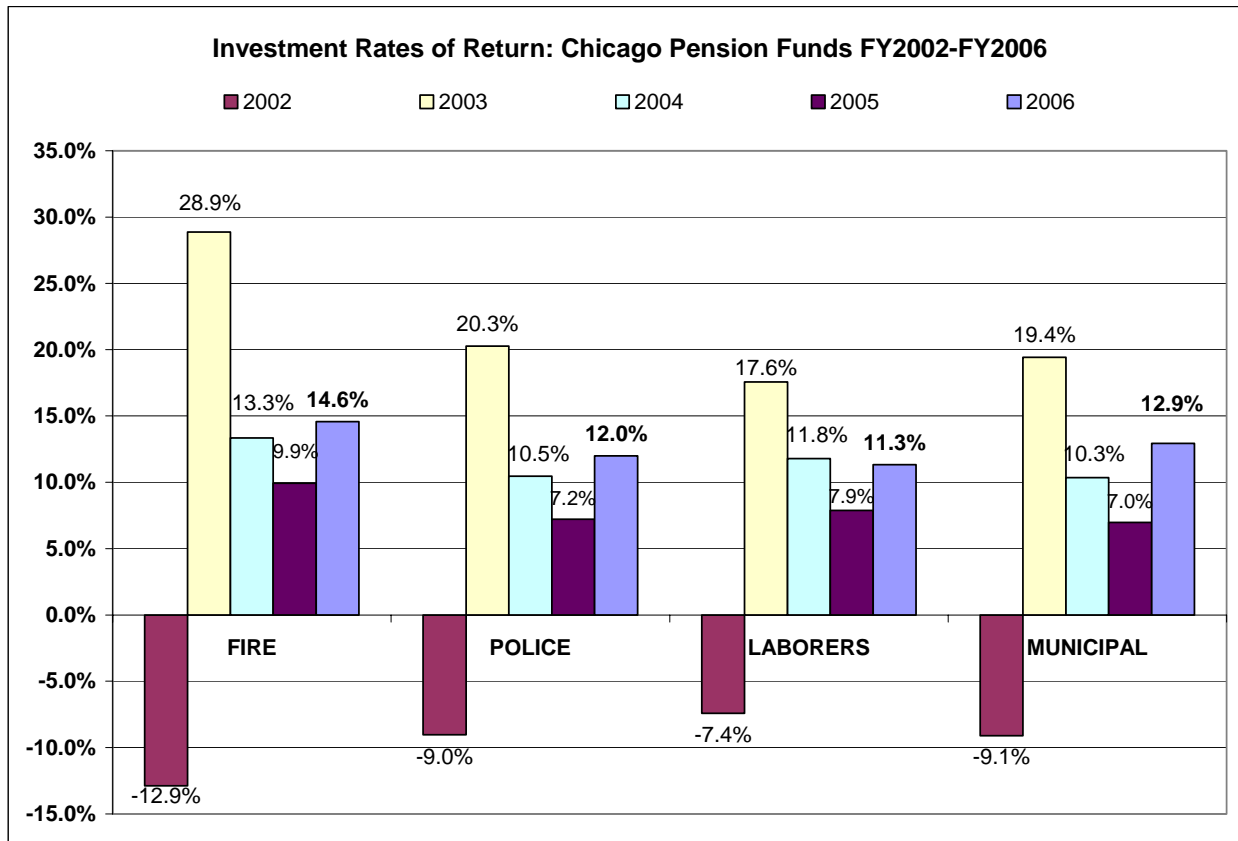
- Fire Pension Fund: 112.6% increase, from \$878.9 million to \$1.8 billion;
- Police Pension Fund : 82.2% increase, from \$2.2 billion to \$4.1 billion;
- Laborers Pension Fund: 183.2% increase, from -\$174.4 million to \$319.6 million,³⁶ and
- Municipal Pension Fund: 171.3% increase, from \$1.1 billion to \$3.1 billion.



³⁶ The Laborers Fund had a surplus, or negative unfunded liability, until FY2004.

Investment Rates of Return

In FY2006, all four City pension funds reported positive rates of return on investments. However, the rates of return have fallen since their high in FY2003. The average market rate of return for all City of Chicago pension funds was 12.7% in FY2006. The highest rate of return, 14.6%, was reported by the Fire Fund. The Police Fund reported a 12.0% rate of return, the Laborers Fund a 11.3% rate and the Municipal Fund a 12.9% rate.



CIVIC FEDERATION RECOMMENDATIONS

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

Limit Chicago Property Tax Increase to 5% or Inflation, Whichever is Less

As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the

state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.³⁷

The Civic Federation believes that the City should resist the urge to capture over \$100 million in new tax dollars and adhere to its self-imposed and reasonable property tax cap. Therefore, in FY2008, the levy should increase only by 2.5% or \$17.8 million. This would increase the levy to \$731.3 million, not \$821.5 million.³⁸

Chicago residential taxpayers are already overburdened by steady increases from many of the City's overlapping taxing bodies such as the Chicago Public Schools which increase taxes to the maximum amount allowed year after year. While it is reasonable to balance cost containment measures with judicious revenue enhancements for specific purposes, it is unreasonable to ask taxpayers to shoulder the burden of a 15% property tax hike.

Increase Reserve Funds

The City of Chicago's unreserved Corporate Fund balance is at a level far below an amount that is fiscally prudent for a government of its size. It is projected at only \$15.5 million for FY2008. This is just 0.5% of the Corporate Fund appropriations of \$3.2 billion. This will seriously hamper the City's ability to quickly deal with contingencies.

The Civic Federation urges the City to move forward on the establishment of a reasonable contingency fund that meets the minimum standard proposed by the Government Finance Officers Association of 5% of General Fund appropriations or revenues, perhaps utilizing natural revenue growth or some of the proceeds from the privatization of an asset. In FY2008, this amount would total \$160.3 million.

Bottled Water Tax Should Mirror 3% Soft Drink Tax

The Chicago Home Rule Municipal Soft Drink Retailers' Occupation Tax is governed by 65 ILCS 5/8-11-6b and allows the city to collect a 3% tax on gross receipts from sellers of soft drinks (soda water, carbonated water, colas, and drinks containing less than 50% juice). It includes sales from vending machines but excludes fountain drinks. The state collects this revenue and distributes it to Chicago. In FY2008, the soft drink tax will generate approximately \$8.7 million.³⁹

The City has offered no compelling reason to impose a 10 cent per bottle tax on bottled water other than the desire for \$21 million in new revenues. Further, the tax is not adjusted for volume, so there certainly is no concern about the volume of bottled water purchased in the City.

³⁷ The City ordinance is municipal code chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions.

³⁸ The Cook County Clerk uses the Consumer Price Index (CPI) for U.S. All Urban Consumers December-December of the previous year to calculate property tax extension limits. This CPI was 2.5% for December 2005-December 2006, and is the most recent available.

³⁹ Information provided by the Chicago Department of Budget and Management, October 25, 2007.

If the City is concerned about plastic waste, it should apply a deposit to all plastic containers that would be refunded when consumer returned them to retailers for recycling.

We propose that the City apply the current 3% gross tax on soft drinks to water. This would likely generate less revenue than \$21 million, perhaps \$9.3 million. Such a move would likely require legislative authorization. While there is no sound policy to exclude water from the tax on other drinks, there is also no sound reason to tax water at a different rate than other drinks. One of the principles of sound tax policy is simplification. Taxing bottled water at the same rate as other drinks would help achieve that goal.⁴⁰

Use Asset Lease or Sale Proceeds to Retire Tax Anticipation Note Debt

The City annually issues short term Tax Anticipation Notes (TANs) in anticipation of receiving funds from its property tax levy. For example, the City proposes to borrow \$95.3 million in TANs in FY2008 in anticipation of the levy. Approximately \$4.3 million will fund the cost of this short-term borrowing.

Most other local governments have eliminated costly TAN borrowing, instead providing short term funding in anticipating of receiving property tax proceeds from their reserves. As the City's reserves are very low, this is not an immediate option. However, as the City anticipates negotiating several long term asset lease deals in the near future, we think it appropriate that some of the proceeds of those endeavors be earmarked to retire this debt. The City will benefit in the long run from saving several millions of dollars in costs annually.

Implement Pension Benefit Reform

The funding levels of the City retirement systems continue to deteriorate. It is imperative that Chicago move to reduce its long-term pension obligations. The Civic Federation has several suggestions on how to accomplish that goal.

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 City should undertake.

⁴⁰ We do not have accurate statistics regarding the average cost of a bottle of water sold in Chicago. But, as the City estimates it would generate \$21 million from a 10 cent tax on each bottle of water, this assumes that 210 million bottles of water will be sold. An unscientific spot-check of bottled water prices shows that they range between 69 cent for a 16.9 ounce bottle to \$1.48 for a 20 fluid ounce bottle. A simple mathematical extrapolation using those two figures as a high and low price lead to estimated sales of between \$144.9 million to \$312.9 million per year. A 3% tax on those amounts could therefore could generate somewhere between \$4.3 million to \$9.3 million per year.

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

Currently, Police and Fire pension fund beneficiaries receive 3% annual cost of living increases; this rate can and does exceed the rate of inflation in some years. 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 are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

Require Employer Contributions to Relate to Funding Levels

City of Chicago government employer contributions are determined by multipliers per each fund that are not tied to the fund's funded ratio. For example, the Chicago Police Fund multiplier is 2.0 times the total employee contribution made two years prior. Employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

The Civic Federation recognizes that changing funding streams to meet the City's large pension obligations will require the infusion of significant resources. Therefore, we urge the City to develop a long-term funding plan that would gradually increase the assets as well as reduce the liabilities and costs of the pension systems. This will require legislative authorization.

Implement a Formal Long-Term Financial Planning Process

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

Report All Fund Revenues by Source in Budget Overview and Revenue Estimates

The City's Office of Budget and Management has made important and substantive improvements to the format of the Budget documents in recent years. We urge the Budget Office to go one step further and improve the presentation of revenue information. Information is currently provided for revenues by fund and for Corporate Fund revenues by source. It would be useful to follow the practice employed by many other governments and also present revenue information by

source for All Funds. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.