The Civic Federation

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CITY OF CHICAGO FY2014 PROPOSED BUDGET:

Analysis and Recommendations

November 13, 2013

The Civic Federation ● 177 N. State Street ● Chicago, IL 60601 ● civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **supports** Mayor Emanuel's proposed FY2014 City of Chicago budget of nearly $7.0 billion because it is a reasonable short-term plan that continues to reduce the City's ongoing structural deficit. However, the City faces an immediate crisis with next year's $590 million increase in pension contributions that threatens to derail the City's significant progress.

The Civic Federation offers the following **key findings** on the City of Chicago FY2014 budget:

- The City proposes a FY2014 local funds budget of nearly $7.0 billion; this is a 6.6% increase from the FY2013 adopted appropriation of $6.5 billion across all local funds. When grant funds are included, the FY2014 budget totals $8.7 billion;
- The Corporate Fund budget proposal is nearly $3.3 billion, which is a 4.0% increase from FY2013 adopted appropriations of $3.2 billion;
- The budget proposes to add 423 FTEs, for a workforce of 32,409 FTEs, not including grant-funded positions. The Corporate Fund workforce will be 25,421 FTEs;
- Corporate Fund personnel service appropriations are projected to increase by 4.1% or $130.6 million from the FY2013 adopted appropriations;
- The property tax levy for City purposes will rise by $22.7 million in FY2014 for a total levy of $824.0 million with additional amounts levied for the City Colleges of Chicago of $35.5 million;
- The $338.7 million FY2014 budget deficit is projected to be closed using the following measures: $84.7 million in expenditure reductions, including $24 million in healthcare savings; $101.1 million in revenue growth; $35.0 million in sweeping old accounts and funds; $34.2 million in targeted tax and fee increases; $30.3 million in TIF surplus and recapture; and $53.4 million in Corporate Fund fund balance; and
- Unfunded actuarial accrued liabilities for the City's four pension funds have grown by $14.3 billion or 264.8% from $5.4 billion in FY2003 to $19.8 billion in FY2012.

The Civic Federation **supports** the following elements of the City of Chicago's FY2014 budget:

- Continuing to reduce the ongoing structural deficit;
- Phasing out the City's retiree healthcare subsidy;
- Creating an independent financial analysis office for the City Council;
- Allowing TIF districts to expire after fulfilling their funding needs and closing unsuccessful TIF districts for additional revenue;
- Increasing targeted tax and fees for additional revenue;
- Replenishing long-term asset lease reserves and establishing a Corporate Fund reserve fund via executive order; and
- Increasing TIF transparency by launching TIF data portal online.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2014 budget:

- The City faces an immediate pension crisis, which grows worse the longer action is delayed. The City's unfunded pension liabilities reached $19.8 billion as of FY2012;
- Next year the City faces a $590 million increase in its statutory pension contributions, exacerbating its ongoing structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time;
- The City is still using some one-time revenue sources to close its budget deficits;
- Long-term liabilities continue to grow and the City has not articulated a plan to curb this growth;

- Bonded debt levels are high and debt service as a percent of total local fund appropriations is expected to reach 24.5% in FY2014. This represents $1.7 billion in debt service payments out of total local funds spending of $7.0 billion; and
- The City does not allocate shared Finance General expenses such as employee healthcare and pension payments to departments, making it difficult to assess the full cost of services provided by those departments.

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

- **Work with the State legislature to enact comprehensive pension reform specific for the City pension funds, including changing employer and employee contributions so that they relate to the funded status of the plans, reducing benefits for current employees and retirees, pursuing pension fund consolidation and reforming pension board governance;**
- Improve the City's debt management policy;
- Implement a Corporate Fund policy that builds budgetary reserves for future unanticipated costs;
- Formalize a TIF surplus policy that establishes rules for any surplus declaration;
- Implement a long-term financial planning process that includes the participation of the City Council and general public in order to overcome the issues that are poised to harm the City's fiscal future;
- Strengthen the capital planning process and develop a capital improvement plan that includes a comprehensive needs assessment;
- Measure the full unit cost of City services in order to evaluate their efficiency and possibly prepare the City for additional alternative service delivery opportunities by reporting Finance General costs for each department;
- Improve the budget document format by reporting the following items: prior years' actual expenditure and personnel data, consistent full-time equivalent position counts including grants and vacancies and all property tax levies including those levied by the City on behalf of the City Colleges of Chicago and Chicago Public Schools; and
- Encourage public participation by holding multiple stand-alone public hearings.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the proposed FY2014 City of Chicago budget of nearly $7.0 billion because it is a reasonable short-term plan that continues to reduce the City's ongoing structural deficit. The FY2014 budget closes approximately two-thirds of its $338.7 million budget gap with structural changes including operational efficiencies, moderate revenue growth and targeted tax and fee increases. The City has also made difficult long-term decisions, including modifying its subsidy for retiree healthcare for an estimated $24 million in savings in FY2014.

The City will continue to face significant challenges with an ongoing structural deficit, growing indebtedness and a required $590 million increase in its pension contributions next year. Although Mayor Rahm Emanuel has successfully reduced the structural deficit from the $635.7 million gap he inherited in FY2012 to $338.7 million in FY2014, the pension crisis threatens to derail much of this progress.

The health of the City's pension funds are an immediate concern and can only be resolved with strong leadership by Mayor Emanuel and City Council, cooperation with relevant unions and engagement with the Illinois General Assembly.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2014 City of Chicago budget.

Continuing to Reduce the Ongoing Structural Deficit

On July 31, 2013 the City estimated a preliminary budget gap of $338.7 million for FY2014. An ongoing structural deficit remains, although it has been reduced from the $635.7 million projected for Mayor Rahm Emanuel's first budget in FY2012. The reduction is due in part to management reforms and operational efficiencies. The City proposes to close two-thirds of the $338.7 million budget gap with structural changes, including operational savings, moderate revenue growth from an improving economy and targeted tax and fee increases.

Phasing Out Retiree Healthcare Subsidy

The Civic Federation supports Mayor Emanuel's difficult decision to phase out the City's retiree healthcare subsidy. The Retiree Healthcare Benefits Commission released a report on January 11, 2013 noting that the City's annual payout for retiree health benefits was projected to increase from $194.4 million in FY2014 to $540.7 million in FY2023. Additionally, the federal Affordable Care Act has changed the healthcare landscape for retirees by increasing healthcare access to low-income households, those with pre-existing conditions and retirees not yet eligible for Medicare. As such, the City's plan to phase out its subsidy takes advantage of the federal law while freeing itself of growing healthcare costs.

The City faces billions of dollars in unfunded pension liabilities, growing debt-service obligations and demand for public services that outstretches reasonable revenue projections. Continuing to fund healthcare costs for retirees would likely have required cuts to existing City services or significant tax increases. The City projects budgetary savings of $24 million in FY2014, with additional savings in FY2015 and FY2016.

Creating an Independent Financial Analysis Office for the City Council

The Civic Federation commends the Mayor and members of City Council for proposing to create the City Council Office of Financial Analysis. In the Civic Federation's 2011 *Recommendations for a Financially Sustainable City of Chicago*, the Federation recommended that the City create an independent budget office for City Council. If approved, the office will give aldermen access to the independent information and analysis that they need to be effective stewards of the City's finances. The Civic Federation urges aldermen to vote in favor of creating the financial analysis office.

Allowing Tax Increment Financing Districts to Expire and Closing Unsuccessful Districts

The City is proposing to capture additional property taxes associated with two expiring tax increment financing (TIF) districts. When a TIF expires, the City can recover some revenue from the increment equalized assessed value (EAV) by adding it to the property tax levy. This allows the City to capture additional resources without increasing the tax burden on residents. Additionally, any surplus funds left in closed TIF district accounts will be distributed as one-time revenues to the City and overlapping taxing agencies.

The two expiring TIF districts are the Near West and Near South districts. The Near West TIF district expires at the end of 2013. In tax year 2012, the Near West district's increment EAV was $210.9 million, compared to the district's $36.8 million in frozen EAV. It generated $13.8 million in TIF revenue in tax year 2012. The Near South TIF district expires at the end of 2014. In tax year 2012, the Near South district's increment EAV was over $1.0 billion, an increase from the district's $128.5 million in frozen EAV. It had generated $65.3 million in TIF revenue in tax year 2012 or over 14% of the City of Chicago's total TIF revenue of $457 million.[1] The Civic Federation is encouraged that the City will allow these successful TIF districts to expire at the end of their 23-year life span and return the increment EAV to the tax base. Additionally, the City plans to close the underperforming 89th and State TIF district.

The Civic Federation supports the City's prudent monitoring of the 151 TIF districts and its decision to allow districts to expire once they have fulfilled their projected funding needs.

Increasing Targeted Tax and Fees for Additional Revenue

The Civic Federation supports moderate revenue increases such as rates for fines and permits. Increases in these recurring revenue sources are preferable to broad-based tax increases and are far better than using one-time funds from asset lease reserves, as the City did between FY2005 and FY2011. In addition, the City proposes to balance the increases in recurring non-tax revenues with expenditure reductions and operational efficiencies, as it has over the past few years.

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[1] Cook County Clerk, Tax Year 2012 Tax Increment Agency Distribution Summary and TIF District Summary - City of Chicago.

However, it is important to note that some fines and taxes, including the cigarette tax, may affect behavior and should not be considered a reliable source of revenue over the long-term. In addition, increases in the cigarette tax rate reduce revenues for other local governments, as the City noted when the State of Illinois and Cook County increased their portion of the cigarette tax rate, resulting in reduced revenues for the City.[2]

Replenishing Long-Term Asset Lease Reserves and Establishing a Corporate Fund Reserve Fund via Executive Order

In addition to ending the practice of transferring principal from its long-term asset lease reserves, the Civic Federation commends the City for its very positive moves toward replenishing some of these reserves. The FY2014 Proposed Budget includes transferring $5 million to its parking meter long-term reserve fund in addition to the FY2013 transfer of $15 million and the FY2012 transfer of $20 million. The reserve fund was nearly depleted from its initial $400 million deposit in FY2009 to $80 million in FY2011, and is now expected to increase to $120 million in FY2014. The additional funds will allow the reserve fund to generate more interest that could then be transferred to the Corporate Fund.

On October 22, 2013, Mayor Emanuel signed an executive order that provides a mechanism to build the City's unrestricted Corporate Fund reserves.[3] For every budget, the order instructs the City's Budget Director to identify the amount of the previous year's Corporate Fund fund balance, and then calls for the transfer of at least 10% of that balance into the City's Corporate Fund reserves for unanticipated future needs. For many years, the Civic Federation has called upon the City of Chicago to set aside funds in its Corporate Fund for contingencies. The Federation believes this initiative to build spending discipline into the budget process and create a budget reserve is commendable.[4]

Increasing TIF Transparency with TIF Portal

The Civic Federation commends the City for launching the Tax Increment Financing (TIF) Portal on its website on July 19, 2013 and the City Council for passing the TIF Accountability Ordinance on July 23, 2013. The online portal allows users to navigate geographically-based representations of TIF districts. The portal includes TIF project data by map, including descriptions of the purpose of the district, investments that have been made and approved by the City Council, redevelopment projects approved by the City Council and links to important documents, such as the establishment ordinance, annual reports and revenue projection data.[5] The ordinance builds on the 2009 TIF Sunshine Ordinance and calls for additional information about private projects funded by TIF revenue to be made available to the public by July 1, 2014 in an online, searchable format. The Federation supports the City's efforts to increase transparency in its TIF program.

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[2] City of Chicago, Annual Financial Analysis 2013, p. 14.
[3] Executive Order No. 2013-2 (Rainy Day Fund).
[4] The language of the Executive Order is somewhat vague, but the City's budget office has confirmed that the Order's intention is to build unrestricted Corporate Fund reserves. Communication with City of Chicago budget office, November 11, 2013.
[5] City of Chicago, Office of the Mayor, "Mayor Emanuel Launches New TIF Portal Detailing Economic Development Projects Across the City," July 19, 2013.

Civic Federation Concerns

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

Pension Funding Crisis

The City faces a severe pension funding crisis as all four funds' funding levels dropped again in FY2012. The Police and Fire pension funds were only 31.4% and 25.4% funded on a market value basis; the funded ratio for the Municipal Fund was 38.0% and the Laborers Fund was 57.7%. A funded ratio below 80% is a cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time. In addition to shortfalls in investment returns, the City's pension crisis has been caused largely by consecutive years of contributions that fulfilled statutory requirements, but were insufficient for the level of benefits promised.

Over the past 10 years, the unfunded liabilities of the four pension funds combined have grown by $14.3 billion or 264.8%. The total unfunded liabilities reached $19.8 billion in FY2012, of which $8.6 billion was in the Municipal Fund followed by the Police Fund with $7.1 billion.

Public Act 96-1495, enacted in December 2010, will require the City to begin making contributions to its Police and Fire pension funds in 2015 that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. Pursuant to this legislation, the City's total required pension contribution for all four pension funds will increase from $478.3 million in FY2014 to nearly $1.1 billion in FY2015. Since the property tax levy is the primary source of revenue for the City's contributions to the pension funds, the levy would have to be significantly increased from its current $824.0 million level to cover the additional costs or crippling cuts would have to be made to City services, or both. Meanwhile, without reform, the Municipal and Laborers' Funds are projected to run out of funds within 10 to 20 years.

The pension funding crisis demands immediate attention from Mayor Emanuel and the City Council. Unfortunately, there are no easy fixes and any solution will require sacrifices on the part of employees and citizens alike. There is much work to be done and our State legislature needs more specific encouragement by members of the City Council and the administration to take the necessary actions for the City's fiscal stability.

Ongoing Structural Deficit

In its *Annual Financial Analysis 2013*, the City projected that without changes to expenditures and revenues and without comprehensive pension reform, its Corporate Fund deficit would grow to nearly $1.0 billion in FY2015 and nearly $1.2 billion in FY2016. These projections assume that expenditures grow at an average annual rate of 3.7% and that revenues grow by 2.0% in 2014 and hold even in 2015. The main driver of the increasing deficit is the $590 million increase in statutory pension contributions in FY2015.

The City has made considerable efforts to reform its operations through management efficiencies and innovative programs in the past three years. However, due in large part to the City's use of one-time revenue sources to prop up its operating expenses, the imbalance between operating expenditures and recurring revenues has not been eliminated. The $590 million increase in pension contributions scheduled for next year will only exacerbate this imbalance further.

Use of One-Time Revenue Sources

As in past years, the City is proposing to close its $338.7 million budget gap with some one-time revenue sources, including $53.4 million of Corporate Fund fund balance, $35.0 million of old fund and account sweeps and approximately $8.7 million of tax increment financing (TIF) surplus. Over the past three years, the City has included prior year Corporate Fund fund balance as appropriable resources for the upcoming fiscal year instead of building budgetary reserves. Having a healthy level of budgetary reserves is imperative to managing the City's risk effectively and is needed for unexpected costs.

Although the City is prudently monitoring surplus TIF funds and sweeping old accounts for additional revenues, these one-time revenue sources may not be available next year. The proceeds from these initiatives should not be used to cover operating expenditures, but would be more prudently dedicated to reducing long-term liabilities, building reserves or making capital investments. The structural deficit that remains will require the City to make additional cuts or tax increases next year, when the City additionally faces a $590 million increase in its statutory contribution to its pension funds.

The City has dramatically reduced its reliance on one-time revenue sources from years past, particularly the deleterious practice of raiding long-term asset lease reserves. However, the continued practice of using significant one-time revenue sources, especially budgetary fund balance, only exacerbates the ongoing structural deficit and leaves the City vulnerable when hit with unexpected costs.

Growing Long-Term Liabilities

Total long-term obligations increased by 48.5%, or $5.4 billion, between FY2008 and FY2012, the most recent years for which data is available. Long-term liabilities, which include net pension obligations,[6] lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 99.4%, or $3.7 billion. The single largest increase over the five-year period was for net pension obligations, which increased by 121.4%, or $3.5 billion. The steady increases in long-term obligations, particularly the large cumulative pension funding shortfalls, are a serious cause for concern.

High Bonded Debt Burden

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

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[6] Net pension obligations as reported in the audited financial statements are the cumulative difference between annual pension costs and the employer's contributions to its plans since reporting standards were modified per GASB Statement No. 27.

- Between FY2003 and FY2012, Chicago total net direct debt rose by 65.5% or $3.1 billion. This represents an increase from $4.8 billion in FY2003 to approximately $7.9 billion in FY2012. During the same time period, direct debt per capita increased from $1,657 per person to $2,945 per person.
- Between FY2003 and FY2012, direct debt from other overlapping governments combined increased by 45.2% while City of Chicago debt rose by 65.5%. Total direct debt from all eight major governments including Chicago rose by 53.4%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other overlapping governments in the region.
- Chicago's debt service appropriations in FY2014 are projected to be 24.5% of total local fund appropriations, or $1.7 billion out of expenditures of $7.0 billion. Since FY2010 debt service appropriations have risen by 37.7%, far outpacing the 13.6% increase in total appropriations. Ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[7]

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

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential that it account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees; materials and supplies; associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[8]

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

- Personnel Services;
- Contractual Services;
- Travel;
- Commodities and Materials; and
- Specific Purposes.

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

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

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

Corporate Fund personnel services included in Finance General are budgeted at $438.0 million for FY2014.[9] In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds. Pension Fund costs are budgeted in separate pension funds and not reflected in departmental programs or the Corporate Fund. The FY2014 proposed budget includes $478.3 million for pension funds.[10]

Civic Federation Recommendations

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

Implement Pension Reform

While comprehensive pension reform that will make the City's pension funds sustainable over the long-term has not passed the General Assembly, a bill passed on November 6, 2013 for the Park District that shows such reform is possible. The bill would enact significant pension reform for the Chicago Park District if it is signed into law by Governor Quinn.[11] The reforms include increases to the employer and employee contributions, increases to the minimum retirement age for Tier I employees and changes to automatic cost-of-living increases which would apply to current retirees. Mayor Emanuel applauded the General Assembly, referring to the legislation as "a balanced approach of reform and revenue."[12]

In May 2012, Mayor Emanuel offered a plan to reform pensions for employees of the City of Chicago, Chicago Public Schools and Chicago Park District during a hearing of the Illinois House of Representatives Personnel and Pensions Committee. The Civic Federation was supportive of the proposal, which provided a strong outline of a comprehensive, balanced solution that included shared sacrifice by retirees, current employees and eventually taxpayers. The proposed reforms aimed to reduce the unfunded liability for the City's four pension funds, Chicago Teacher's Pension Fund and Park District Pension Fund, which reached City's $28.2 billion in FY2012.

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[9] City of Chicago, FY2014 Budget Recommendations, p. 5.
[10] City of Chicago, FY2013 Budget Recommendations, pp. 429-432.
[11] Senate Bill 1523, House Amendments 3 and 4 of the 98th General Assembly.
[12] Greg Hinz, "Park District pension reform moves in Springfield," *Crains Chicago Business*, November 6-7, 2013.

Following a similar pension outline, Mayor Emanuel and leadership of the Chicago Police Sergeants' union agreed to a tentative contract that included pay raises and significant pension reforms. However, on March 11, 2013 rank-and-file union members rejected the contract by a large majority. The contract would have been the first significant step toward implementing Mayor Emanuel's pension reform framework and reducing the enormous costs of the City's pension system.

Though the Federation was supportive of the Mayor's 2012 framework, further details were needed on how each of the provisions of the plan will be phased in, their financial impact in terms of cost savings and what the governments' contributions will be going forward. The Civic Federation encourages the Mayor and City Council to develop their plan for reform and work with the General Assembly to pass it as soon as possible. The data for any future reform plan should be made available to the public.

The Civic Federation makes the following additional recommendations regarding the City's four pension funds:

<u>Do Not Push Back Pension Contributions and Funding Level Goals</u>

Facing a $590 million increase in the City's statutory pension contributions, in September 2013 Mayor Emanuel backed legislation that would have postponed the City's large pension contribution increase scheduled for FY2015.[13] Additionally, the legislation would have pushed the 90 percent funding level goal for police and fire pension funds to 2061.[14] The Civic Federation did not support this position and believes that any delay in resolving the pension crisis, including one that offers temporary relief for the City's funding requirements, would only further destabilize the pension funds and potentially push them to a point where they could not be saved. The cost of continued delay to taxpayers and beneficiaries of the pension funds is severe.

<u>Pursue Pension Fund Consolidation</u>

The Civic Federation recommends that the City study ways to consolidate its pension funds by, for example, merging the four funds into a single fund or by merging the Municipal and Laborers' funds with the Illinois Municipal Retirement Fund and merging the Police and Fire funds into a single Chicago Public Safety fund. It is difficult to understand how the maintenance of four separate pension funds is either beneficial to taxpayers or cost effective for the City of Chicago.

<u>Reform Pension Board Governance</u>

If the four City pension funds remain separate, the Civic Federation recommends that the composition of the pension boards of trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. Currently, the police and fire pension boards have an even four out of eight

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[13] House Bill 3088, Senate Amendment 2 of the 98th General Assembly.
[14] Fran Spielman, "Emanuel pension plan drawing fire from all sides," *Chicago Sun-Times*, September 26, 2013.

members represented by employees and retirees and four representing management. However, the Municipal pension board has a majority of three out of five members represented by employees and retirees and the Laborers' pension board has a majority of four out of six members represented by employees and retirees.[15] The pension boards should be further revised so that a tripartite structure is created that includes independent taxpayer representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[16]

Update the Debt Management Policy

The City of Chicago should update its debt management policy to ensure the most effective and fiscally prudent use of its long-term and short-term bonding authority.[17] The current debt management policy published in 2007 should be amended to prohibit the use of long-term refunding bonds to make current year principal payments, sometimes referred to as "scoop and toss" refinancing. The policy should also require level debt service payments for new bond issuances in order to prevent backloading of principal that can greatly increase the cost of borrowing and the total debt service owed by the City.

The City of Chicago has relied heavily for many years on unsustainable debt refinancing savings that balanced its current year operating budgets but also greatly increased its total long-term obligations. Although the Mayor's recommended FY2014 budget does not propose new refinancing, the budget benefits from more than $92.6 million in principal that was refunded in May 2012 and will not be repaid until FY2042. The additional interest cost of the bonds that would have been otherwise retired in FY2014 will total $150.9 million. Likewise, the FY2013 budget benefited from $41.2 million in refinanced principal from the same refunding that will cost an additional $67.1 million in interest over the next 30 years.

By extending the life of these bonds for 30 years, the City reaped current year savings in order to balance its operating budget but incurred additional interest payments totaling $218.0 million for the life on the refunding bonds. The City will also need to make the full payment in FY2042 when the $133.8 million in principal that was refinanced in FY2013 and FY2014 matures. In order to prepare for this increase and to avoid additional extension of this debt further into the future, the City should consider establishing additional debt service reserves that are set aside annually in order to reduce the impact of the increase in debt service. This will allow the city to continue to issue the capital debt necessary to maintain and upgrade critical government infrastructure despite the future liabilities already incurred to pay for current operating costs.

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[15] See Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on November 8, 2013).

[16] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf (last visited on February 9, 2011). See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on November 8, 2013).

[17] City of Chicago, *Debt Management Policy for the City for Chicago,* September 4, 2007. http://www.cityofchicago.org/content/dam/city/depts/fin/Bonds/debt_mgmt_policy.pdf (last visited November 12, 2013).

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

The State of Illinois is limited in its refinancing of bonds by a Constitutional provision barring "scoop and toss" structures that extend the life of outstanding principal and the City should adhere to a the same standard.[18] Similarly, the State has a level debt service provision in the General Obligation Bond Act. The City should include a comparable requirement in its own debt management policy.[19]

The Government Finance Officers Association recommends that all state and local governments formally adopt a comprehensive written debt management policy and provides guidance to the minimum standards and development of these documents.[20]

Implement Corporate Fund Fund Balance Policy and Build Reserves

On October 22, 2013, Mayor Emanuel signed an executive order that establishes a Corporate Fund reserve fund and directs the City's Budget Director to identify amounts of previous year Corporate Fund fund balance to be transferred to the corresponding reserve fund.[21] The Civic Federation urges the City's Budget Director to utilize this new Corporate Fund fund balance policy and build the City's budgetary reserves and additionally makes recommendations to improve the policy.

The Government Finance Officers Association (GFOA) recommends that each government set aside unrestricted funds equivalent to two months of expenditures or revenues. In FY2014 this amount would total roughly $548.2 million. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[22] The City does have reserves in the form of the $500 million Skyway Long-Term Reserve Fund and is making efforts to replenish its Parking Meter Long-Term Reserve Fund, with approximately $40 million in transfers over the past three years. While asset reserves have in the past been viewed favorably by bond ratings agencies, they are not Corporate Fund fund balance.

The City's past budgetary practices include budgeting all surplus from the City's prior years as an available revenue, instead of building a true fund balance available for contingencies. The

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[18] Illinois State Constitution, Article IX, Section 9, clause (e).
[19] 30 ILCS 330/9.
[20] Government Finance Officers Association, *Best Practices: Debt Management Policy (1993, 2003, 2012) (Debt)*, October 2012.
[21] Mayor Rahm Emanuel. "Executive Order No. 2013-2 (Rainy Day Fund)," Executive Order 2013-2, October 22, 2013.
[22] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

City will include $53.4 million of prior year Corporate Fund resources as part of its FY2014 available resources to be appropriated. This is a continuation from $177 million in FY2013 and $143 million in FY2012. In other words, the City has previously budgeted the entirety of its Corporate Fund resources to cover its upcoming expenses rather than putting aside a set amount of unrestricted funds for emergencies.

Having a healthy level of budgetary reserves is imperative to managing the City's risk effectively. In addition to the positive step of the Executive Order establishing a method of building reserves, the City should set specific goals for the minimum level of unrestricted Corporate Fund fund balance that should be maintained. The City should also formalize guidelines on how and when budgetary fund balance can be used. The historical trend analysis and forecasts provided in the Long-Term Financial Plan will show whether or not the reserve targets are being met.

Formalize a TIF Surplus Policy

In FY2014 the City will declare a tax increment financing (TIF) surplus of $45-50 million and will receive $8.7 million as its share of the distribution of those funds. The administration proposes to use its share of funds to help address the City's budget deficit and will distribute the remaining surplus to overlapping taxing districts in compliance with State statute. This has become a regular practice over the past few years. Last year, the City received $6.7 million in TIF surplus. In FY2012 the City declared a surplus of $62.9 million in TIF districts and used $12.0 million as its share.[23] In FY2011 the City declared a surplus of $180.0 million and transferred $38.5 million to its Corporate Fund.[24]

Repeated accumulation and declaration of surplus in a TIF would raise concerns that the TIF does not need its revenue for redevelopment projects. Such a situation could indicate that either the TIF does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF so that their EAV may be returned to the general tax base.

With the guidance of the TIF Reform Panel, the City has taken a number of steps to improve the transparency and efficiency of the TIF program, including aligning TIF investments with a multi-year economic development plan and creating the TIF data portal online.[25]

The Federation encourages the City to continue its efforts toward better monitoring its TIF districts and increasing transparency. Press reports have indicated that the City is working on a TIF Surplus Executive Order.[26] The Federation recommends that the City formalize a TIF surplus policy as soon as possible. The TIF policy should address the concerns raised above by developing a more systematic way to evaluate and utilize any surplus funds. A formalized policy will help area local governments that receive portions of TIF surplus budget surplus more effectively.

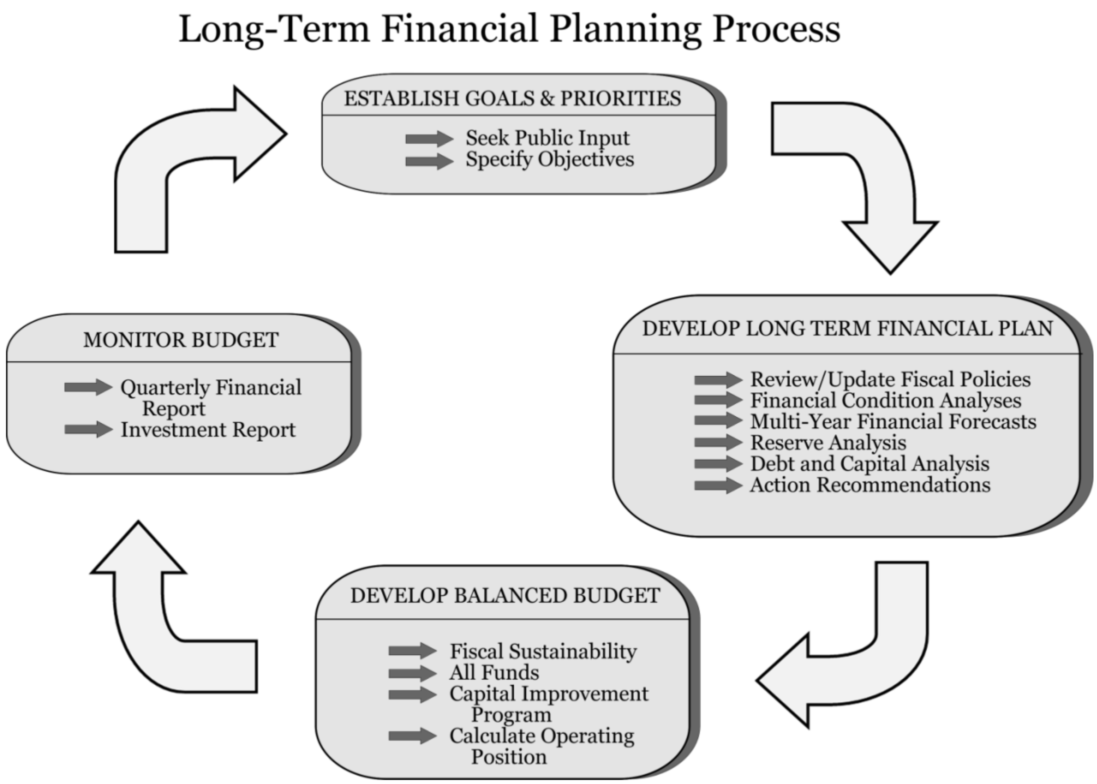
[23] City of Chicago, Annual Financial Analysis 2012, p. 71.
[24] City of Chicago, FY2011 Budget Overview, p. 61.
[25] http://webapps.cityofchicago.org/ChicagoTif/
[26] Fran Spielman, "Critics not impressed with mayor's new TIF pledge," *Chicago Sun-Times,* Ocotber 12, 2013. http://www.suntimes.com/news/cityhall/23097275-418/critics-not-impressed-with-mayors-new-tif-pledge.html

Implement a Formal Long-Term Financial Plan

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was as an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice, such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[27]

[27] Government Finance Officers Association, “GFOA Best Practice: Long-Term Financial Planning,” (2008).

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[28] First, the Mayor and his administration will articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan will evaluate financial and service data in order to determine how to accomplish the goals and priorities. It will include a review of the City's financial policies, a financial condition analysis that presents 10 years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced City of Chicago budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.



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

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.

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

3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

Strengthen the Capital Budgeting and CIP Process

As part of the Building a New Chicago initiative launched in 2012, the City has released a FY2013-FY2017 Capital Improvement Program (CIP) that focuses on plans for City-owned infrastructure and facilities.[29] This comes after a one-year hiatus; no CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

The Civic Federation urges the City to: (1) develop and submit to the City Council for approval capital planning related financial policies, (2) strengthen the City's CIP by including an objective needs assessment and (3) adopt a formal capital budget.

The Government Finance Officers Association (GFOA) recommends that jurisdictions adopt policies to inventory and assess the condition of all major capital assets. It also recommends that governments adopt a long-range financial planning policy that considers the implications of capital budgets.[30] The Mayor should present and the City Council should adopt financial policies in order to provide staff with clear criteria on how to assess capital assets and rank capital projects.

The City's previous CIPs have included descriptions of the needs assessment and project selection criteria used for each program area, but how well individual projects meet the selection criteria was not outlined and the overall state of the City's assets was not described. The CIP has stated that when funding constraints occur, projects were eliminated based on (1) departmental priority, (2) needs of the program area, (3) effect of the project on operating budget and (4) comments received.[31] The GFOA recommends using a rating system to facilitate decision making in capital planning.[32] The CIP should utilize a rating system to determine which projects

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[29] The FY2013-2017 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2012%20Budget/2013-17CIP.pdf.
[30] Government Finance Officers' Association, "GFOA Best Practice: Adoption of Financial Policies," (2002).
[31] City of Chicago, 2010-2014 Capital Improvement Program, p. 4.
[32] Government Finance Officers' Association, "Preparing and Adopting Multi-Year Capital Planning," (2006).

get eliminated based on the adopted financial policies. The CIP should transparently outline how the rating scale is applied to programs and/or projects.

The Government Finance Officers Association also recommends that governments prepare and adopt a formal capital budget as part of their annual or bi-annual budget process. It recommends that the capital budget be adopted by a formal action of the legislative body, either as a component of the operating budget or as a separate capital budget. The capital budget should be directly linked to and flow from the CIP.[33] It is common practice for governments to adopt a capital budget in addition to the CIP. For example, both New York and Los Angeles have capital budgets that are adopted by their City Councils.

Measure Finance General Costs for City Departments

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[34]

Improve Budget Format

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

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

The Budget Overview and Revenue Estimates book includes actual revenue data for five prior years, as well as a year-end estimate and the budget projection in the "Budget Details" section. This is important historical information and a critical feature of the budget presentation. The Civic Federation urges the Budget Office to also provide actual data for the expenditures and personnel parts of the "Budget Details." Currently only the appropriated, not actual, figures for prior year expenditures and personnel are provided.

Provide Revenue Data in an Electronic Format

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

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[33] Government Finance Officers Association, "GFOA Best Practice: Incorporating a Capital Project Budget in the Budget Process," (2007).
[34] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service" (2002).

Consistently Report Full-Time Equivalent Positions

The budget documents do not consistently show the total number of full-time equivalent positions in all areas of the documents, including filled positions and vacancies. Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position. The FTE count includes full-time, part-time, seasonal and hourly wage earners. The City made an important step last year by providing current and historical FTE counts in its FY2013 Budget Overview. However, the FY2014 Budget Recommendations, which is the document to be voted on by the City Council to become the FY2014 Appropriations Ordinance, still provides position count by full-time positions only (both filled and vacant). Meanwhile, the Budget Recommendations provide personnel services appropriations that reflect expenses for full-time equivalent positions, including personnel-related expenses such as pension and healthcare costs. As such, the number of employees per fund is not an entirely accurate reflection of the costs associated with their employment per fund. The Civic Federation recommends that the City revise its budget documents to accurately and consistently reflect the number of individuals employed by the City as well as the total number of full-time equivalent positions needed to provide City services across all departments, including grant-funded positions.

Report All Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and the Chicago Public Schools. These levies are legal, but the transactions are not transparent. The City provides insufficient narrative information about the levies in its budget. City Colleges provides the amount of property taxes levied by the City on the District's behalf in its budget books.[35]

The Civic Federation believes that it is important for taxpayers to clearly understand what public services they are paying for and which governments receive and spend their monies. Governments must clearly present a complete picture of their revenues and expenses. We urge the City of Chicago to improve the public disclosure of its arrangements with the City Colleges and the Chicago Public Schools in future budget documents.

Encourage Public Participation by Scheduling Multiple Stand-Alone Public Hearings

The Civic Federation urges the City Council to allow more time for adequate public participation by holding more than one public hearing as many other local governments do, including the Chicago Public Schools and Chicago Transit Authority. These hearings on the proposed budget should be separate from regularly scheduled City Council meetings at times and locations convenient to the public. The hearings should be held at least 10 working days after publication of the proposed budget and five working days before the City Council is scheduled to vote on the budget.

[35] See City Colleges of Chicago's FY2013 Tentative Annual Operating Budget, p. 38.

ACKNOWLEDGMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Lois Scott, Office of Budget and Management (OBM) Director Alexandra Holt, Chief Revenue Analyst Manmeet Taneja and their staffs to answer our questions about the budget.

FY2014 BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago projected a $338.7 million budget deficit for FY2014 in its *Annual Financial Analysis 2013* released on July 31, 2013.[36] The deficit was the result of a projected $23.8 million, or 0.8%, decline in Corporate Fund resources and a $137.9 million, or 4.3%, increase in Corporate Fund expenditures compared to the FY2013 year-end estimates.[37] In addition, the budget deficit was largely driven by the assumption that the City would not use fund balance from prior years as a source of revenue. The City now plans to allocate $53.4 million in Corporate Fund fund balance to close the gap. In FY2013 the City used $177.0 million of fund balance to balance its budget.

Total revenue, not including fund balance, is down slightly from FY2013, due in part to the elimination of the employee head tax in 2014. Additionally, since more personal property replacement tax (PPRT) revenues are being allocated to make pension contribution payments, fewer PPRT revenues are flowing into the Corporate Fund to provide funding for regular government operations. Expenditures are increasing primarily because of salary and wage increases tied to collective bargaining agreements. Healthcare costs are also contributing to the increasing expenditures in FY2014.

Gap-Closing Measures

The measures with which the City is proposing to close its budget gap are shown in the exhibit below. The City's FY2014 Budget Overview book includes a summary on page four that states that the projected Corporate Fund budget gap of $338.7 million will be closed with $84.7 million in expenditure reductions and government reforms, including $26 million in personnel savings. The remaining $254.0 million will come from revenue growth and enhancements and one-time revenue sources.

While the City has dramatically reduced its reliance on one-time revenue sources, a significant percentage of the FY2014 budget gap will be closed with non-recurring resources including $53.4 million in Corporate Fund fund balance and $35.0 million of old fund and account sweeps. The City will also allocate a portion of the $30.3 million in revenue from tax increment financing (TIF) surplus and value capture. TIF surplus is excess money within the TIF districts' funds that is calculated annually after all obligations are met. The City declares the surplus and distributes to overlapping governments. Value capture occurs when a TIF expires or is closed and the City recovers some revenue from the increment equalized assessed value (EAV) by adding it to the

[36] The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap annually calculated by the City each summer. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.
[37] City of Chicago, 2013 Annual Financial Analysis, pp. 47-51.

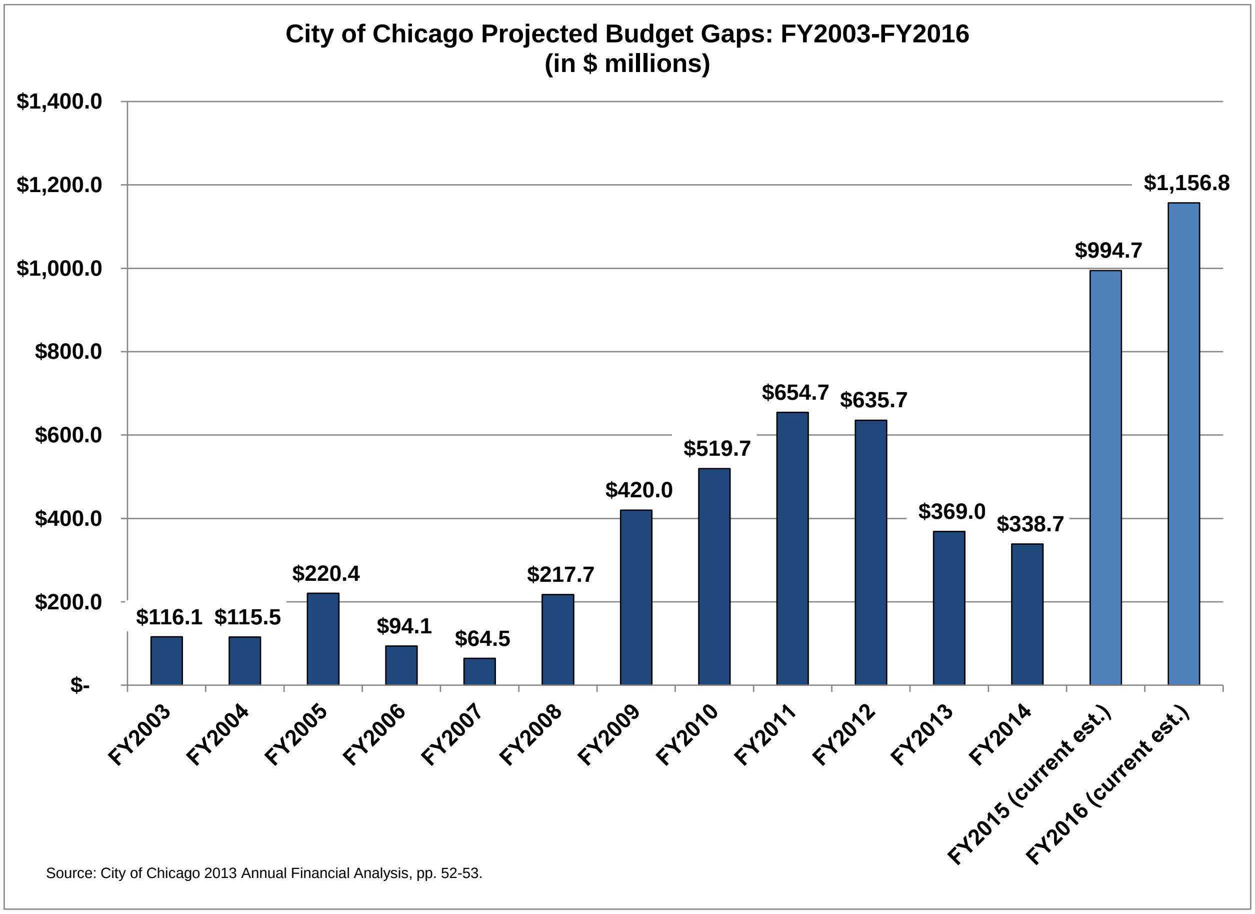
property tax levy. This allows the City to capture additional resources without increasing the tax burden on residents. The value capture from expiring or eliminated TIFs will result in recurring revenue for the City; however, the TIF surplus will serve as a one-time source of revenue.

City of Chicago FY2014 Gap-Closing Measures (in $ millions)		
Expenditure Reductions		
2013 Non-Personnel	$	40.0
Improved Fiscal Management	$	18.7
Personnel Savings	$	26.0
Total Expenditure Reductions	$	84.7
Revenue Increases		
Revenue Growth	$	101.1
Sweeping Aging Accounts & Funds	$	35.0
Revenue Enhancements	$	34.2
TIF Reform	$	30.3
2012 & 2013 Surplus	$	53.4
Total Revenue Increases	$	254.0
Total	**$**	**338.7**

Source: City of Chicago FY2014 Budget Overview, p. 4.

Historical Trend of Projected Budget Gaps

The City of Chicago's projected budget gaps have grown from $116.1 million for FY2003 to $338.7 million for FY2014, including highs of $654.7 million for FY2011 and $635.7 million for FY2012. In its *Annual Financial Analysis 2013* document, the City projects that its Corporate Fund deficit will grow to $994.7 million in FY2015 and nearly $1.2 billion in FY2016 under a continuation of current revenue and expenditure trends. These projections assume that expenditures grow at a rate of 3.7% and that revenue would grow at a lower rate of 2.0% over the next two years. The City also includes two alternative projections with higher or lower revenue growth estimates.[38] The sharp rise in projected budget deficits in FY2015 and FY2016 is the result of a significant increase in the City's statutory contributions to the Police and Fire pension funds beginning in FY2015. The City's pension contributions are expected to increase from approximately $480 million in FY2013 to over $1.0 billion in FY2015 and FY2016.[39] These projections demonstrate that if nothing is done in FY2014 to change the structural gap between ongoing revenues and expenditures, the City will face larger gaps in the future.



[38] City of Chicago, 2013 Annual Financial Analysis, pp. 51-54.
[39] City of Chicago, 2013 Annual Financial Analysis, pp. 51-52.

UPDATE ON *RECOMMENDATIONS FOR A FINANCIALLY SUSTAINABLE CITY OF CHICAGO*

On June 30, 2011 the Civic Federation released *Recommendations for a Financially Sustainable City of Chicago*. The report offered a comprehensive set of forty recommendations to improve the City's long-term fiscal condition. The reforms could be implemented in the first few fiscal years of the new administration and covered a wide array of functions from pensions to public safety.

This section of the analysis provides an update to the Federation's report by analyzing the City of Chicago's progress on each recommendation with an updated index of all forty recommendations and their current status and identifying where the City has failed to take action. Details on the City's progress for recommendations where action has been taken are included in Appendix A on page 96. To determine the status of the recommendations, the Civic Federation has reviewed the City's *Annual Financial Analysis* reports, first-year progress report and other documents prepared by the Mayor's office, monitored City Council meetings and media reports and analyzed the City's budgets. The Federation uses cost savings estimates either provided by the City of Chicago or calculated from the City's approved Appropriations Ordinances.

In the past two years, Mayor Rahm Emanuel has produced three budgets and has implemented initiatives that reflect significant progress on recommendations made by the Civic Federation. Some cost savings reforms include major expenditure reductions in personnel as a result of phasing out the City's subsidy of retiree healthcare and vacancy eliminations, including eliminations in the public safety departments. Initiatives that have increased operational efficiencies include reducing the number of required business licenses and inspections in the City, pursuing managed competition for recycling and other city services and implementing grid-based garbage collection. The Federation strongly supports the proposed creation of the City Council Office of Financial Analysis, which if approved in FY2014, will give City Council members the independent analysis they need to be effective stewards of the City's finances. The Federation also commends the Mayor for addressing the City's aging water infrastructure and increasing public works coordination between the City's departments and across unit governments. However, despite these achievements, the City still faces enormous financial challenges with its pension liabilities and long-term debt.

The Civic Federation is deeply concerned by the continued lack of action taken to address the sustainability of the City's four employee pension funds. Next year, the City faces a $590 million increase in its statutory contribution to its four pension funds. Although the Mayor presented his own vision of pension reform for the City to the Illinois General Assembly in 2012, the subsequent lack of action on the part of the legislature and the City is a serious cause for concern. The pending fiscal crisis is an immediate concern for all taxpayers and can only be resolved with strong leadership, cooperation with relevant unions and engagement with the Illinois General Assembly.

The chart below shows the current status of the forty Civic Federation recommendations. For descriptions of efforts made by the City since FY2011 that relate to these recommendations, see Appendix A on page 96 of this report.

Update to Recommendations for a Financially Sustainable City of Chicago

	Civic Federation Recommendation	Status as of November, 12 2013
Personnel		
1	Develop a Plan to Reduce Personnel Count and Expenses	Significant Progress
Pension Funds		
2	Reduce Pension Benefits Not Yet Earned By Current Employees	Some Progress
3	Increase Employer and Employee Pension Contributions	Some Progress
4	Pursue Pension Fund Consolidation	No Action
5	Reform Pension Board Governance	No Action
6	End the City Subsidy of CPS' Employer Contribution to the Municipal Pension Fund	No Action
Retiree Health Care		
7	Create an Independent Retiree Health Care Trust Fund	Significant Progress*
Police and Fire Departments		
8	Conduct an Evaluation of the Police Department for Potential Cost Savings	Significant Progress
9	Conduct an Evaluation of the Fire Department Staffing Structure and Deployment	Some Progress
Procurement		
10	Pursue Strategic Sourcing	Some Progress
11	Improve Procurement Performance Metrics	Some Progress
12	Standardize Contracts	Some Progress
13	Improve Bill Payment Procedures and Incorporate E-Procurement	No Action
14	Pursue the Previously Proposed Waste Franchising Initiative	No Action
Infrastructure		
15	Reorganize the City's Infrastructure Departments	Some Progress
16	Implement a Comprehensive Right-of-Way Management Program	Some Progress
17	Centralize Inspection Services	Some Progress
Water and Sewer Enterprise Funds		
18	Develop a Water Management Plan	Significant Progress
Alternative Service Delivery		
19	Create an Alternative Service Delivery Policy	Some Progress
20	Restart Bidding Process to Implement a Public Private Partnership for Midway Airport	Significant Progress*
21	Pursue Revenue Collection and Enforcement Opportunities with Cook County	Significant Progress
Tax Increment Financing (TIF)		
22	Enhance TIF Reporting	Significant Progress
23	Limit Declaration of TIF Surplus	Some Progress
24	Complete a Comprehensive Review of Chicago's TIF Program	Implemented
25	Develop a Formal Policy on Tax Increment Financing	Some Progress
Public Health Department		
26	Re-evaluate the Clinical Services of the Department of Public Health	Significant Progress
Surplus Vacant Property and Assets		
27	Create a Strategic Plan to Manage Surplus Vacant Property and Assets	Some Progress
Chicago City Council		
28	Eliminate Ward Based Service Delivery	Significant Progress
29	Reduce the Size of the City Council	No Action
30	Create a Policy Analysis Office for the City Council	Significant Progress
Chicago Board of Elections Commissioners		
31	Transfer the City of Chicago's Election Function to Cook County	Some Progress
Chicago City Clerk and City Treasurer		
32	Reform the Offices of the City Clerk and the City Treasurer	No Action
Budget Process and Format		
33	Measure and Budget the Full Cost of City Programs	No Action
34	Expand the City's Online Data Portal	Some Progress
35	Add Additional Expenditure and Revenue Data in the Budget	No Action
36	Increase Transparency of Property Taxes Controlled by the City and Provided to the City Colleges and Chicago Public Schools	No Action
37	Improve Budgeting of Grant Funds	Some Progress
38	Reform the Capital Budgeting Process and CIP	Some Progress
39	Develop a Long-Term Financial Plan	Some Progress
40	Enhance City's Budget Process	Some Progress

*Actions taken by the City meet requirements for the "Significant Progress" designation, but may not have been ultimately successful or may be different from what the Civic Federation recommended. See Appendix A for details.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2014 as compared to adopted appropriations for FY2013 and adopted and actual expenditures when available for FY2010 through FY2012. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. Local funds include the Corporate Fund, Water Fund, Vehicle Tax Fund, Motor Fuel Tax Fund, Sewer Fund, Airport Funds (Chicago Midway and Chicago O'Hare Airport Funds), Pension Funds and All Other Local Funds.[40] Local funds do not include grant funds.

Appropriation Trends by Fund for Local Funds

The FY2014 budget projects that net appropriations for all funds will increase by 6.6% to nearly $7.0 billion from FY2013 adopted appropriations of $6.5 billion. Appropriations for the Corporate Fund will increase by 4.0%, or $127.4 million, from approximately $3.2 billion in FY2013 to nearly $3.3 billion in FY2014.

The Special Revenue Fund, which includes appropriations for operations of and revenue generated for specific activities that require special accounting procedures, will increase by 8.0% from FY2013.[41] Appropriations for the Debt Service Fund will increase by 12.6%, or $89.1 million. Enterprise Fund appropriations, which are for business-type operations that are typically self-supporting and include appropriations for the two airports, water and sewer operations, are increasing by 9.1%, or $192.1 million, over the two-year period. Pension Fund appropriations will decrease slightly, by 0.2%, or $1.1 million. Appropriations in the Pension Funds typically reflect changes in payroll from two years prior since, per state statute, the City's pension contributions are a multiple of employee payroll deductions made two years prior.

Net appropriations are projected to rise by 16.9%, or $1.0 billion, in the five-year period since FY2010. The largest percentage increase, 33.9%, is projected to be in appropriations for the City's Debt Service Fund. Corporate Fund expenditures are expected to rise by 6.2%, from approximately $3.1 billion in FY2010 to nearly $3.3 billion in FY2014.

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[40] See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2013 & FY2014* and *City of Chicago All Local Fund Appropriations by Fund: FY2010-FY2014* for further detail.
[41] City of Chicago FY2014 Budget Overview, p. 154.

Enterprise Fund appropriations will increase by 26.9%, or $487.7 million between FY2010 and FY2014 due in part to increases in costs to the Airport Funds and Sewer and Water Funds. Appropriations in Airport Funds over the five-year period will increase for repair, maintenance and operational needs predominately related to capital improvement projects for the O'Hare Modernization Project.[42] Appropriations to the Sewer Fund and Water Fund will increase in FY2014 to pay for the City's continued overhaul of its water and sewer systems.[43]

City of Chicago Appropriations by Fund for Local Funds: FY2010-FY2014 (in $ millions)

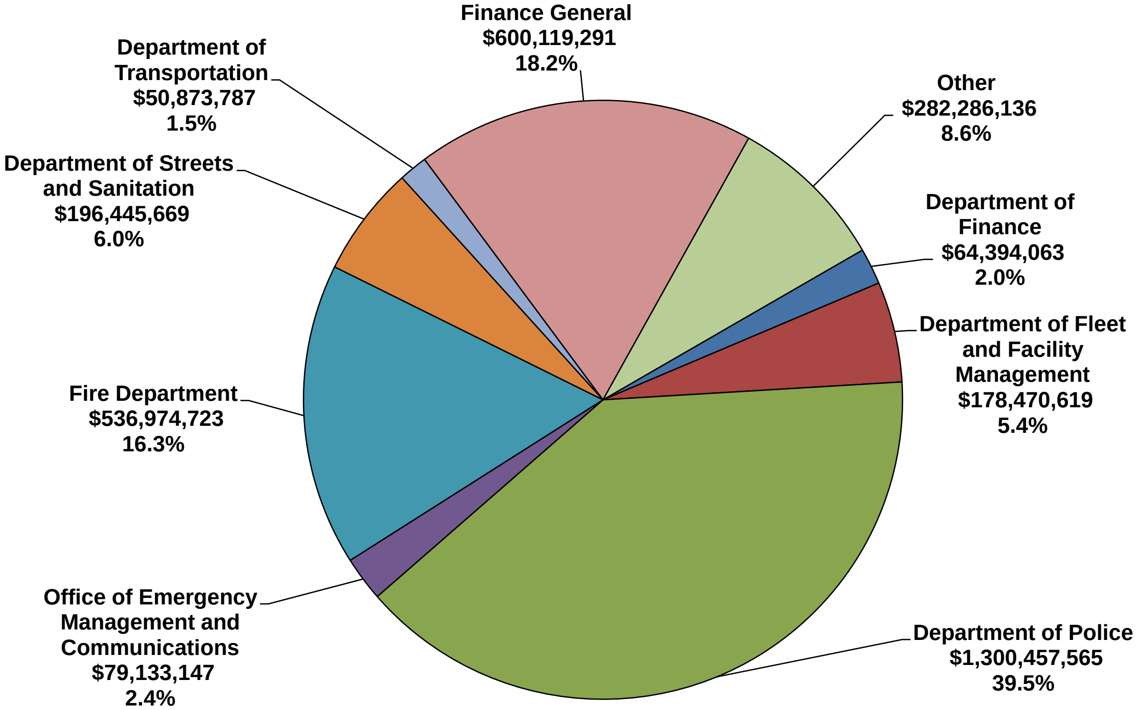
	FY2010 Year-End Estimate	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,098.3	$ 3,263.7	$ 3,098.4	$ 3,161.8	$ 3,289.2	$ 127.4	4.0%	$ 190.9	6.2%
Special Revenue Fund	$ 419.6	$ 445.6	$ 473.2	$ 484.4	$ 523.0	$ 38.6	8.0%	$ 103.4	24.6%
Pension Funds	$ 458.9	$ 450.5	$ 476.4	$ 479.4	$ 478.3	$ (1.1)	-0.2%	$ 19.4	4.2%
Debt Service Fund	$ 595.6	$ 584.9	$ 646.6	$ 708.3	$ 797.4	$ 89.1	12.6%	$ 201.8	33.9%
Enterprise Fund	$ 1,812.4	$ 1,822.6	$ 2,001.6	$ 2,108.0	$ 2,300.1	$ 192.1	9.1%	$ 487.7	26.9%
Total Resources	**$ 6,384.8**	**$ 6,567.3**	**$ 6,696.2**	**$ 6,941.9**	**$ 7,388.0**	**$ 446.1**	**6.4%**	**$ 1,003.2**	**15.7%**
Less Proceeds of Debt	$ (70.4)	$ (70.4)	$ (70.5)	$ (72.3)	$ (95.0)	$ (22.7)	31.4%	$ (24.6)	34.9%
Less Internal Transfer	$ (346.9)	$ (344.4)	$ (330.3)	$ (324.5)	$ (316.0)	$ 8.5	-2.6%	$ 30.9	-8.9%
Net Appropriation	**$ 5,967.5**	**$ 6,152.5**	**$ 6,295.4**	**$ 6,545.1**	**$ 6,977.0**	**$ 431.9**	**6.6%**	**$ 1,009.5**	**16.9%**

Note: Excludes grant funds. FY2011-FY2013 adopted figures are used because year-end estimates or actuals are not available.
Source: City of Chicago, Budget Overview and Revenue Estimates, FY2010-FY2011 and Budget Overviews, FY2012-FY2014.

[42] City of Chicago, 2013 Annual Financial Analysis, p. 31.
[43] City of Chicago, 2013 Annual Financial Analysis, pp. 32-33

The following chart illustrates FY2014 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of total Corporate Fund appropriations.[44] Public Safety, which consists of the Police and Fire departments and the Office of Emergency Management and Communications, represents 58.3% of the Corporate Fund. Finance General appropriations represent 18.2% of the Corporate Fund and consist of employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[45]

City of Chicago FY2014 Proposed Corporate Fund Appropriations by Department



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Housing and Economic Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
Source: City of Chicago, FY2014 Budget Recommendations, Summary D.

[44] See note in figure *City of Chicago FY2014 Proposed Corporate Fund Appropriations by Department* for complete list of the departments included in the Other category.
[45] City of Chicago, FY2014 Budget Overview, p. 131.

The following chart shows five-year trends of Corporate Fund appropriations that have been allocated for Public Safety. Between FY2010 and FY2014, appropriations for Public Safety as a share of Corporate Fund appropriations will decline slightly from 59.8% to 58.3%. In the five-year period, appropriations for Police will increase by $66.9 million, or 5.4%, while Fire Department appropriations will increase by $58.2 million, or 12.2%. Spending for the Office of Emergency Management and Communications will increase minimally by $1.0 million, or 1.3%.

City of Chicago Corporate Fund
Public Safety as % of Total Corporate Fund Appropriations: FY2010-FY2014
(in $ millions)

Department	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Five-Year $ Change	Five-Year % Change
Police	$ 1,233.6	$ 1,304.6	$ 1,285.9	$ 1,285.9	$ 1,300.5	$ 66.9	5.4%
Office of Emergency Management and Communications	$ 78.1	$ 89.3	$ 83.1	$ 83.1	$ 79.1	$ 1.0	1.3%
Fire Department	$ 478.7	$ 483.4	$ 537.0	$ 537.0	$ 537.0	$ 58.2	12.2%
All Other Departments	$ 1,202.7	$ 1,386.3	$ 1,152.4	$ 1,152.4	$ 1,372.6	$ 169.9	14.1%
Total Corporate Fund Appropriations	**$ 2,993.2**	**$ 3,263.7**	**$ 3,058.4**	**$ 3,161.9**	**$ 3,289.2**	**$ 296.0**	**9.9%**
Public Safety as % of Total	**59.8%**	**57.5%**	**62.3%**	**58.9%**	**58.3%**		
All Other Department as % of Total	**40.2%**	**42.5%**	**37.7%**	**41.1%**	**41.7%**		

Note: Police includes Police Board, Independent Police Review Authority and Department of Police.
Source: City of Chicago, FY2012-FY2014 Budget Recommendations, Summary F.

Appropriation Trends by Object

In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures by object were not available. The FY2014 City of Chicago budget proposes a net appropriation of nearly $7.0 billion, excluding projected grant funds. This is an increase of 6.7%, or $435.2 million, from the FY2013 adopted appropriation of $6.5 billion. Travel appropriations will decrease by 1.5% over the two-year period while all other appropriations by object will increase or remain level.

Appropriations for Specific Items and Contingencies will rise by the greatest dollar amount, increasing by $304.7 million, or 11.2%. This category includes payments for torts and non-tort judgments, outside counsel expenses and expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams.

Despite the City's efforts to reduce personnel costs through eliminating vacancies and instituting a rolling hiring freeze, Personnel Services appropriations will increase by $105.1 million, or 3.2%, to $3.3 billion.[46] Contractual Services will rise by $18.4 million, or 2.6%. These services include information technology costs, waste disposal fees, property rental, custodial services for City facilities and contracts for landscaping, engineering and other professional services.[47]

Appropriations for Commodities and Equipment will increase by $20.3 million, or 8.7%, and $1.0 million, or 6.5%, respectively. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies. The budgeted spending for Permanent Improvement and Land will remain level at $2.9 million in FY2014 where it has been since FY2010.

[46] City of Chicago, FY2014 Budget Overview, p. 2.
[47] City of Chicago, FY2014 Budget Overview, p. 21.

Over the five-year period from FY2010 to FY2014, net appropriations will rise by $870.9 million, or 14.3%. Specific Items/Contingencies will experience the greatest increase in dollar amount, rising by $653.6 million, or 27.5%, due primarily to increases in capital financing and debt service requirements. Approximately $275.0 million of the increase will occur in the Water and Sewer Funds to pay for the City's ongoing improvements to its water and sewer systems while approximately $140.0 million will fund capital improvements at O'Hare and Midway Airports. Another $175.0 million of the increase is attributable to debt service payments for sales tax revenue bonds and general obligation bonds. Approximately $20 million of the increase is due to pension contribution growth and approximately $30 million is the result of increasing Real Property Transfer Tax revenues, which are collected by the City and transferred to the Chicago Transit Authority each year.[48]

Personnel Services appropriations will increase by $160.7 million, or 5.0%, over the same period. Commodities appropriations will increase by $103.9 million, or 69.5%, from $149.4 million in FY2010 to $253.2 million in FY2014. Conversely, travel appropriations will decrease by $1.1 million, or 37.0%, falling from $3.0 million in FY2010 to $1.9 million in FY2014. Appropriations for Contractual Services will also decline over the five-year period, by $22.9 million, or 3.0%.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2010-FY2014 (in $ millions)

Object	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,187.9	$ 3,305.6	$ 3,204.1	$ 3,243.5	$ 3,348.6	$ 105.1	3.2%	$ 160.7	5.0%
Contractual Services	$ 761.5	$ 763.3	$ 652.2	$ 720.2	$ 738.6	$ 18.4	2.6%	$ (22.9)	-3.0%
Travel	$ 3.0	$ 2.7	$ 2.1	$ 1.9	$ 1.9	$ (0.0)	-1.5%	$ (1.1)	-37.0%
Commodities	$ 149.4	$ 143.5	$ 227.7	$ 233.0	$ 253.2	$ 20.3	8.7%	$ 103.9	69.5%
Equipment	$ 15.8	$ 14.6	$ 14.6	$ 15.1	$ 16.0	$ 1.0	6.5%	$ 0.2	1.5%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ -	0.0%	$ 0.0	0.4%
Specific Items and Contingencies	$ 2,373.1	$ 2,334.9	$ 2,589.6	$ 2,722.0	$ 3,026.7	$ 304.7	11.2%	$ 653.6	27.5%
Subtotal	**$ 6,493.6**	**$ 6,567.5**	**$ 6,693.3**	**$ 6,938.5**	**$ 7,388.0**	**$ 449.5**	**6.5%**	**$ 894.4**	**13.8%**
Less Internal Transfers	$ (317.0)	$ (344.4)	$ (330.3)	$ (324.5)	$ (316.0)	$ 8.5	-2.6%	$ 1.0	-0.3%
Less Proceeds of Debt	$ (70.4)	$ 70.4	$ (70.5)	$ (72.3)	$ (95.0)	$ (22.7)	31.5%	$ (24.6)	34.9%
Total	**$ 6,106.1**	**$ 6,293.6**	**$ 6,292.4**	**$ 6,541.7**	**$ 6,977.0**	**$ 435.2**	**6.7%**	**$ 870.9**	**14.3%**

Note: Adopted appropriations were used because actual expenditures by object were not available. Some differences may appear due to rounding.
Source: City of Chicago, Appropriation Ordinanaces, FY2010-FY2013 and FY2014 Budget Recommendation, Summary D.

Appropriation Trends 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. These departments include the Office of the Mayor and the Departments of Finance, Law, Human Resources, Procurement Services and Fleet and Facility Management.
- **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.

[48] Information provided by the City of Chicago Office of Budget and Management, November 11, 2013.

- **City Development** departments include the City's Department of Housing and Economic Development and Department of Cultural Affairs and Special Events, which handle community, economic, cultural and infrastructure development in the City.
- **Community Services** departments include the Department of Public Health and the Mayor's Office for People with Disabilities. These departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include the Department of Buildings, the Department of Business Affairs and Consumer Protection and the Office of the Inspector General.
- **Infrastructure Services** departments are responsible for the reconstruction of streets, sidewalks and bridges and the issuance of permits. These departments include Transportation and Streets and Sanitation.
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, which manages O'Hare and Midway Airports.
- **General Financing Requirements** are pension benefits, long-term debt payments, and other cross-departmental expenses.

In a comparison of FY2013 adopted and FY2014 proposed appropriations, spending by program area, including grant funding, will increase by $337.7 million, or 3.9%. Grant funds help provide services to City residents while relieving the operating budget. However, a government cannot be overly reliant on grants because grants are non-recurring revenue sources that are only available for fixed amounts of time. For program areas receiving grant funds, Infrastructure Services will increase by the greatest dollar amount, by $23.6 million, or 2.6%, primarily due to an increase in grants of $30.7 million, or 5.9%.

Appropriations for General Financing Requirements will increase significantly over the two-year period, growing by $314.2 million, or 9.7%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, including funding for capital improvement projects for the City's water and sewer systems and airports, debt service payments and increasing Real Property Transfer Tax revenues, which are transferred to the Chicago Transit Authority. The increase in appropriations for General Financing Requirements is also the result of a rise in debt service payments related to Millennium Park, the Chicago Riverwalk and renovations at City Hall. In FY2014 approximately $20 in new TIF revenue will also be included in the General Financing Requirements Fund and will finance a variety of expenses across different departments including healthcare-related needs, information technology, the implementation of automated speed enforcement and contingency funds for pending collective bargaining agreements.[49]

Appropriations for Finance and Administration, Legislative and Elections, Community Services, Public Safety and Regulatory will experience increases ranging from $3.1 million to $13.2 million. The most significant decrease will occur in City Development as appropriations will

[49] Information provided by the City of Chicago Office of Budget and Management, November 11, 2013.

decrease by $38.7 million, or 17.2% due to a decline in grant funding of $40.6 million, or 24.7%.

Estimated grant fund appropriations will fall by 6.2% from $1.8 billion in FY2013 to $1.7 billion in FY2014. In both years, grants account for the majority of funding for City Development, Community Services and Infrastructure Services.

City of Chicago Appropriations by Program Area: FY2013 & FY2014 (in $ millions)				
	FY2013 Adopted	FY2014 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 490.8	$ 514.1	$ 23.3	4.7%
Grants	$ 38.0	$ 21.4	$ (16.7)	-43.8%
Subtotal Finance and Administration	**$ 528.8**	**$ 535.4**	**$ 6.6**	**1.3%**
Legislative and Elections				
Local Fund	$ 35.4	$ 38.6	$ 3.1	8.8%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 35.4**	**$ 38.6**	**$ 3.1**	**8.8%**
City Development				
Local Fund	$ 60.7	$ 62.6	$ 1.9	3.1%
Grants	$ 164.6	$ 124.0	$ (40.6)	-24.7%
Subtotal City Development	**$ 225.3**	**$ 186.6**	**$ (38.7)**	**-17.2%**
Community Services				
Local Fund	$ 99.5	$ 135.6	$ 36.1	36.3%
Grants	$ 434.4	$ 411.5	$ (22.9)	-5.3%
Subtotal Community Services	**$ 533.8**	**$ 547.1**	**$ 13.2**	**2.5%**
Public Safety				
Local Fund	$ 1,918.9	$ 1,973.8	$ 54.9	2.9%
Grants	$ 228.6	$ 186.0	$ (42.6)	-18.6%
Subtotal Public Safety	**$ 2,147.5**	**$ 2,159.8**	**$ 12.3**	**0.6%**
Regulatory				
Local Fund	$ 55.2	$ 56.6	$ 1.4	2.6%
Grants	$ 7.5	$ 9.6	$ 2.0	27.0%
Subtotal Regulatory	**$ 62.7**	**$ 66.2**	**$ 3.5**	**5.5%**
Infrastructure Services				
Local Fund	$ 388.0	$ 381.0	$ (7.0)	-1.8%
Grants	$ 515.6	$ 546.3	$ 30.7	5.9%
Subtotal Infrastructure Services	**$ 903.6**	**$ 927.2**	**$ 23.6**	**2.6%**
Public Services Enterprises				
Local Fund	$ 658.1	$ 679.7	$ 21.6	3.3%
Grants	$ 418.2	$ 396.5	$ (21.7)	-5.2%
Subtotal Public Services Enterprises	**$ 1,076.3**	**$ 1,076.2**	**$ (0.1)**	**0.0%**
General Financing Requirements				
Local Fund	$ 3,231.9	$ 3,546.1	$ 314.2	9.7%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 3,231.9**	**$ 3,546.1**	**$ 314.2**	**9.7%**
Subtotal All Program Areas	**$ 8,745.3**	**$ 9,083.0**	**$ 337.7**	**3.9%**
Less Internal Transfers	$ (324.5)	$ (316.0)	$ 8.5	-2.6%
Less Proceeds of Debt	$ (72.3)	$ (95.0)	$ (22.7)	31.5%
Less Grant Funds	$ (1,806.8)	$ (1,695.1)	$ 111.8	-6.2%
Total	**$ 6,541.7**	**$ 6,977.0**	**$ 435.2**	**6.7%**

Note: Adopted appropriated figures were used because actual expenditures were not available by program area.

Source: City of Chicago, FY2013 Appropriation Ordinance, Summary G and FY2014 Budget Recommendations, Summary G.

Between FY2010 and FY2014, appropriations by program area, including grant funds, will increase overall by $53.4 million, or 0.6%. Grant funding for all program areas will decrease by $841.0 million, or 33.2%, over the five-year span.

Public Service Enterprises and General Financing Requirements will experience increases in spending while the rest of the program areas will see decreases ranging from a low of 0.5% to a high of 52.9%. City Development will decline by $209.8 million, or 52.9%, from $396.4 million in FY2010 to $186.6 million in FY2014. The decrease is attributable to a large drop in grant funding from $327.9 million to $124.0 million over the five-year period. Appropriations for Community Services and Infrastructure Services will also see large declines in grant funding over the same period as grants fall by $239.8 million, or 36.8%, and $280.1 million, or 33.9%, respectively.

In FY2010 and FY2014, grants make up the majority of funding for City Development, Community Services and Infrastructure Services. There were no grant funds for General Financing Requirements in FY2010 through FY2014; local fund appropriations will increase by $664.4 million, or 23.1%, for this program area over the five years.

City of Chicago Appropriations by Program Area: FY2010 & FY2014 (in $ millions)

	FY2010 Adopted	FY2014 Proposed	$ Change	% Change
Finance and Administration		$ -		
Local Fund	$ 501.4	$ 514.1	$ 12.7	2.5%
Grants	$ 128.8	$ 21.4	$ (107.4)	-83.4%
Subtotal Finance and Administration	**$ 630.1**	**$ 535.4**	**$ (94.7)**	**-15.0%**
Legislative and Elections		$ -		
Local Fund	$ 38.8	$ 38.6	$ (0.2)	-0.5%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 38.8**	**$ 38.6**	**$ (0.2)**	**-0.5%**
City Development		$ -		
Local Fund	$ 68.5	$ 62.6	$ (5.9)	-8.5%
Grants	$ 327.9	$ 124.0	$ (204.0)	-62.2%
Subtotal City Development	**$ 396.4**	**$ 186.6**	**$ (209.8)**	**-52.9%**
Community Services		$ -		
Local Fund	$ 116.8	$ 135.6	$ 18.8	16.1%
Grants	$ 651.3	$ 411.5	$ (239.8)	-36.8%
Subtotal Community Services	**$ 768.0**	**$ 547.1**	**$ (221.0)**	**-28.8%**
Public Safety		$ -		
Local Fund	$ 1,837.4	$ 1,973.8	$ 136.4	7.4%
Grants	$ 334.9	$ 186.0	$ (149.0)	-44.5%
Subtotal Public Safety	**$ 2,172.3**	**$ 2,159.8**	**$ (12.5)**	**-0.6%**
Regulatory		$ -		
Local Fund	$ 63.0	$ 56.6	$ (6.4)	-10.2%
Grants	$ 61.3	$ 9.6	$ (51.8)	-84.4%
Subtotal Regulatory	**$ 124.4**	**$ 66.2**	**$ (58.2)**	**-46.8%**
Infrastructure Services*		$ -		
Local Fund	$ 377.1	$ 381.0	$ 3.9	1.0%
Grants	$ 826.4	$ 546.3	$ (280.1)	-33.9%
Subtotal Infrastructure Services	**$ 1,203.5**	**$ 927.2**	**$ (276.3)**	**-23.0%**
Public Services Enterprises		$ -		
Local Fund	$ 609.0	$ 679.7	$ 70.7	11.6%
Grants	$ 205.4	$ 396.5	$ 191.0	93.0%
Subtotal Public Services Enterprises	**$ 814.4**	**$ 1,076.2**	**$ 261.7**	**32.1%**
General Financing Requirements		$ -		
Local Fund	$ 2,881.7	$ 3,546.1	$ 664.4	23.1%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 2,881.7**	**$ 3,546.1**	**$ 664.4**	**23.1%**
Subtotal All Program Areas	**$ 9,029.6**	**$ 9,083.0**	**$ 53.4**	**0.6%**
Less Internal Transfers	$ (317.0)	$ (316.0)	$ 1.0	-0.3%
Less Proceeds of Debt	$ (70.4)	$ (95.0)	$ (24.6)	34.9%
Less Grant Funds	$ (2,536.0)	$ (1,695.1)	$ 841.0	-33.2%
Total	**$ 6,106.1**	**$ 6,977.0**	**$ 870.9**	**14.3%**

*Includes Transportation and Streets and Sanitation, which was consolidated with Infrastructure Services in FY2009. Infrastructure Services was formerly called the Department of Transportation.

Note: Adopted appropriated figures were used because actual expenditures were not available by program area.
Source: City of Chicago, FY2010 Appropriation Ordinance, Summary G and FY2014 Budget Recommendations, Summary G.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources including an analysis of all local funds, Corporate Fund revenue trends and the property tax levy. "All local funds" are the funds used by the City for its non-capital operations, including the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. They exclude grant funds.[50] The Corporate Fund is the City's fund for regular governmental operations.

This analysis examines proposed FY2014 revenue estimates, FY2013 approved budget figures and prior year actual revenues.

All Local Funds Resources Trends

The City of Chicago's total resources are projected to increase by 6.5%, or $449.6 million, to nearly $7.4 billion in FY2014. The City's resources include estimated revenues across all funds, including $58.6 million in proceeds and transfers into the Corporate Fund. Proceeds and Transfers In include $10.0 million from the City's parking meter Human Infrastructure Fund, $12.0 million from sweeping aging revenue accounts, $17.3 million in interest income from the long-term asset lease reserve funds and $19.3 million from expiring and terminated tax increment financing (TIF) districts and tax revenue from new property.[51] The City's budgeted resources also include $53.4 million of unrestricted Corporate Fund fund balance generated from Chicago spending less than it took in revenue over FY2012 and FY2013.

The exhibit below shows the City's resources for all local funds by source. Across all local funds, the top five sources of FY2014 revenue are the aviation fees, sewer and water fees, property taxes, sales taxes and utility taxes and fees. Together, these five sources total approximately $4.2 billion, or 58.6% of total revenues. Property taxes are estimated to generate $859.5 million across all funds, which is a $21.7 million, or 2.6%, increase over the FY2013 approved budget. This total includes $35.5 million in property tax revenues collected from the City College Bond Redemption and Interest Fund. Over the past five years, property tax revenues have increased by $84.3 million, or 10.9%. Details of the property tax levy will be discussed on page 42.

Until FY2012, Proceeds and Transfers In was one of the top five revenue sources since the City had been transferring proceeds from the long-term asset leases into the Corporate Fund to balance the City's operating budget. The amount of Proceeds and Transfers In proposed in FY2014 is $58.6 million – a significant decrease from the FY2011 amount of $467.7 million. The FY2014 Proceeds and Transfers In include $10.0 million from the City's parking meter Human Infrastructure Fund, $12.0 million from sweeping aging accounts, $17.3 million in interest income from the long-term asset lease reserve funds and $19.3 million from expiring and terminated TIF districts and property tax revenue from new property.[52]

[50] City of Chicago, FY2014 Budget Overview, p. 152.
[51] City of Chicago, FY2014 Budget Overview, p. 13 and communication with budget staff, November 11, 2013.
[52] City of Chicago, FY2014 Budget Overview, p. 13 and communication with budget staff, November 11, 2013.

The two- and five-year trends of revenue sources for all funds reflect the continuation of a number of initiatives proposed by Mayor Rahm Emanuel since his first budget, including:

- Sewer and Water revenues represent the largest two-year dollar increase, with revenue growing by $105.2 million, or 11.5%, to $1.0 billion in FY2014, reflecting incremental increases to water rates enacted in the FY2012 budget.[53] The increased revenues are funding an accelerated capital plan to update the City's aging water infrastructure.[54] Since FY2010 Sewer and Water revenues have increased by $323.2 million, or 46.5%;
- The largest two-year percentage increase occurs with Transaction Taxes, which will increase by 26.5%, or $59.6 million, to $284.6 million in FY2014. The increase is largely due to projected growth in commercial real estate sales and the housing industry;[55]
- Revenues from Fines, Forfeitures & Penalties will grow by $82.6 million, or 25.0%, from the adopted FY2013 budget. The projected increase reflects the addition of the City's automated speed cameras, increased collection efforts and proposed increases in fines for street violations and storage fees for impounded vehicles;[56]
- There are only minor decreases in projected revenues for FY2014, including a $2.3 million decline in municipal parking revenues, a $700,000 decline in business taxes which reflects the full elimination of the Employers' Expense Tax[57] and a $400,000 decline in revenues from the emergency communications surcharge;
- The largest dollar increases in revenue since FY2010 will occur in Aviation, which will increase by $371.9 million, or 40.9%, and in Sewer and Water, which will increase by $323.2 million, or 46.5%. Airport revenues include landing fees, terminal rent, parking fees and revenues from concessions. Fees associated with airlines are determined by the airport based on the amount that is needed to pay for operating expenses and debt service.[58] The increase in Sewer & Water revenues is related to rate increases implemented with the FY2012 budget, as noted above;
- Over the five-year period, the largest percentage increase will occur in Other Resources, which will increase 101.4% from $216.2 million in FY2010 to $435.4 million in FY2014. The increase is largely driven by increased revenues in FY2013 and FY2014 in the debt service funds that are allocated to pay off general obligation bonded debt. These revenues come from Build America Bonds and past debt restructuring;[59] and

[53] City of Chicago, FY2014 Budget Overview, p. 16.
[54] City of Chicago, FY2014 Budget Overview, p. 16.
[55] City of Chicago, FY2014 Budget Overview, p. 10.
[56] City of Chicago, FY2014 Budget Overview, p. 12.
[57] The Employers' Expense Tax applied to businesses that employ 50 or more full-time workers or employees that perform 50% or more of their work service per calendar quarter in the City of Chicago. The tax rate was $4.00 per employee per month and was phased out beginning in July 2012.
[58] City of Chicago, FY2014 Budget Overview, p. 16.
[59] Communication with the City of Chicago budget staff, November 12, 2013.

- The largest percentage decrease in revenues over the five-year period will occur with Special Events, which will fall 11.9% from $44.4 million in FY2010 to $39.1 million in FY2014.

City of Chicago All Local Funds Resources by Source: FY2010-FY2014 (in $ millions)

Revenue	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Approved	FY2014 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Aviation	$ 909.9	$ 1,026.1	$ 1,015.7	$ 1,194.8	$ 1,281.8	$ 87.0	7.3%	$ 371.9	40.9%
Sewer & Water	$ 695.1	$ 704.4	$ 835.2	$ 913.1	$ 1,018.3	$ 105.2	11.5%	$ 323.2	46.5%
Property Taxes	$ 775.2	$ 879.6	$ 838.5	$ 837.8	$ 859.5	$ 21.7	2.6%	$ 84.3	10.9%
Sales Taxes	$ 525.6	$ 562.7	$ 594.4	$ 601.7	$ 636.9	$ 35.2	5.9%	$ 111.3	21.2%
Utility Taxes & Fees	$ 467.4	$ 467.6	$ 462.5	$ 444.2	$ 450.3	$ 6.1	1.4%	$ (17.1)	-3.7%
Other Resources*	$ 216.2	$ 299.2	$ 269.9	$ 365.7	$ 435.4	$ 69.7	19.1%	$ 219.2	101.4%
Vehicle, Transportation & Motor Fuel Taxes	$ 389.1	$ 377.5	$ 420.1	$ 410.9	$ 428.4	$ 17.5	4.3%	$ 39.3	10.1%
Income Taxes/PPRT	$ 385.7	$ 344.7	$ 391.3	$ 387.8	$ 419.8	$ 32.0	8.3%	$ 34.1	8.8%
Fines, Forfeitures & Penalties	$ 258.8	$ 263.3	$ 290.8	$ 330.6	$ 413.2	$ 82.6	25.0%	$ 154.4	59.7%
Internal Service Earnings	$ 274.6	$ 306.1	$ 302.9	$ 313.5	$ 315.6	$ 2.1	0.7%	$ 41.0	14.9%
Transaction Taxes	$ 195.1	$ 215.3	$ 241.1	$ 225.0	$ 284.6	$ 59.6	26.5%	$ 89.5	45.9%
Recreation Taxes	$ 158.4	$ 159.4	$ 163.2	$ 162.7	$ 185.6	$ 22.9	14.1%	$ 27.2	17.2%
Licenses & Permits	$ 96.2	$ 102.7	$ 117.6	$ 110.2	$ 131.7	$ 21.5	19.6%	$ 35.5	36.9%
Charges for Services	$ 77.7	$ 132.6	$ 124.6	$ 124.4	$ 124.4	$ -	0.0%	$ 46.7	60.1%
Business Taxes	$ 83.0	$ 88.2	$ 108.3	$ 103.2	$ 102.5	$ (0.7)	-0.7%	$ 19.5	23.5%
Emergency Communications Surcharge	$ 94.8	$ 97.0	$ 86.5	$ 89.0	$ 88.6	$ (0.4)	-0.4%	$ (6.2)	-6.5%
Special Events	$ 44.4	$ 32.4	$ 37.2	$ 36.3	$ 39.1	$ 2.8	7.7%	$ (5.3)	-11.9%
Lease, Rentals & Sales	$ 17.6	$ 22.6	$ 14.7	$ 21.7	$ 22.2	$ 0.5	2.3%	$ 4.6	26.1%
Municipal Parking	$ 6.4	$ 9.1	$ 8.4	$ 9.0	$ 6.7	$ (2.3)	-26.0%	$ 0.3	4.7%
Proceeds & Transfers In	**$ 519.0**	**$ 467.7**	**$ 86.6**	**$ 58.0**	**$ 58.6**	**$ 0.6**	**1.0%**	**$ (460.4)**	**-88.7%**
Prior Year Unrestricted Corporate Fund Balance	**$ 2.6**	**$ -**	**$ 72.3**	**$ 177.0**	**$ 53.4**	**$ (123.6)**	**-69.8%**	**$ 50.8**	**1953.8%**
Prior Year Unrestricted Other Fund Balance	**$ (46.0)**	**$ 11.6**	**$ 4.3**	**$ 21.8**	**$ 31.4**	**$ 9.6**	**44.0%**	**$ 77.4**	**-168.3%**
Total	**$ 6,146.8**	**$ 6,569.8**	**$ 6,486.1**	**$ 6,938.4**	**$ 7,388.0**	**$ 449.6**	**6.5%**	**$ 1,241.2**	**20.2%**

Note: Totals may differ due to rounding.

Sources: City of Chicago FY2013 Appropriations Ordinance, Summary A and Summary B; FY2014 Budget Overview, pp. 158-164.

*Other = Other Debt Service Funds Revenue, Other Corporate Fund Revenue and Intergovernmental Reimbursements, Interest Income, Hotel Operator's Tax, CTA Real Estate Transfer Taxes and Library Funds.

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

- Tax revenues in the Corporate Fund are expected to increase by $158.3 million, or 8.1%, to $2.1 billion. Since FY2010 these revenues will increase by $265.2 million, or 14.4%. During the same five-year period, non-tax revenues in the Corporate Fund will increase by $301.1 million, or 38.9%, from $773.3 million in FY2010 to an estimated $1.1 billion in FY2014. In-depth analysis of the Corporate Fund will be presented later in this section;
- Revenues within the Special Revenue Funds will increase by $31.8 million, or 6.9%, to $495.5 million. The increase is largely driven by growing real estate transfer tax revenues as a result of a better commercial real estate and housing market;
- The City is projecting an increase of $192.2 million, or 9.1%, in Enterprise Fund revenues for a total of $2.3 billion in FY2014. Over five years, revenues are increasing by $695.1 million, or 43.3%. As noted above, Water & Sewer revenues are increasing due to water rate increases and Aviation revenues are established at each airport on an ongoing basis;
- Resources allocated for the pension funds will decrease by $1.0 million from the FY2013 approved budget to $478.3 million in FY2014. Pension revenues have increased by $42.9 million, or 9.9%, over the past five years. However, the City will need to allocate an additional $590 million in FY2015 in order to comply with State of Illinois legislation to

make an actuarially-determined contribution toward police and fire pension funds.[60] For more information on the pension funds, see page 61 of this report;

- The City is projecting to use approximately $793.5 million of resources toward debt service in FY2014. This represents an $86.3 million, or 12.2%, increase from the FY2013 approved budget and a $245.3 million, or 44.7% increase from FY2010; and
- The City is projecting to use $53.4 million of unreserved Corporate Fund fund balance. The fund balance reflects savings in FY2012 and FY2013.[61] For more information on the City's fund balance levels, see the Reserve Funds section on page 56.

City of Chicago All Local Funds Resources by Fund: FY2010-FY2014 (in $ millions)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Approved	FY2014 Proposed	2-Year $ Change	2-Year $ Change	5-Year $ Change	5-Year $ Change
Corporate Fund									
Tax Revenues	$ 1,837.6	$ 1,860.1	$ 2,012.9	$ 1,944.5	$ 2,102.8	$ 158.3	8.1%	$ 265.2	14.4%
Non-Tax Revenues	$ 773.3	$ 921.1	$ 907.7	$ 979.0	$ 1,074.4	$ 95.4	9.7%	$ 301.1	38.9%
Total Corporate Fund Revenue	**$ 2,610.9**	**$ 2,781.2**	**$ 2,920.6**	**$ 2,923.6**	**$ 3,177.2**	$ 253.6	8.7%	$ 566.3	21.7%
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 235.0	$ 222.0	$ 238.3	$ 226.5	$ 240.6	$ 14.1	6.2%	$ 5.6	2.4%
Library	$ 86.8	$ 87.7	$ 81.3	$ 87.1	$ 84.5	$ (2.6)	-3.0%	$ (2.3)	-2.6%
Emergency Communication	$ 72.5	$ 83.7	$ 64.2	$ 66.7	$ 67.1	$ 0.4	0.6%	$ (5.4)	-7.4%
Special Events and Hotel Tax	$ 62.3	$ 32.4	$ 37.2	$ 36.3	$ 39.1	$ 2.8	7.7%	$ (23.2)	-37.2%
CTA Real Estate Transfer Tax	$ 32.6	$ 35.2	$ 40.8	$ 37.9	$ 55.8	$ 17.9	47.2%	$ 23.2	71.2%
TIF Administration	$ -	$ 3.9	$ 4.4	$ 9.2	$ 8.4	$ (0.8)	-8.7%	$ 8.4	-
Total Special Revenue Funds Revenue	**$ 489.2**	**$ 464.9**	**$ 466.2**	**$ 463.7**	**$ 495.5**	**$ 31.8**	**6.9%**	**$ 6.3**	**1.3%**
Enterprise Funds									
Water & Sewer	$ 695.1	$ 704.4	$ 835.2	$ 913.1	$ 1,018.3	$ 105.2	11.5%	$ 323.2	46.5%
Aviation	$ 909.9	$ 1,026.1	$ 1,015.7	$ 1,194.8	$ 1,281.8	$ 87.0	7.3%	$ 371.9	40.9%
Total Enterprise Funds Revenue	**$ 1,605.0**	**$ 1,730.5**	**$ 1,850.9**	**$ 2,107.9**	**$ 2,300.1**	**$ 192.2**	**9.1%**	**$ 695.1**	**43.3%**
Pension Funds									
Municipal Employees	$ 150.7	$ 176.5	$ 163.9	$ 162.7	$ 162.6	$ (0.1)	-0.1%	$ 11.9	7.9%
Laborers and Retirement Board Employees	$ 20.8	$ 19.1	$ 16.0	$ 14.6	$ 15.1	$ 0.5	3.4%	$ (5.7)	-27.4%
Policemen and Firemen	$ 263.9	$ 285.7	$ 279.1	$ 302.0	$ 300.6	$ (1.4)	-0.5%	$ 36.7	13.9%
Total Pension Funds Revenue	**$ 435.4**	**$ 481.3**	**$ 459.0**	**$ 479.3**	**$ 478.3**	**$ (1.0)**	**-0.2%**	**$ 42.9**	**9.9%**
Debt Service Funds									
Bond Redemption and Interest	$ 548.2	$ 632.5	$ 626.3	$ 707.2	$ 793.5	$ 86.3	12.2%	$ 245.3	44.7%
Total Debt Service Funds Revenue	**$ 548.2**	**$ 632.5**	**$ 626.3**	**$ 707.2**	**$ 793.5**	**$ 86.3**	**12.2%**	**$ 245.3**	**44.7%**
Total Revenues	**$ 5,688.7**	**$ 6,090.4**	**$ 6,323.0**	**$ 6,681.7**	**$ 7,244.6**	**$ 562.9**	**8.4%**	**$ 1,555.9**	**27.4%**
Corporate Fund Proceeds & Transfers In	**$ 519.0**	**$ 467.7**	**$ 86.6**	**$ 58.0**	**$ 58.6**	**$ 0.6**	**1.0%**	**$ (460.4)**	**-88.7%**
Corporate Fund Prior Year Unreserved Fund Balance	**$ 2.6**	**$ -**	**$ 72.3**	**$ 177.0**	**$ 53.4**	**$ (123.6)**	**-69.8%**	**$ 50.8**	**1953.8%**
Other Funds Prior Year Unreserved Fund Balance	**$ (46.0)**	**$ 11.6**	**$ 4.3**	**$ 21.8**	**$ 31.4**	**$ 9.6**	**44.0%**	**$ 77.4**	**-168.3%**
Total Resources	**$ 6,164.3**	**$ 6,569.7**	**$ 6,486.2**	**$ 6,938.5**	**$ 7,388.0**	**$ 449.5**	**6.5%**	**$ 1,223.7**	**19.9%**

Note: Minor differences may appear due to rounding.

Sources: City of Chicago FY2013 Appropriations Ordinance, Summary A and Summary B; FY2014 Budget Overview, pp. 158-164.

Corporate Fund Resources Trends

The Corporate Fund is the City's general operating fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 4.1% or $130.7 million increase in Corporate Fund resources in FY2014 from the FY2013 approved budget.

The Corporate Fund's tax revenues are projected to increase by 8.1% in FY2014, rising $158.3 million to $2.1 billion in FY2014. The increase is primarily due to a 6.0% increase in sales and use taxes as a result of the growing economy and a 12.7% increase in income and personal property replacement taxes (PPRT) as a result of moderate growth in individual and corporate income tax distributed by the State to the City. Additionally, the City anticipates a 26.5%

[60] City of Chicago, Annual Financial Analysis 2013, pp. 51-52.
[61] City of Chicago, FY2014 Budget Overview, p. 13.

increase in transaction taxes due to continued growth in the housing market and a 14.0% increase in recreation taxes as a result of the proposed reduction in the partial exemption from the amusement tax for cable companies, as well as a proposed increase in the cigarette tax rate.[62] Collectively, these four tax sources will generate nearly $1.4 billion in FY2014, an increase of $149.3 million, or 12.3%, from the FY2013 budget. Only business taxes are expected to decline in FY2014. Business taxes will generate $102.5 million in FY2014, a $700,000 decline from the FY2013 approved budget. The decrease reflects the full elimination of the Employers' Expense Tax.[63]

Non-tax revenues are expected to increase by $95.4 million, or 9.7%, to nearly $1.1 billion. The majority of this growth is due to an $82.6 million, or 25.0%, growth in fines and forfeitures, which the City attributes to the addition of automated speed enforcement cameras, improved collection efforts and proposed increases in fines for street violations and storage fees for impounded vehicles.[64]

Over the five-year period beginning FY2010, all tax and non-tax revenues are expected to increase except for utility tax and franchise fees. The largest dollar increase over the five years occurs with fines and forfeitures, which are projected to increase by $154.4 million, or 59.7%. This reflects the City's efforts to implement targeted revenue increases such as penalties rather than broad-based revenue increases such as sales taxes.

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[62] City of Chicago, FY2014 Budget Overview, pp. 9-12.
[63] The Employers' Expense Tax applied to businesses that employ 50 or more full-time workers or employees that perform 50% or more of their work service per calendar quarter in the City of Chicago. The tax rate was $4.00 per employee per month and was phased out beginning in July 2012.
[64] City of Chicago, FY2014 Budget Overview, p. 12.

The City's Corporate Fund resources include $58.6 million of proceeds and transfers in, including $10.0 million from the City's parking meter Human Infrastructure Fund, $12.0 million from sweeping aging accounts, $17.3 million in interest income from the long-term asset lease reserve funds and $19.3 million from expiring and terminated tax increment financing (TIF) districts and tax revenue from new property.[65] The City's budgeted resources also include $53.4 million of unrestricted Corporate Fund fund balance from FY2012 and FY2013.

City of Chicago Corporate Fund Resources: FY2010-FY2014 (in $ millions)									
Tax Revenue	**FY2010 Actual**	**FY2011 Actual**	**FY2012 Actual**	**FY2013 Approved**	**FY2014 Proposed**	**2-Year $ Change**	**2-Year % Change**	**5-Year $ Change**	**5-Year % Change**
Sales & Use Taxes	$ 495.8	$ 536.3	$ 572.2	$ 563.1	$ 596.8	$ 33.7	6.0%	$ 101.0	20.4%
Utility Tax & Franchise Fees	$ 467.4	$ 467.6	$ 462.5	$ 444.2	$ 450.3	$ 6.1	1.4%	$ (17.1)	-3.7%
Income Taxes (Incl. PPRT)	$ 282.0	$ 236.5	$ 282.8	$ 260.6	$ 293.7	$ 33.1	12.7%	$ 11.7	4.1%
Transaction Taxes	$ 195.1	$ 215.3	$ 241.1	$ 225.0	$ 284.6	$ 59.6	26.5%	$ 89.5	45.9%
Transportation Taxes	$ 150.7	$ 151.9	$ 177.9	$ 180.6	$ 183.7	$ 3.1	1.7%	$ 33.0	21.9%
Recreation Taxes	$ 158.4	$ 159.4	$ 163.2	$ 162.7	$ 185.6	$ 22.9	14.0%	$ 27.2	17.2%
Business Taxes	$ 83.0	$ 88.2	$ 108.3	$ 103.2	$ 102.5	$ (0.7)	-0.7%	$ 19.5	23.5%
Other	$ 5.2	$ 4.9	$ 5.0	$ 5.1	$ 5.6	$ 0.5	9.4%	$ 0.4	7.7%
Total Tax Revenue	**$ 1,837.6**	**$ 1,860.1**	**$ 2,013.0**	**$ 1,944.5**	**$ 2,102.8**	**$ 158.3**	**8.1%**	**$ 265.2**	**14.4%**
Non-Tax Revenue									
Fines & Forfeitures	$ 258.8	$ 263.3	$ 290.8	$ 330.6	$ 413.2	$ 82.6	25.0%	$ 154.4	59.7%
Licenses & Permits	$ 96.2	$ 102.7	$ 117.6	$ 110.2	$ 131.7	$ 21.5	19.6%	$ 35.5	36.9%
Charges for Services	$ 77.7	$ 132.6	$ 124.6	$ 124.4	$ 124.4	$ 0.0	0.0%	$ 46.7	60.1%
Leases, Rentals & Sales	$ 17.6	$ 22.6	$ 14.7	$ 21.7	$ 22.2	$ 0.5	2.2%	$ 4.6	26.1%
Municipal Parking	$ 6.4	$ 9.1	$ 8.4	$ 9.0	$ 6.7	$ (2.3)	-26.0%	$ 0.3	4.7%
Reimbursement,Interest,Other	$ 316.6	$ 390.8	$ 351.6	$ 383.1	$ 376.2	$ (6.9)	-1.8%	$ 59.6	18.8%
Total Non-Tax Revenue	**$ 773.3**	**$ 921.1**	**$ 907.7**	**$ 979.0**	**$ 1,074.4**	**$ 95.4**	**9.7%**	**$ 301.1**	**38.9%**
Prior Year Unrestricted Fund Balance	**$ 2.6**	**$ -**	**$ 72.3**	**$ 177.0**	**$ 53.4**	**$ (123.6)**	**-69.8%**	**$ 50.8**	**1953.8%**
Proceeds & Transfers In	**$ 519.0**	**$ 467.7**	**$ 86.6**	**$ 58.0**	**$ 58.6**	**$ 0.6**	**1.0%**	**$ (460.4)**	**-88.7%**
Total Corporate Resources	**$ 3,132.5**	**$ 3,248.9**	**$ 3,079.6**	**$ 3,158.5**	**$ 3,289.2**	**$ 130.7**	**4.1%**	**$ 156.7**	**5.0%**

Source: City of Chicago FY2013 Appropriations Ordinance, Summary A and FY2014 Budget Overview, pp. 158-164.

Property Tax Revenues

The City of Chicago's proposed 2014 property tax levy for City government purposes is $824.0 million, which is an increase of $22.7 million, or 2.8%, from the FY2013 proposed levy. The increase in the levy reflects $21.6 million in additional gross property tax revenue captured from new property and expiring or terminating tax increment financing (TIF) districts.[66] The City's total property tax levy is $859.5 million, which includes $35.5 million levied on behalf of City Colleges of Chicago.

The proposed 2014 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[67] A portion of the library levy funds debt service on bonds issued for the library's capital program, but some of the levy pays for short-term borrowing to fund library operating expenses. The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of an increase in taxes. Taxes levied for FY2014 will not begin to be collected until 2015 and any increase appears on the second installment of tax bills due to be sent in the summer of 2015.

The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Property taxes levied for pensions are a direct result of payroll

[65] These transfers-in come from interest generated on the long- and mid-term reserves established with the lease transactions of the parking meters and the Skyway.
[66] City of Chicago, FY2014 Budget Overview, p. 18.
[67] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.

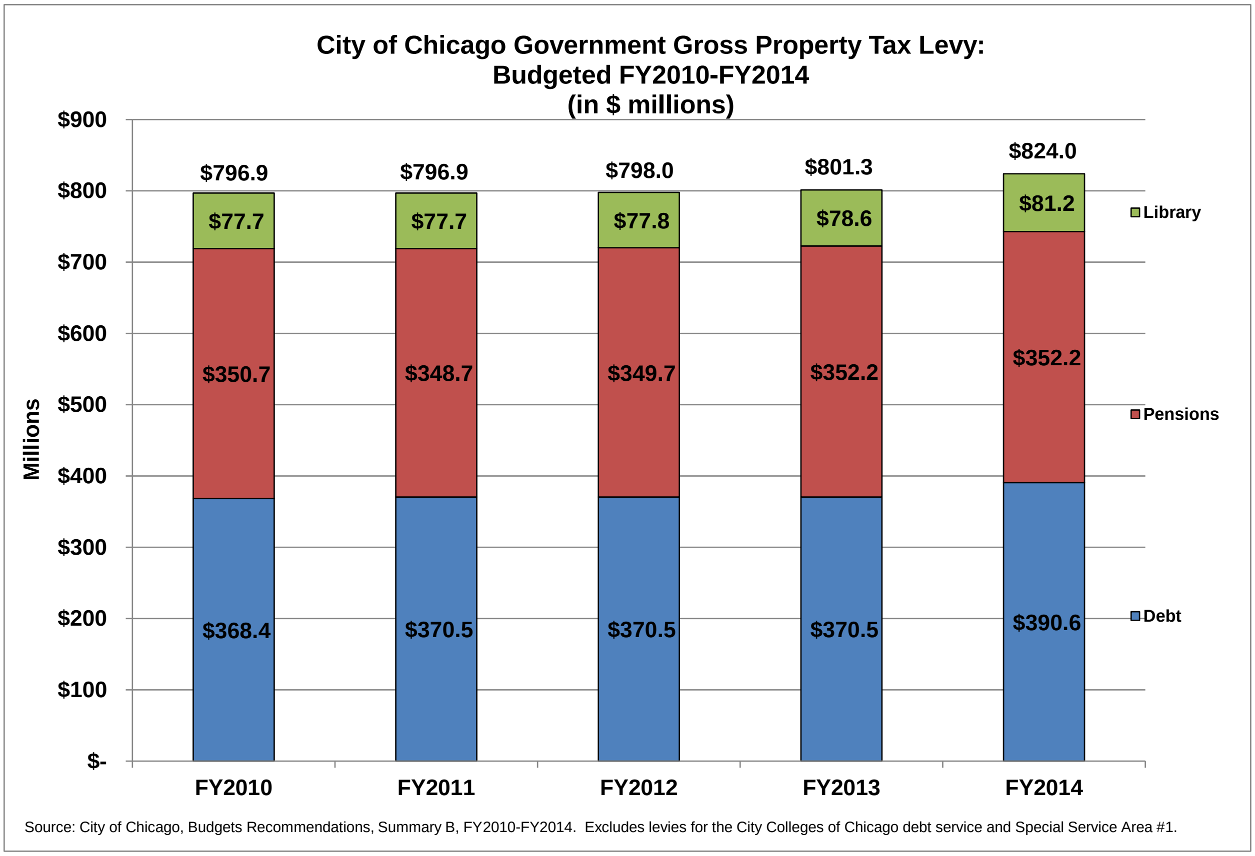
increases, including retroactive increases, since the City's employer contributions to pensions are set in State statute as a multiple of employee contributions made two years prior. Employee contributions are a percentage of pay. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule. None of the property tax levy is used for Corporate Fund operating purposes.[68]

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008 the levy was increased by 11.7% or $83.4 million to $796.9 million.[69] The 2008 levy increase exceeded the City's self-imposed limit on property tax increases by 7.9%. As a home rule unit of government, the City of Chicago is exempt from State legal limits on property tax extension increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[70] The 2008 levy increase was paid by taxpayers in the fall of 2009, as there is a one-year lag in Cook County between the approval of a levy and the time it is reflected in a new tax rate. The levy remained at $796.9 million from FY2008 to FY2011.

In FY2012 the property tax levy increased to $798.0 million in order to capture revenue from three expiring tax increment financing (TIF) districts. The FY2012 proposed budget noted that going forward, as TIF districts expire, the City intends to shift property taxes from the districts back to the general property tax levy. These additional property tax revenues would be allocated to the pension fund levies, thus freeing up for general Corporate Fund use the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments.[71] The FY2013 property levy increased to $801.3 million, reflecting an increase of $3.3 million captured from expiring and terminated TIF districts.[72]

[68] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[69] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[70] The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the library levy from the definition of "aggregate extension."
[71] Information provided by City of Chicago Office of Budget and Management, November 1, 2011. City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 51.
[72] City of Chicago, 2013 Budget Overview, p. 20.

The City's proposed 2014 property tax levy will increase by $22.7 million, or 2.8%, to $824.0 million. The increase in the levy reflects $21.6 million in additional gross property tax revenue captured from new property and expiring or terminating tax increment financing (TIF) districts.[73] The figure below shows the components of the property tax levy for the past five years.



Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed 2013 property tax levy for City government purposes, including the library, is $824.0 million. The City has proposed to capture property tax revenue from terminating and expiring TIF districts and new property, resulting in a $21.6 million increase in 2014. Aside from the slight increases in 2012 and 2013, there has been no significant change in the levy since 2008. However, this figure does not represent the full amount of property tax revenues collected by the City of Chicago.

There are at least three significant additional uses of property tax revenue by the City: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools and Tax Increment Financing (TIF) district revenue. The City Colleges and Chicago Public Schools are separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

[73] City of Chicago, FY2014 Budget Overview, p. 18.

These three additional property tax uses are described here because it is important for property taxpayers to have an accurate description of which governments receive their property tax dollars and for what purpose. Without accurate descriptions, it is impossible for the public to hold elected officials responsible for the level of property taxation they impose and for the uses of those dollars.

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[74]

The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC). Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995.[75] At that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O&M) levy. When these obligations were fulfilled, the O&M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[76] This arrangement results in no net increase for property taxpayers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[77] It remained at $36.6 million from FY2008 through FY2013 and will drop to $35.5 million in FY2014.

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is largely absent from the budget narrative and budget totals where the City's property tax levy is described.[78] When the $35.5 million levy for City Colleges is added to the $824.0 million total listed it brings the total levy to $859.5 million, which is the amount reflected in the City's property tax rate.

Chicago Public Schools

There is an intergovernmental agreement between the City of Chicago and the Chicago Public Schools through which the City levies taxes to pay for some of the school district's capital needs.

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[74] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php.
[75] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[76] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[77] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf
[78] The City Colleges levy appears in the City's FY2014 Budget Recommendations book (p. 32) but is absent from the property tax discussion on page 18 of the Budget Overview book.

The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[79] The City has taken on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[80] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million through 2018.[81]

The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates.[82] The City's financial statements refer to it only in the property tax statistics, from which the property taxes for the "School Building and Improvement Fund" are explicitly excluded.[83]

The City also issued new bonds to finance its "Modern Schools Across Chicago" school construction program. The bonds amounted to over $356 million in 2007 and $150 million in 2010.[84] Additional general obligation bonds have been issued in FY2010 and FY2011, the proceeds of which may be used to finance school district projects.[85]

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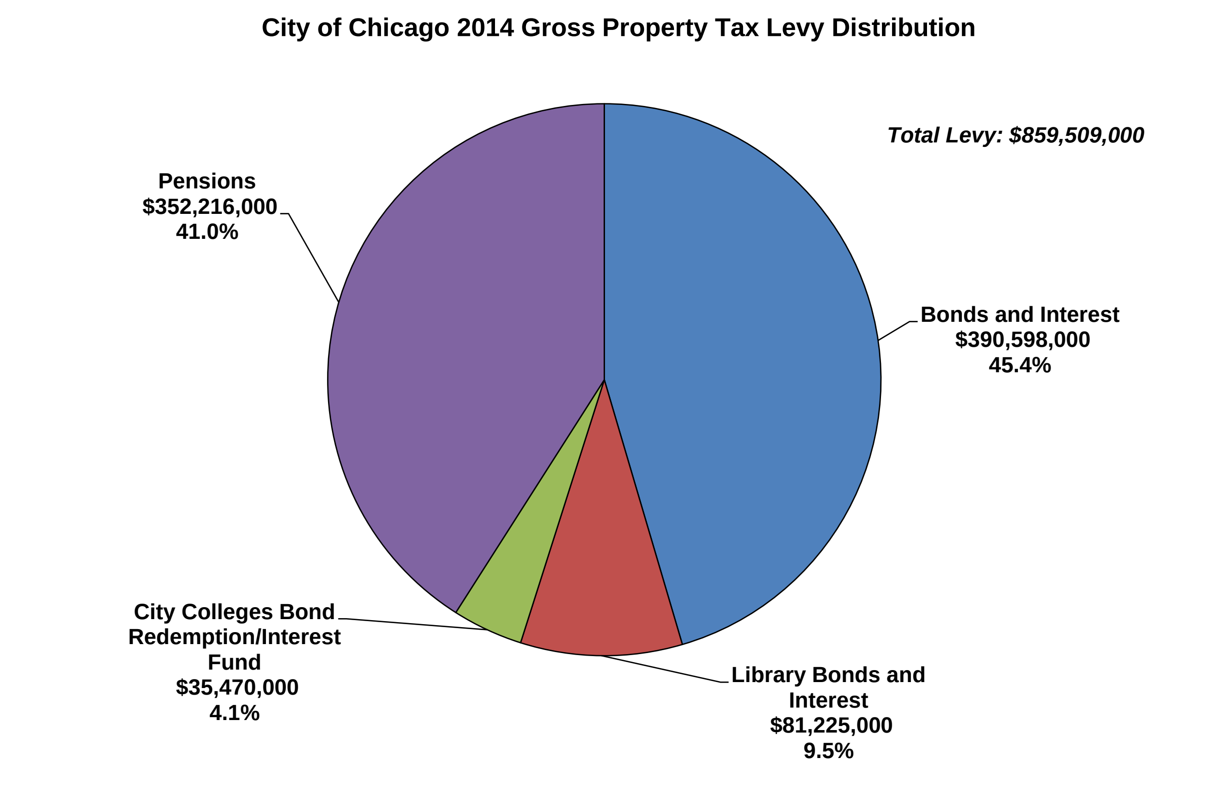
[79] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.
[80] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution
[81] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf.
[82] City of Chicago, FY2014 Budget Recommendations, pp. 29-35.
[83] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 144.
[84] City of Chicago, FY2007 Comprehensive Annual Financial Report, p. 26 and FY2010 Comprehensive Annual Financial Report, p. 69.
[85] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 72; FY2012, p. 72.

The following pie chart illustrates the distribution of the City's gross proposed property tax levy for 2014 (taxes payable in 2015). Approximately 4.1% of the City's proposed FY2014 property tax levy is for City Colleges bonds, and 9.5% is for the library. Roughly 41.0% is dedicated to pension payments and 45.4% of the levy is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the Chicago Public Schools are included in this latter amount but are not itemized. The total City levy is $859.5 million.



Source: City of Chicago FY2014 Budget Recommendations Summary B.

Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for tax increment financing (TIF) districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are 151 active TIFs in Chicago in 2013.[86] In FY2013 and FY2014 two TIF districts will expire which will allow the City to capture approximately $16 million: the Near South TIF district and Near West TIF district.[87] Additionally, the City plans to close the underperforming 89th and State TIF district. The City plans to move property taxes from the expired and closed districts to the general property tax levy.[88]

[86] City of Chicago, FY2014 Budget Overview, p. 29.
[87] Communication with City of Chicago budget office, October 18, 2013.
[88] City of Chicago, FY2014 Budget Overview, p. 18.

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[89] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2012 rates, paid in 2013.[90] For tax year 2012, the City of Chicago will collect $457.0 million in TIF revenue, up 0.7% from the $453.7 million collected in 2011. The increase in overall TIF revenue comes after two years of declines including an 11% drop in 2011 and 2% drop in 2010.[91]

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[92] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[93]

When TIF revenue is added to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs), the City's 2012 property tax revenues totaled nearly $1.3 billion. This was a decline of $37.5 million from FY2008.

City of Chicago FY2008-FY2012 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2008	FY2009	FY2010	FY2011	FY2012
City Government Funds	$ 796,862	$ 796,862	$ 796,862	$ 796,862	$ 797,972
City Colleges Bond Redemption/Interest Fund	$ 36,632	$ 36,632	$ 36,632	$ 36,637	$ 36,632
TIF Property Tax Revenues	$ 495,590	$ 519,716	$ 509,971	$ 453,672	$ 457,007
GRAND TOTAL	**$ 1,329,084**	**$ 1,353,210**	**$ 1,343,465**	**$ 1,287,171**	**$ 1,291,611**

Source: City of Chicago, FY2008-FY2012 Appropriations Ordinance, Summary B and Cook County Clerk TIF reports, 2008-2012.

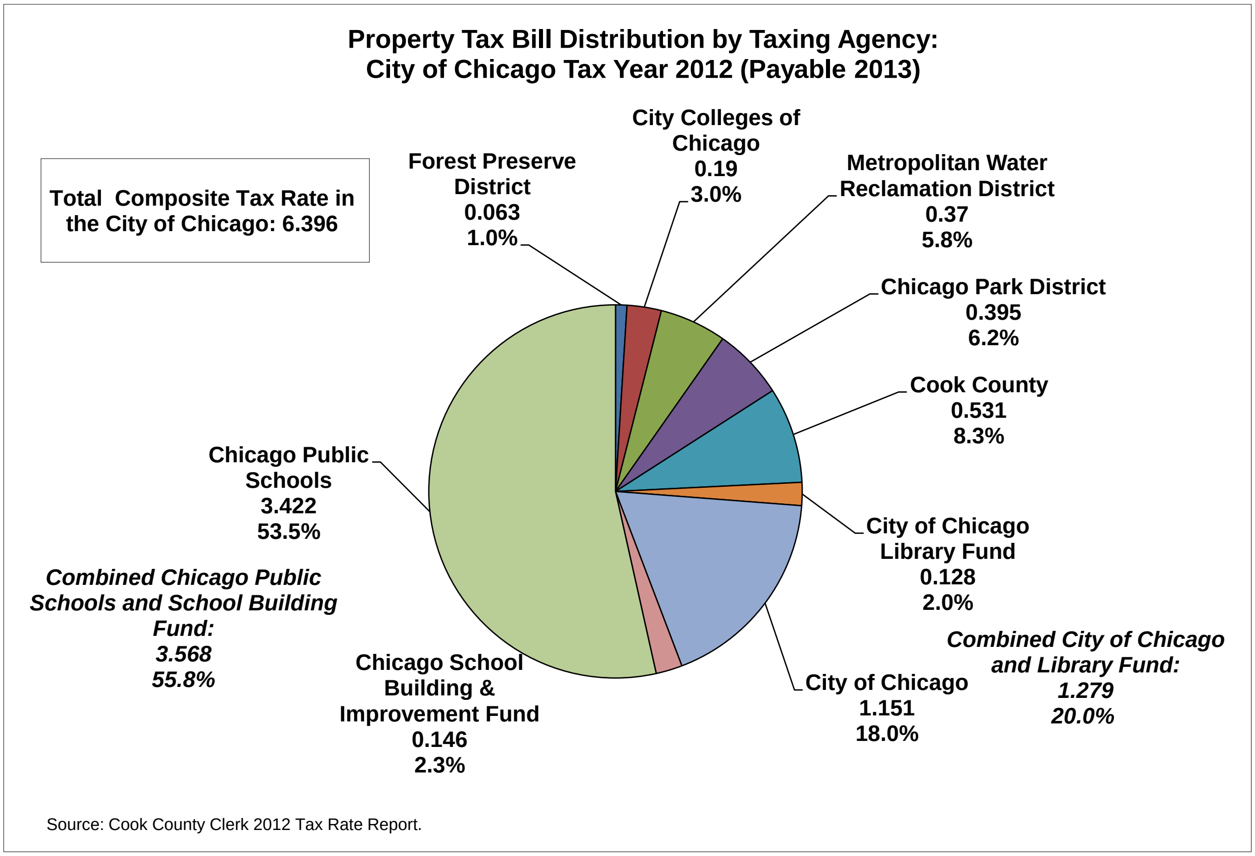
Transparency and Accountability Issues

It is important for property taxpayers to have an accurate picture of which governments receive their property tax dollars and for what purpose so that taxpayers may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on property tax bills does not provide an accurate picture of property tax distribution.

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes a pie chart showing the distribution of

[89] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
[90] Available on the Cook County Clerk's website at www.cookcountyclerk.com.
[91] Cook County Clerk, "Chicago TIF revenue up 1%, down 3% in suburbs," press release, July 9, 2013.
[92] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[93] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

the City of Chicago tax bill among the different governments.[94] The 2012 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 20.0% of a typical City property tax bill is for the City of Chicago, including the library, and 55.8% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments. The following chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



[94] Cook County Clerk 2012 Tax Rate Report, p. v., available at http://www.cookcountyclerk.com/tsd/extensionsandrates/Pages/default.aspx

There has been a discrepancy in some years between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The two tables below show the City's 2008-2012 levies as reported by the Cook County Clerk and by the City Budget Appropriation Ordinances. Some of the differences may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports.

City of Chicago Gross Property Tax Levy: Tax Year 2008-2012 As Reported in the Cook County Clerk Agency Tax Rate Reports						
Fund #	**Fund Name**	**2008**	**2009**	**2010**	**2011**	**2012**
3	Bonds & Interest	$ 411,108,080	$ 404,269,309	$ 405,045,033	$ 407,105,446	$ 407,116,767
120	Police Pension	$ 139,640,000	$ 141,741,000	$ 140,165,000	$ 143,785,000	$ 143,865,000
121	Fire Pension	$ 65,426,000	$ 66,140,000	$ 64,323,000	$ 66,125,000	$ 65,461,000
122	Municipal Pension	$ 125,644,000	$ 124,326,000	$ 126,831,000	$ 121,297,000	$ 123,438,000
125	Laborers Pension	$ 9,526,000	$ 13,327,000	$ 13,714,000	$ 11,759,000	$ 11,202,000
	Subtotal City	**$ 751,344,080**	**$ 749,803,309**	**$ 750,078,033**	**$ 750,071,446**	**$ 751,082,767**
3	Bonds & Interest	$ 3,049,661	$ 4,339,219	$ 4,338,906	$ 4,339,922	$ 4,340,234
128	Library Municipal Pension	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,700,000
259	Library Note Redemption	$ 73,363,000	$ 73,363,000	$ 73,377,000	$ 73,377,000	$ 73,481,000
	Subtotal Library	**$ 82,112,661**	**$ 83,402,219**	**$ 83,415,906**	**$ 83,416,922**	**$ 83,521,234**
	GRAND TOTAL City + Library	**$ 833,456,741**	**$ 833,205,528**	**$ 833,493,939**	**$ 833,488,368**	**$ 834,604,001**

Note: Funds for which there were no levies in these years are excluded.

Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund

City of Chicago Gross Property Tax Levy: Tax Year 2008-2012 As Reported in the City of Chicago Appropriation Ordinances						
Fund #	**Fund Name**	**2008**	**2009**	**2010**	**2011**	**2012**
509	Note Redemption and Interest Fund	$ -	$ -	$ -	$ -	$ -
510	Bond Redemption and Interest Fund	$ 345,782,000	$ 373,216,000	$ 367,918,000	$ 367,918,000	$ 368,419,000
512	Note Redemption and Interest Fund	$ 3,867,000	$ -	$ -	$ -	$ -
516	Library Bond Redemption Fund	$ -	$ 4,347,000	$ 4,347,000	$ 4,347,000	$ 4,333,000
521	Library Note Redemption and Interest Fund	$ 29,103,000	$ 73,363,000	$ 73,363,000	$ 73,363,000	$ 73,377,000
681	Municipal Pension	$ 128,378,000	$ 131,344,000	$ 130,026,000	$ 130,026,000	$ 132,531,000
682	Laborers' Pension	$ -	$ 9,526,000	$ 13,327,000	$ 13,327,000	$ 13,714,000
683	Police Pension	$ 141,080,000	$ 139,640,000	$ 141,741,000	$ 141,741,000	$ 140,165,000
684	Fire Pension	$ 65,242,000	$ 65,426,000	$ 66,140,000	$ 66,140,000	$ 64,323,000
	Subtotal City Government Funds	**$ 713,452,000**	**$ 796,862,000**	**$ 796,862,000**	**$ 796,862,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fund	$ 33,509,000	$ 36,632,000	$ 36,632,000	$ 36,632,000	$ 36,632,000
	GRAND TOTAL	**$ 746,961,000**	**$ 833,494,000**	**$ 833,494,000**	**$ 833,494,000**	**$ 833,494,000**

Source: City of Chicago, FY2008-FY2012 Appropriations Ordinances, Summary B. The levy for Special Service Area #1 is excluded.

Property taxpayers collectively owe the full amount as reported by the Cook County Clerk, not the amount reported by the City, and the final City tax rate is calculated based on the total levy reported by the Clerk.

PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, full-time equivalent (FTE) position count and Corporate Fund personnel services. The FY2014 Budget Recommendations, which will be voted on by the City Council to become the FY2014 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted full-time equivalent positions and include personnel related expenses such as pension and healthcare costs.[95] Since the actual number of full-time equivalent positions is not available, for the purposes of this analysis, the Civic Federation compares personnel count by the number of budgeted full-time equivalent positions from the FY2010 through FY2013 appropriation ordinances and FY2014 proposed budget.

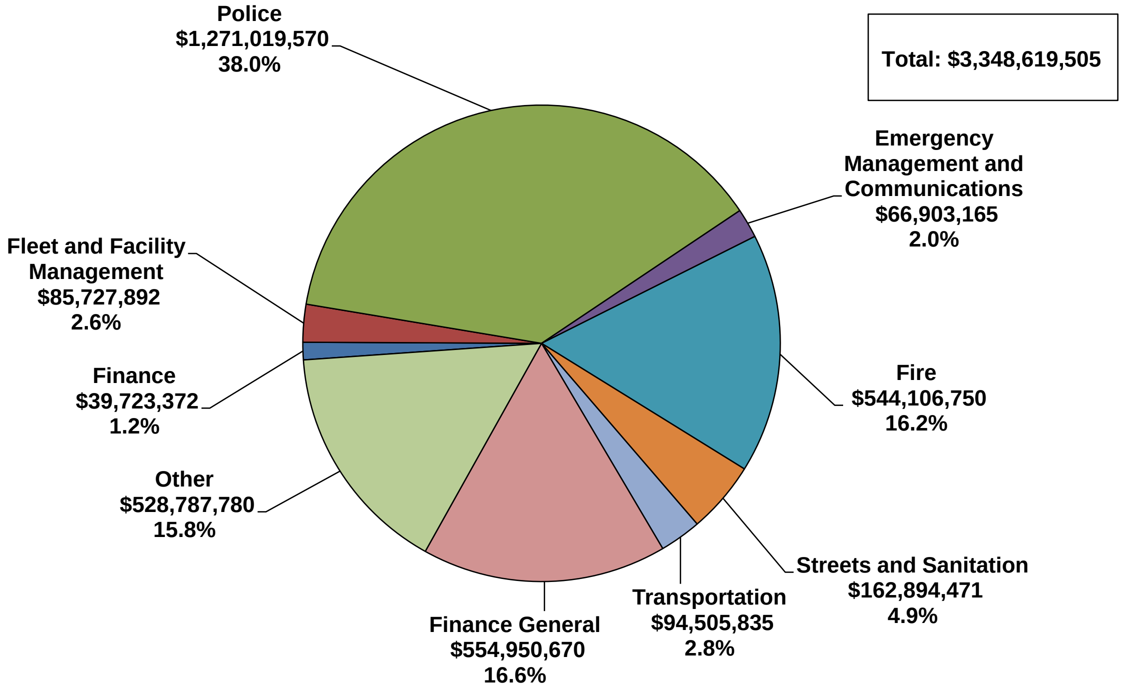
All Local Funds Personnel Services and Full-Time Equivalent Positions

The personnel summaries in the City of Chicago FY2014 Budget Overview book describe personnel for all local funds, which includes the Corporate Fund, special revenue funds and enterprise funds, but excludes grant funds. The City proposes to increase its workforce from 31,986 FTEs in FY2013 to 32,409 FTEs in FY2014 across all local funds. This is an increase of 423 FTEs, or 1.3%.

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

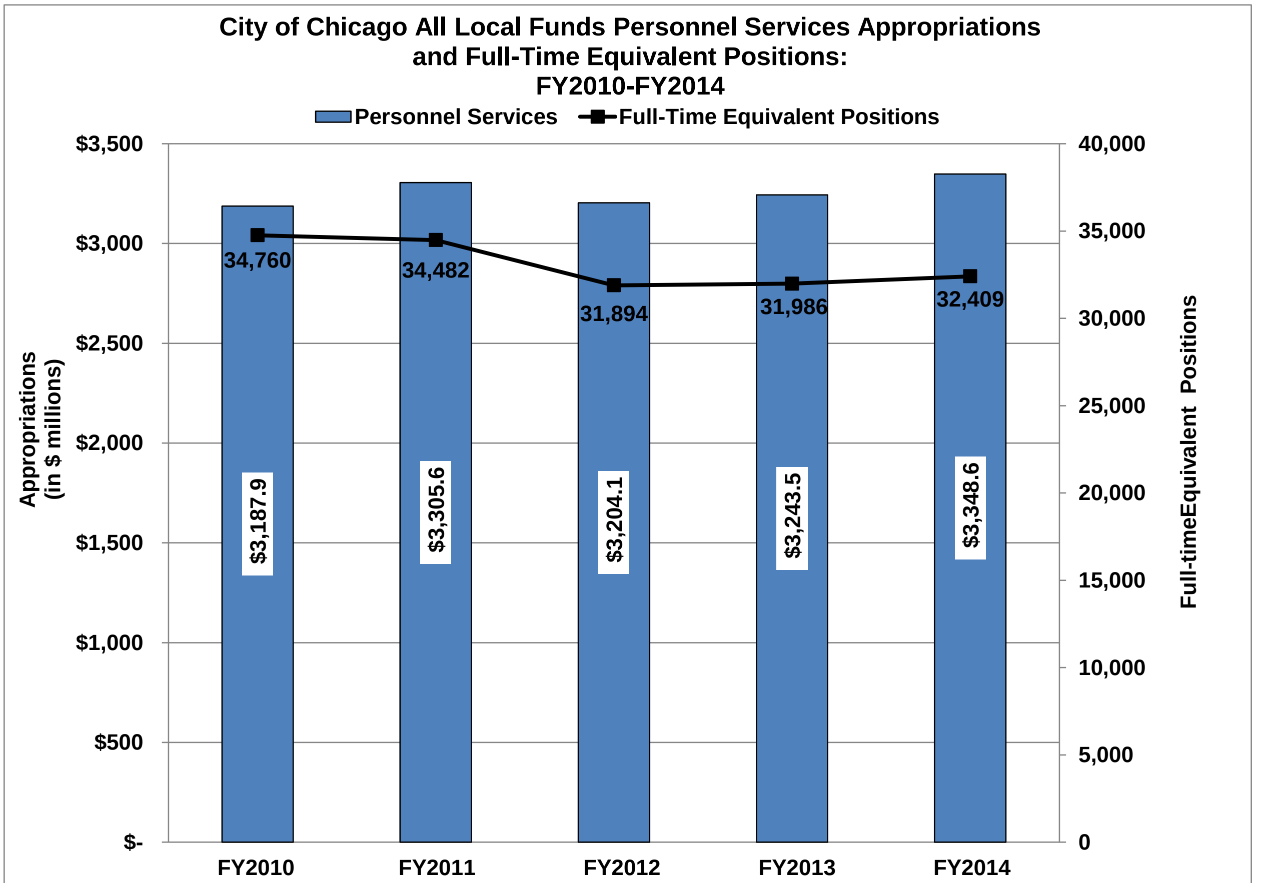
The City of Chicago proposes to appropriate $3.3 billion to personnel services across all local funds in FY2014. Approximately $1.8 billion, or 68.1% of all local funds personnel services appropriations, will be allocated to public safety. This appropriation level is relatively flat from FY2013 appropriations when public safety represented 68.0% of all local funds personnel services expenses. The next largest percentage is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee healthcare for employees across all departments. Finance General represents 16.6%, or nearly $555.0 million, of all local funds for FY2014.

City of Chicago FY2014 All Local Funds
Personnel Services Appropriation by Department and Purpose



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Housing and Economic Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
Source: City of Chicago, FY2014 Budget Recommendations, Summary D.

Between FY2010 and FY2014, local fund appropriations for personnel services, which includes salaries, healthcare, overtime pay, workers' compensation, pension payments and other benefits, increased by $160.7 million, or 5.0%, from $3.19 billion to $3.35 billion. The FY2012 proposed appropriation was the first significant decline in personnel expenditures since FY2004. From FY2010 to FY2011, personnel services appropriations across all local funds increased by $117.7 million, or 3.7%, despite a reduction of 278 full-time equivalent positions. Personnel services appropriations will increase in FY2014 from FY2013 budgeted appropriations by $105.1 million, or 3.2%, in part to fund police overtime. The growth in personnel appropriations over the five-year period from FY2010 to FY2014 is attributable to increases in salaries and wages under collective bargaining agreements, as well as healthcare cost increases.[96]



Source: City of Chicago FY2010-FY2013, Appropriation Ordinances, Summary D and FY2014 Budget Overview, pp. 169-170.

[96] Information provided by the City of Chicago Office of Budget and Management, November 11, 2013.

Budgeted FTE position count will rise from 31,986 FTEs proposed in FY2013 to 32,409 FTEs in FY2014 across all local funds. This is a net increase of 423 FTE positions, or 1.3%. All departments will increase with the exception of City Development which will retain the same number of FTEs from FY2013 to FY2014 and Regulatory which will eliminate 2 FTEs in FY2014. In previous budgets, the City accounted for some full-time employees under hourly positions, referred to as "open line positions." As in last year's budget, the FY2014 budget accounts for these employees under regular full-time budgeted positions and only actual seasonal and part-time employees will remain categorized as "open line positions."[97]

In the five-year period from FY2010 to FY2014, the City proposes to reduce its budgeted workforce by 2,351 FTEs, or 6.8%, from 34,760 FTEs proposed in FY2010 to 32,409 FTEs proposed in FY2014. Over the same period, the most significant decrease in personnel count occurred in the public safety departments, primarily as a result of the FY2012 proposed budget when the City's budgeted payroll reductions included 517 layoffs and the elimination of more than 2,100 budgeted vacant positions including 1,252 vacant sworn officer positions from the Police Department.[98]

City of Chicago All Local Funds Full-Time Equivalent Positions by Function: FY2010-FY2014

Function	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,744	2,731	2,623	2,589	2,646	57	2.2%	-98	-3.6%
Legislative and Elections	358	358	360	355	358	3	0.8%	0	0.0%
City Development	140	234	235	245	245	0	0.0%	105	75.0%
Community Services	1,321	1,324	1,029	1,023	1,054	31	3.0%	-267	-20.2%
Public Safety	22,191	21,994	20,354	20,396	20,398	2	0.0%	-1,793	-8.1%
Regulatory	723	631	539	566	564	-2	-0.4%	-159	-22.0%
Infrastructure Services	3,627	3,559	3,232	3,283	3,465	182	5.5%	-162	-4.5%
Public Service Enterprise	3,656	3,651	3,522	3,529	3,679	150	4.3%	23	0.6%
Total	**34,760**	**34,482**	**31,894**	**31,986**	**32,409**	**423**	**1.3%**	**(2,351)**	**-6.8%**

Note: The full-time positions presented above do not include grant-funded positions.
Source: City of Chicago, FY2014 Budget Overview, pp. 169-170.

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $68.5 million, or 2.6%, from $2.63 billion in FY2013 to $2.68 billion in FY2014. The FY2014 appropriation represents 81.5% of the Corporate Fund budget of nearly $3.3 billion. Personnel service appropriations by department include salaries and wages, but personnel-related benefits such as healthcare, overtime pay, workers' compensation and unemployment compensation are appropriated in the Finance General department. Pension contributions are also categorized as Finance General, but are not paid for by the Corporate Fund.[99]

The Departments of Streets and Sanitation and Fleet and Facility Management will decrease slightly by $1.4 million, or 1.0%, and $1.2 million, or 1.8%, respectively, over the two-year period. The most significant increase in terms of dollars in personnel services will occur in the public safety departments due to increases in police overtime budgeted for FY2014.

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[97] City of Chicago, FY2013 Budget Overview, pp. 22-23 and FY2014 Budget Overview, pp. 20-21.
[98] City of Chicago, FY2012 Budget Overview, p. 2.
[99] City of Chicago, FY2014 Budget Overview, p. 22.

Appropriations in the Finance General department will also increase, by $18.3 million, or 4.4%, from the FY2013 approved budget primarily as a result of increases in healthcare-related costs and contingency funds for pending collective bargaining agreements.[100] The majority of the remaining departments will each increase only slightly, rising by less than $1.0 million.[101]

Between FY2010 and FY2014, personnel services appropriations in the Corporate Fund will increase by $55.2 million, or 2.1%. During the five-year period, personnel services appropriations for public safety departments will increase by $125.3 million, or 7.4%. This increase in public safety personnel expenditures is tied to the interest arbitration award for police unions which set a cumulative 10 percent wage increase from 2007 to 2012. This resulted in retroactive compensation.[102] Personnel services appropriations will decrease by $48.1 million, or 9.9%, for Finance General expenses. The Department of Transportation will also experience a reduction of $19.2 million, or 38.0%, in personnel services costs.

The percentage of Corporate Fund appropriations earmarked for personnel services will decrease from 82.6% in FY2010 to 81.5% in FY2014.

City of Chicago Corporate Fund Personnel Services: FY2010-FY2014
(in $ millions)

Department	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety									
Police*	$ 1,184.12	$ 1,253.31	$ 1,197.07	$ 1,213.54	$ 1,249.8	$ 36.3	3.0%	$ 65.7	5.6%
OEMC**	$ 59.4	$ 62.0	$ 55.0	$ 59.0	$ 60.2	$ 1.2	2.1%	$ 0.8	1.3%
Fire Department	$ 456.7	$ 465.4	$ 498.6	$ 505.0	$ 515.6	$ 10.6	2.1%	$ 58.8	12.9%
Subtotal Public Safety	$ 1,700.3	$ 1,780.7	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 48.1	2.7%	$ 125.3	7.4%
Streets and Sanitation	$ 136.8	$ 135.9	$ 135.9	$ 141.2	$ 139.8	$ (1.4)	-1.0%	$ 3.0	2.2%
Fleet and Facility Management***	$ 60.4	$ 59.8	$ 59.8	$ 67.2	$ 65.9	$ (1.2)	-1.8%	$ 5.5	9.2%
Transportation	$ 50.6	$ 48.1	$ 48.1	$ 30.8	$ 31.4	$ 0.6	2.0%	$ (19.2)	-38.0%
Finance****	$ 32.6	$ 32.4	$ 32.4	$ 32.9	$ 33.7	$ 0.7	2.2%	$ 1.1	3.3%
Finance General	$ 486.1	$ 500.2	$ 500.2	$ 419.7	$ 438.0	$ 18.3	4.4%	$ (48.1)	-9.9%
All Other	$ 158.8	$ 157.3	$ 54.5	$ 142.9	$ 146.3	$ 3.4	2.3%	$ (12.5)	-7.9%
Total Personnel Services	**$ 2,625.6**	**$ 2,714.5**	**$ 2,581.7**	**$ 2,612.2**	**$ 2,680.8**	**$ 68.5**	**2.6%**	**$ 55.2**	**2.1%**
Total Corporate Fund	**$ 3,179.7**	**$ 3,263.7**	**$ 3,095.7**	**$ 3,158.6**	**$ 3,289.2**	**$ 130.6**	**4.1%**	**$ 109.5**	**3.4%**

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

*Police includes Police Board, Independent Police Review Authority and Department of Police.

** Office of Emergency Management and Communications

*** Includes the Department of General Services and the Department of Fleet Management for FY2010-FY2011, which merged to create the Department of Fleet and Facility Management in FY2012.

**** Includes the Department of Revenue for FY2010-FY2011, which was absorbed by the Department of Finance in FY2012.

Source: City of Chicago, FY2010-FY2013 Appropriation Ordinances, Summary D and FY2014 Budget Recommendations, Summary D.

The following chart displays Corporate Fund appropriations by object classification and separates out public safety appropriations and non-public safety appropriations. Between FY2013 and FY2014, appropriations will increase by $54.3 million, or 2.9%, for public safety departments and by $77.7 million, or 6.0%, for non-public safety departments. In the two-year period, Personnel Services appropriations for public safety will increase by $48.1 million, or 2.7%, while Personnel Service appropriations for non-public safety will increase by $20.0 million, or 2.4%. Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both areas, by $5.0 million, or 10.6%, for public safety departments and by $39.0 million, or 32.2%, for non-public safety departments. Appropriations

[100] Information provided by the City of Chicago Office of Budget and Management, November 11, 2013.
[101] Appropriations for the Department of Board of Election Commissioners, which is included in the All Other category, will increase by $1.7 million between FY2013 and FY2014.
[102] City of Chicago, 2011 Annual Financial Analysis, p. 29.

for Contractual services and Travel, Commodities and Equipment will also increase for both public safety and non-public safety departments.

Over the five-year period between FY2010 and FY2014, Personnel Services appropriations will decrease in non-public safety departments by $70.2 million, or 7.6%, but will increase by $125.3 million, or 7.4%, for public safety departments. In public safety departments, spending for Contractual Services and Travel, Commodities and Equipment will decline over the five-year period by $9.6 million and $3.2 million, respectively. Appropriations for Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both public safety and non-public safety departments.

City of Chicago Corporate Fund Appropriations by Object: FY2010-FY2014
(in $ millions)

Object Classification	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*									
Personnel Services	$ 1,700.3	$ 1,780.7	$ 1,750.7	$ 1,777.5	$ 1,825.6	$ 48.1	2.7%	$ 125.3	7.4%
Contractual Services	$ 40.2	$ 39.5	$ 36.0	$ 29.9	$ 30.6	$ 0.7	2.3%	$ (9.6)	-24.0%
Travel, Commodities and Equipment	$ 11.7	$ 10.2	$ 8.6	$ 7.9	$ 8.4	$ 0.5	6.1%	$ (3.2)	-27.8%
Specific Items and Contingencies**	$ 34.8	$ 47.1	$ 48.7	$ 47.0	$ 52.0	$ 5.0	10.6%	$ 17.1	49.2%
Sub-Total Public Safety	**$ 1,787.0**	**$ 1,877.4**	**$ 1,844.1**	**$ 1,862.3**	**$ 1,916.6**	**$ 54.3**	**2.9%**	**$ 129.6**	**7.3%**
Non-Public Safety									
Personnel Services	$ 925.3	$ 933.8	$ 831.0	$ 835.1	$ 855.1	$ 20.0	2.4%	$ (70.2)	-7.6%
Contractual Services	$ 261.7	$ 263.2	$ 230.3	$ 284.5	$ 287.8	$ 3.3	1.2%	$ 26.1	10.0%
Travel, Commodities and Equipment	$ 46.3	$ 45.9	$ 50.4	$ 54.2	$ 69.6	$ 15.4	28.5%	$ 23.3	50.2%
Specific Items and Contingencies	$ 159.4	$ 143.4	$ 139.8	$ 121.1	$ 160.1	$ 39.0	32.2%	$ 0.7	0.4%
Sub-Total Non-Public Safety	**$ 1,392.8**	**$ 1,386.2**	**$ 1,251.6**	**$ 1,294.9**	**$ 1,372.6**	**$ 77.7**	**6.0%**	**$ (20.2)**	**-1.4%**
Total Corporate Fund	**$ 3,179.7**	**$ 3,263.7**	**$ 3,095.7**	**$ 3,157.2**	**$ 3,289.2**	**$ 132.0**	**4.2%**	**$ 109.4**	**3.4%**

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

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

Source: City of Chicago, Appropriation Ordinances, FY2010-FY2013, Summary D and FY2014 Budget Recommendations, Summary D.

RESERVE FUNDS

The City of Chicago's reserves, or its fund balance, is a term commonly used to describe the net assets of a governmental fund.[103] Fund balance is an important financial indicator for local governments and serves as a measure of financial resources. Fund balance represents the difference between the assets and liabilities in a governmental fund. Fund balance is more a measure of liquidity than of net worth and can be thought of as the savings account of the local government.[104]

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

Recent Changes to Fund Balance Reporting

Starting with the FY2011 audited financial statements for the City of Chicago, a modification in fund balance reporting was implemented, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the

[103] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[104] Stephen J. Gauthier, *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[105]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[106]

Current Components of Fund Balance

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

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[107]

Historically, the focus of the Civic Federation fund balance analysis has been on the unreserved general fund balance, or in other words, how much is left in the savings account, not how much is being withdrawn. Given the new components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government's unrestricted fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are nearly synonymous.[108]

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[105] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009 and GASB Statement No. 54, paragraph 5.
[106] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009.
[107] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009.
[108] Gauthier, Stephen J., *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

A ten-year trend analysis of the City's fund balance ratio including the most recent FY2012 numbers is not possible because the data has been classified differently with implementation of GASB No. 54. In the interest of government transparency, the Civic Federation recommends that all local governments, if possible, provide ten years of fiscal data in the GASB No. 54 format in the statistical section of their audited financial statements. Each government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

Fund Balance Policy

On October 22, 2013, Mayor Emanuel signed an executive order that provides a mechanism to build the City's unrestricted Corporate Fund reserves.[109] For every budget, the order instructs the City's Budget Director to identify the amount of the previous year's Corporate Fund fund balance, and then calls for the transfer of at least 10% of that balance into the City's Corporate Fund reserves for unanticipated future needs.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%.[110] The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[111]

The City's FY2012 unrestricted Corporate Fund fund balance is $210.4 million, or 6.8% of its operating expenditures. To meet the GFOA standard of two months of operating expenditures, the City would need approximately $513.6 million. As noted above, according to the GFOA a large government with a diverse revenue base and home-rule authority may effectively maintain a smaller ratio.

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

Audited Fund Balance

The exhibit below shows twelve years of the City's Corporate Fund fund balance and its ratio to general fund expenditures. Prior to FY2011 and GASB Statement No. 54, the City categorized their unreserved fund balance into *designated for future appropriations* and *undesignated – major funds, undesignated – special revenue funds* and *undesignated – capital projects funds*.

The first chart below includes only the unreserved undesignated fund balance to determine the portion of the fund balance without any constraints. Between FY2001 and FY2010, the City of Chicago Corporate Fund unreserved fund balance fluctuated between a high of $81.2 million in FY2010 to a low of just $226,000 in FY2008. The fund balance ratios for these years were 2.67% and 0.01%, respectively.

City of Chicago Unreserved, Undesignated Corporate Fund Fund Balance Ratio: FY2001-FY2010

	Unreserved Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2001	$ 33,241,000	$ 2,440,426,000	1.36%
FY2002	$ 13,014,000	$ 2,442,796,000	0.53%
FY2003	$ 19,458,000	$ 2,661,102,000	0.73%
FY2004	$ 42,246,000	$ 2,567,658,000	1.65%
FY2005	$ 57,648,000	$ 2,739,570,000	2.10%
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%
FY2009	$ 2,658,000	$ 3,014,077,000	0.09%
FY2010	$ 81,151,000	$ 3,033,941,000	2.67%

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

The following chart presents unrestricted fund balance for FY2011 and FY2012. In this exhibit, the City's net resources including self-imposed constraints amount to $210.4 million, or 6.8% of Corporate Fund expenditures. These resources include an assigned portion of $177.0 million and an unassigned portion of fund balance of $33.4 million. The unassigned portion is made up of the City's net resources without constraints, self or externally imposed, and represents 1.1% of Corporate Fund expenditures.[112]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2012

	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%

[112] City of Chicago, FY2012 Comprehensive Annual Financial Report, pp. 34 and 36.

Long-Term Asset Lease Reserve Funds

In addition to its Corporate Fund fund balance, the City also maintains a reserve fund that is used to account for reserves created through the Skyway and parking meter lease transactions.[113] For background information about the City's long-term asset leases, see Appendix A on page 96 of the report. While asset reserves have in the past been viewed favorably by bond ratings agencies, it is important to note that the asset lease reserves are not the same as budgetary reserves.

As a result of the changes to GASB Statement No. 54 in FY2011, the Service Concession Agreement Fund, which accounted for deferred inflows from long-term concession and lease transactions, such as the Skyway and parking meter lease reserves, and the Reserve Fund, which accounted for the City's Mid-Term and Long-Term reserves, were combined to create the Service Concession and Reserve Fund as a major special revenue fund.[114]

Upon the onset of each lease agreement, the City set aside $500 million of the $1.8 billion Skyway lease proceeds and $400 million of the nearly $1.2 billion parking meter lease proceeds for long-term reserves. While the $500 million in Skyway reserves has remained intact, the parking meter long-term reserves have been significantly depleted. By the end of FY2013, the City estimates that approximately $320.0 million, or 80%, of the parking meter reserves will have been transferred out of the parking meter Long-Term Reserve Fund and into the Corporate Fund.[115]

Nearly $1.3 billion in non-recurring revenues will have been transferred from asset lease proceeds to the Corporate Fund between 2005 and 2013 (not including amounts spent on human infrastructure programs). These transfers and disbursements were made in addition to the $57.4 million drawn out from the Corporate Fund unreserved fund balance between FY2005 and FY2008, which was also used to balance the Corporate Fund budget. The transfer of these asset lease proceeds to the Corporate Fund at the same time as the Corporate Fund fund balance was being depleted highlights the size of the structural gap that was created over the last several years. With the approval of the FY2012 budget, the City ordered that principal from these reserves will no longer be used to pay for the City's operating expenditures and only interest generated from these reserve funds will be transferred to the Corporate Fund.[116]

[113] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 52.
[114] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 49.
[115] City of Chicago, Annual Financial Analysis 2013, p. 63.
[116] See the FY2012 Annual Appropriations Ordinance, Section 12.

Beginning in FY2012, the City began replenishing the parking meter reserves with a transfer of $20 million in FY2012, a transfer of $15 million in FY2013 and a proposed transfer of $5 million in FY2014.[117] The City is also continuing to transfer interest generated in the reserve funds to the Corporate Fund as part of its Proceeds and Transfers In revenue. The chart below shows the initial deposits into the asset lease reserve funds and their balances each year thereafter.

Long-Term Asset Lease Balances: FY2005-FY2013 (in $ millions)

Year	Skyway Mid-Term Reserve Fund (2005)	Skyway Long-Term Reserve Fund (2005)	Parking Meter Mid-Term Reserve Fund (2008)	Parking Meter Long-Term Reserve Fund (2008)	Parking Meter Budget Stabilization Fund (2008)	Total
Skyway Deposit	**$ 375**	**$ 500**				**$ 875**
2005	$ 275	$ 500				$ 775
2006	$ 225	$ 500				$ 725
2007	$ 150	$ 500				$ 650
2008	$ 100	$ 500				$ 600
Parking Meter Deposit			**$ 325**	**$ 400**	**$ 326**	**$ 1,051**
2009	$ 50	$ 500	$ 175	$ 380	$ 101	$ 1,206
2010	$ -	$ 500	$ 75	$ 220	$ -	$ 795
2011	$ -	$ 500	$ -	$ 80	$ -	$ 580
2012	$ -	$ 500	$ -	$ 100	$ -	$ 600
As of 6/30/13	$ -	$ 500	$ -	$ 115	$ -	$ 615
FY2014 Proposed Balance	**$ -**	**$ 500**	**$ -**	**$ 120**	**$ -**	**$ 620**

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Does not include Human Infrastructure Funds.

Source: City of Chicago, Annual Financial Analysis 2013, p. 62; FY2014 Budget Overview, p. 1.

PENSION FUNDS

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

Plan Descriptions

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

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[118] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

[117] City of Chicago, FY2014 Budget Overview, p. 1.
[118] Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2012, pp. 9-10.

The Policemen's Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for police service employees of the City of Chicago and their dependents.[119] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois state statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[120] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[121] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

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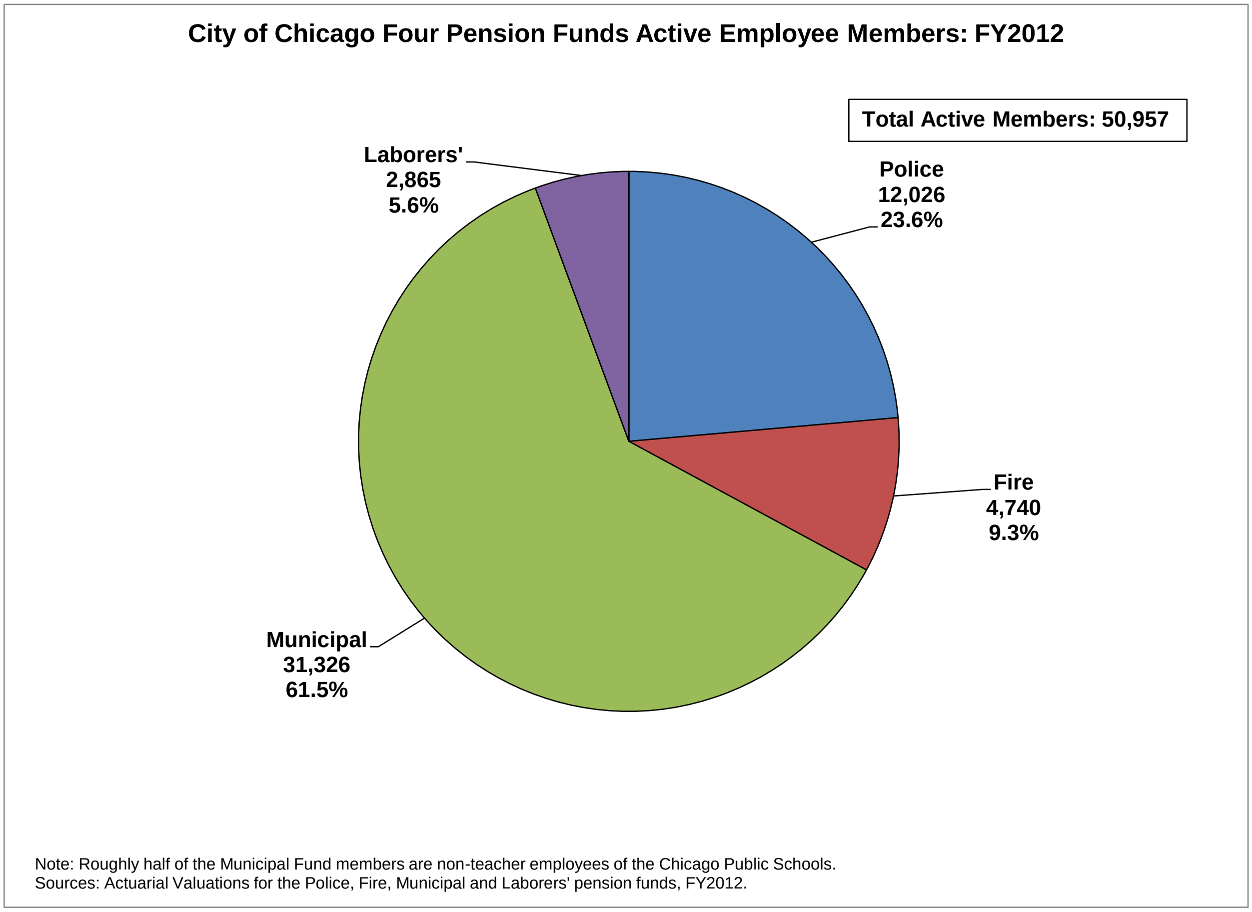
[119] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2012, p. 5.

[120] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2012, p. 35. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.

[121] Laborers' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2012, p. 20.

Members

In FY2012 there were 50,957 employees participating in the four pension funds. The Municipal Fund constitutes 61.5% of total active employee membership. However, roughly half of the 31,326 active Municipal Fund members are not City employees, but are non-teacher employees of Chicago Public Schools.[122]



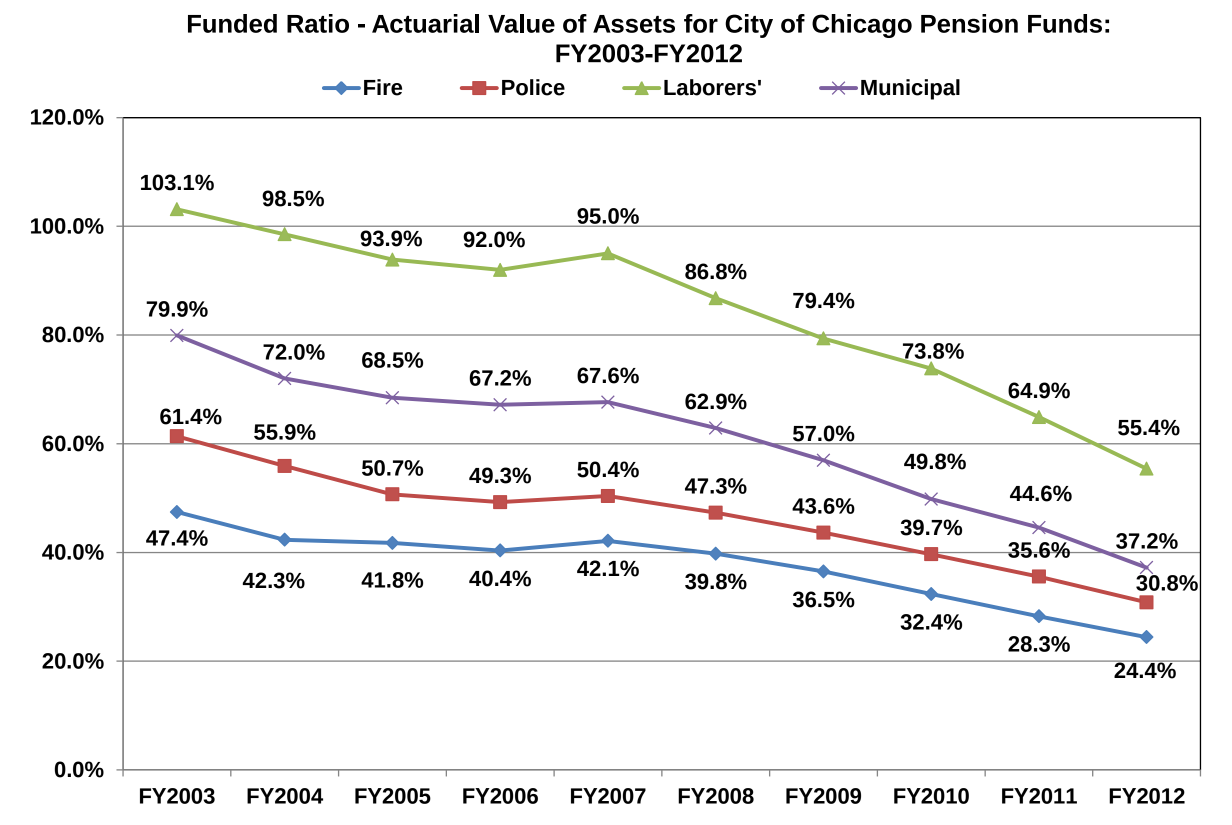
Funded Ratios – Actuarial and Market Value of Assets

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

[122] In FY2011 53.3%, or 17,042, of the 31,976 active members of the Municipal Fund were employees of the Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012*, p. 78.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[123] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios of all four City pension funds declined again in FY2012. The Fire Fund fell to 24.4% and the Police Fund fell to 30.8%. The funded ratio for the Municipal Fund was 37.2% and the Laborers' Fund was 55.4%. These ratios are roughly half of what they were for each fund in 2003. A funded ratio below 80% is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.

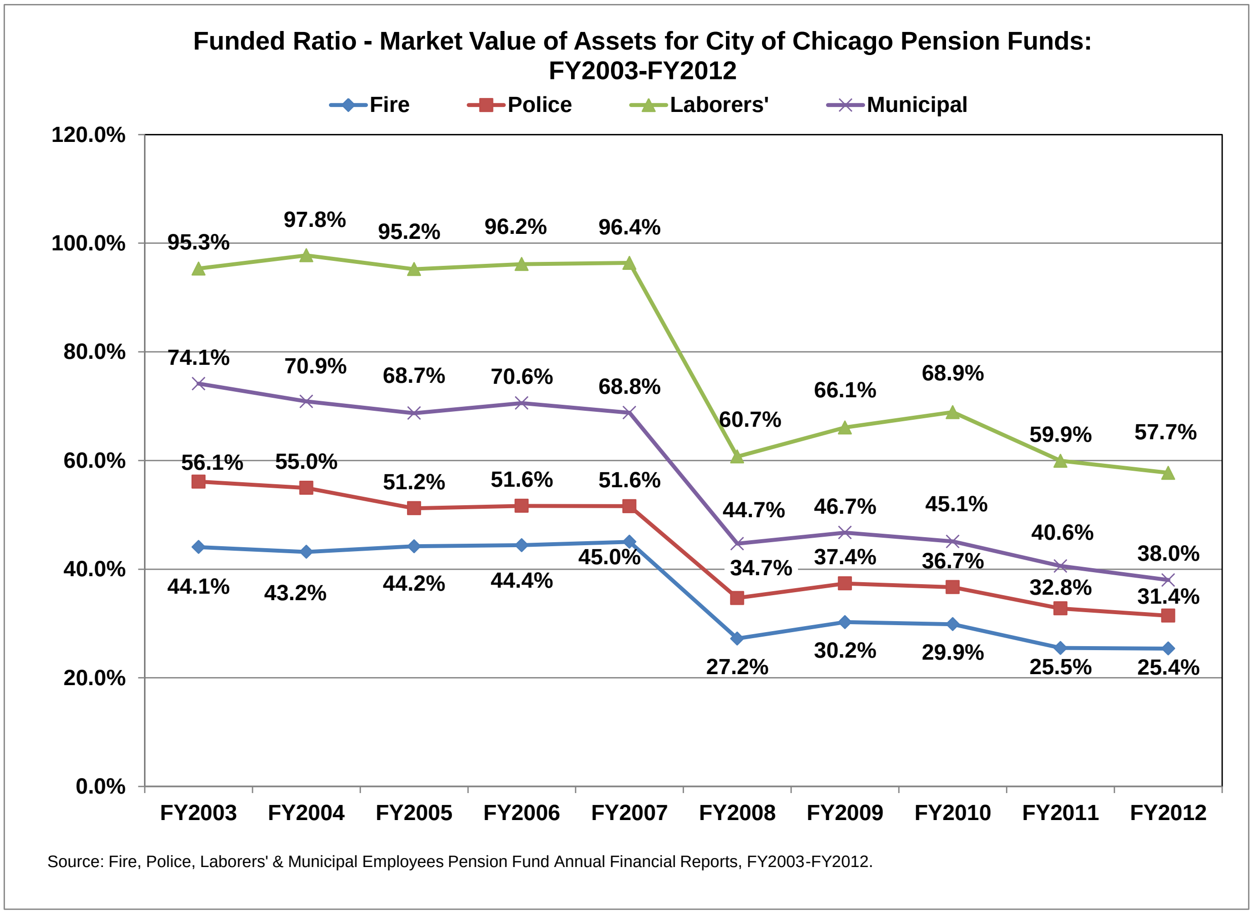


Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports ,FY2003-Y2012.

The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios of all four funds fell again in FY2012, but not as significantly as the actuarial value ratios. This is because the actuarial value ratios, due to smoothing, are still taking

[123] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2011*, May 21, 2013.

into account investment losses in FY2008 and FY2011, while the market value ratios immediately showed the full effect of those losses in those years. So while actuarial value funded ratios for all four funds have declined steadily since FY2007, market value ratios declined sharply in FY2008 and have been relatively flat or declined less dramatically since then.



Unfunded Liabilities

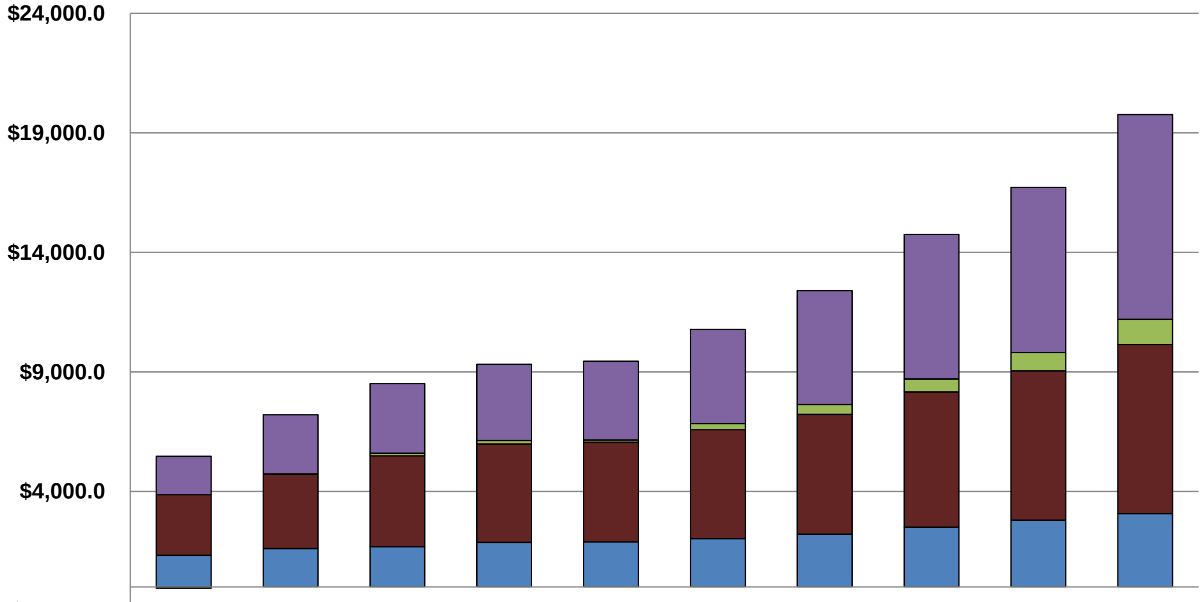
Unfunded actuarial accrued liabilities are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $14.3 billion, or 264.8%. The total unfunded liabilities reached $19.8 billion in FY2012, of which $8.6 billion was in the Municipal Fund followed by the Police Fund at $7.1 billion.

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

- Fire Pension Fund: 132.2% increase, or $1.7 billion;
- Police Pension Fund: 178.2% increase, or $4.5 billion;
- Laborers' Pension Fund: 2,166.9% increase, or $1.1 billion;[124] and
- Municipal Pension Fund: 433.7% increase, or $7.0 billion.

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

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2003-FY2012 (in $ millions)

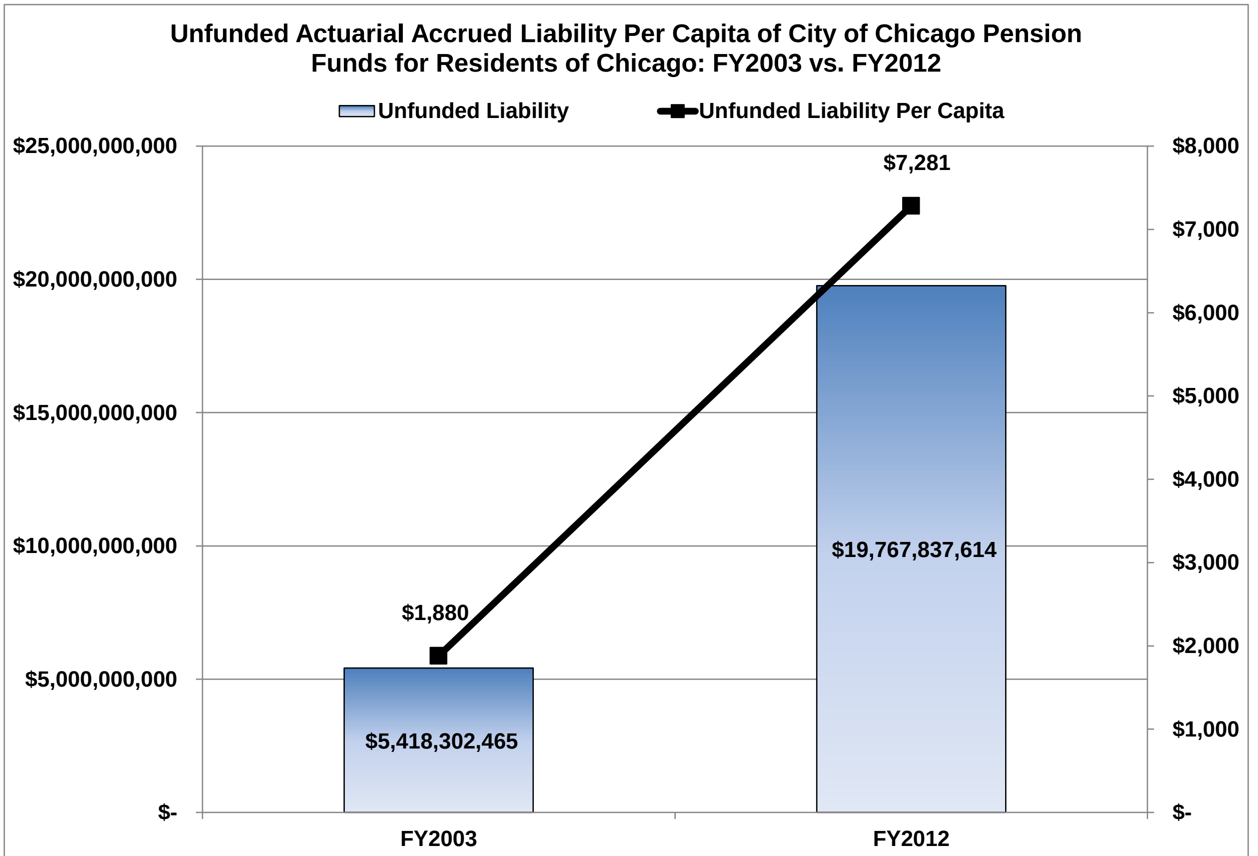


	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Municipal	$1,604.5	$2,465.4	$2,917.8	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8	$6,903.9	$8,564.1
Laborers'	$(51.2)	$24.7	$106.7	$145.2	$92.0	$259.0	$416.1	$542.0	$768.8	$1,058.9
Police	$2,541.7	$3,101.2	$3,808.3	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9	$6,243.7	$7,071.7
Fire	$1,323.3	$1,610.9	$1,679.3	$1,868.6	$1,888.0	$2,022.9	$2,207.5	$2,505.1	$2,797.2	$3,073.1
TOTAL	$5,418.3	$7,202.3	$8,512.1	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,751.9	$16,713.5	$19,767.8

Source: Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports, FY2003-FY2012

It is important to note that although the actuarial funded ratio of each fund increased slightly in 2007, the actuarial unfunded liabilities also increased that year. This occurred because the value of the actuarial assets increased at a faster rate than did liabilities.

Between FY2003 and FY2012, total unfunded liabilities per resident of Chicago grew from $1,880 per capita to $7,281 per capita. This is an increase of 287.3%.

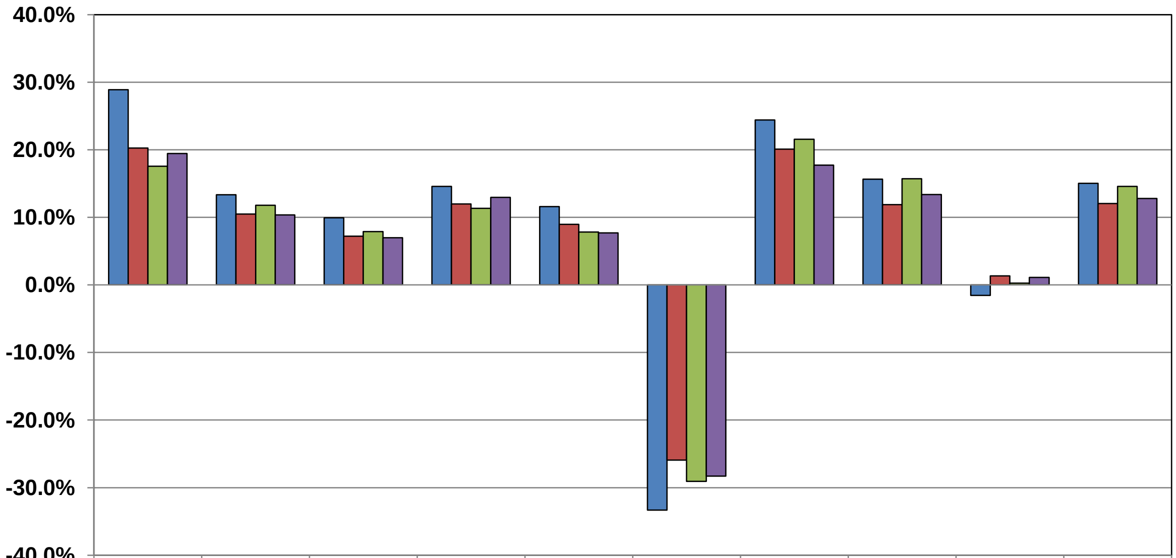


Source: U.S. Census Bureau; Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports, FY2003 and FY2012.

Investment Rates of Return

In FY2012 all four City pension funds experienced strong returns on their investments, ranging from 12.0% for the Police Fund to 15.0% for the Fire Fund. This was a reversal from the weak returns in FY2011 that reflected national public pension fund trends of low investment returns.[125]

Investment Rate of Return - City of Chicago Pension Funds: FY2003-FY2012



	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Fire	28.9%	13.4%	10.0%	14.6%	11.6%	-33.3%	24.4%	15.6%	-1.5%	15.0%
Police	20.3%	10.5%	7.2%	12.0%	9.0%	-25.9%	20.1%	11.9%	1.3%	12.0%
Laborers'	17.6%	11.8%	7.9%	11.3%	7.8%	-29.1%	21.6%	15.7%	0.3%	14.6%
Municipal	19.5%	10.4%	7.0%	13.0%	7.7%	-28.3%	17.7%	13.4%	1.1%	12.8%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports, FY2003-FY2012.

Pension Benefits

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Chicago Municipal and Laborers' pension funds.[126] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 hires" as those persons hired on or after January 1, 2011.

Tier 1 employees in the Municipal and Laborers funds are eligible for full retirement benefits once they reach age 60 and have at least 10 years of employment at the City, age 55 with 25

[125] National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.
[126] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

years, or age 50 with 30 years of service. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 63 year-old employee with 25 years of service and a $56,000 final average salary could retire with a $33,600 annuity: 25 x $56,000 x 2.4% = $33,600.[127] The annuity increases every year by an automatic compounded 3.0% adjustment. Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% for each month they are under age 60.

The following table compares Tier 1 employee benefits to Tier 2 employee benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest 4 year average to the highest 8 year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions

	Tier 1 (hired before 1/1/2011)	Tier 2 (hired on or after 1/1/2011)
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, age 55 with 25 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.4% of final average salary for each year of service	
Early Retirement Formula Reduction	0.25% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at earlier of age 60 and first anniversary of retirement, or age 55 and third anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to aldermen, the City Clerk, and the City Treasurer. See 40 ILCS 5/8-243.2.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; and Public Act 96-0889.

Tier 1 members of the Chicago Police and Fire Funds are eligible for full retirement benefits once they reach age 50 with at least 20 years of service, or age 63 and 10 years of service. The amount of retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 75% of final average salary. For

[127] The average FY2012 benefit at retirement for Municipal fund participants was $33,508; the average age at retirement was 62.7 and the average years of service at retirement was 24.81. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2012, p. 47.

example, a 59 year-old firefighter with 30 years of service and a $100,000 final average salary could retire with a $75,000 annuity: 30 x $100,000 x 2.5% = $75,000.[128]

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[129] The major benefit changes are an increase in full retirement age from 50 to 55, reduction of final average salary from the highest 4 year average to the highest 8 year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and change in the automatic annual increase from 1.5% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[130]

Major City of Chicago Police and Fire Fund Pension Benefit Provisions

	Tier 1 (hired before 1/1/2011)	Tier 2 (hired on or after 1/1/2011)
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 years of service
Early Retirement Eligibility: Age & Service*	age 50 with 10 years of service	
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
Annuity Formula*	2.5% of final average salary for each year of service	
Early Retirement Formula*	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1955, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1955, starts at later of age 60 or retirement, with a limit of 30%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

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

**The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

Sources: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; Public Act 96-1495.

Public Act 96-1495 does not change employee contributions but it does change employer contributions for the Chicago police and fire funds. The City of Chicago will be required to

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[128] The average FY2012 salary at retirement for Fire fund participants was $103,819; the average age at retirement was 58.5; and the average years of service at retirement was 30.4. Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2012, p. 33.

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

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

begin making contributions in 2015 that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials have estimated that it will represent a $589.9 million contribution increase in 2015.[131] If the City fails to make its required contributions within 90 days of the due date, the Illinois Comptroller must deduct and deposit into the pension fund the certified amounts or a portion of these amounts from the following proportions of State revenue transferred to the City (not to exceed total amount of delinquency): one-third of total State funds to the City in 2016, two-thirds of total State funds to the City in 2017 and 100% of State funds to the City in 2018 and thereafter.

Prior to the enactment of Public Act 96-1495, the Fire Fund was projected to run out of assets during 2021 and the Police Fund was projected to run out of assets during 2025.[132] Because the employer contribution has not been changed for the Municipal and Laborers' funds, they are still projected to run out of assets in 10 to 15 and 15 to 20 years, respectively.[133]

Public Act 96-1495 also requires that the Police and Fire Funds' actuarial value of assets be reset at market value on March 30, 2011 and will be calculated thenceforth using five-year smoothing.[134]

Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[135] Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The

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[131] City of Chicago, Annual Financial Analysis 2013, July 31, 2013, p. 90.

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

[133] Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2012, cover letter; and Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2012, cover letter.

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

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

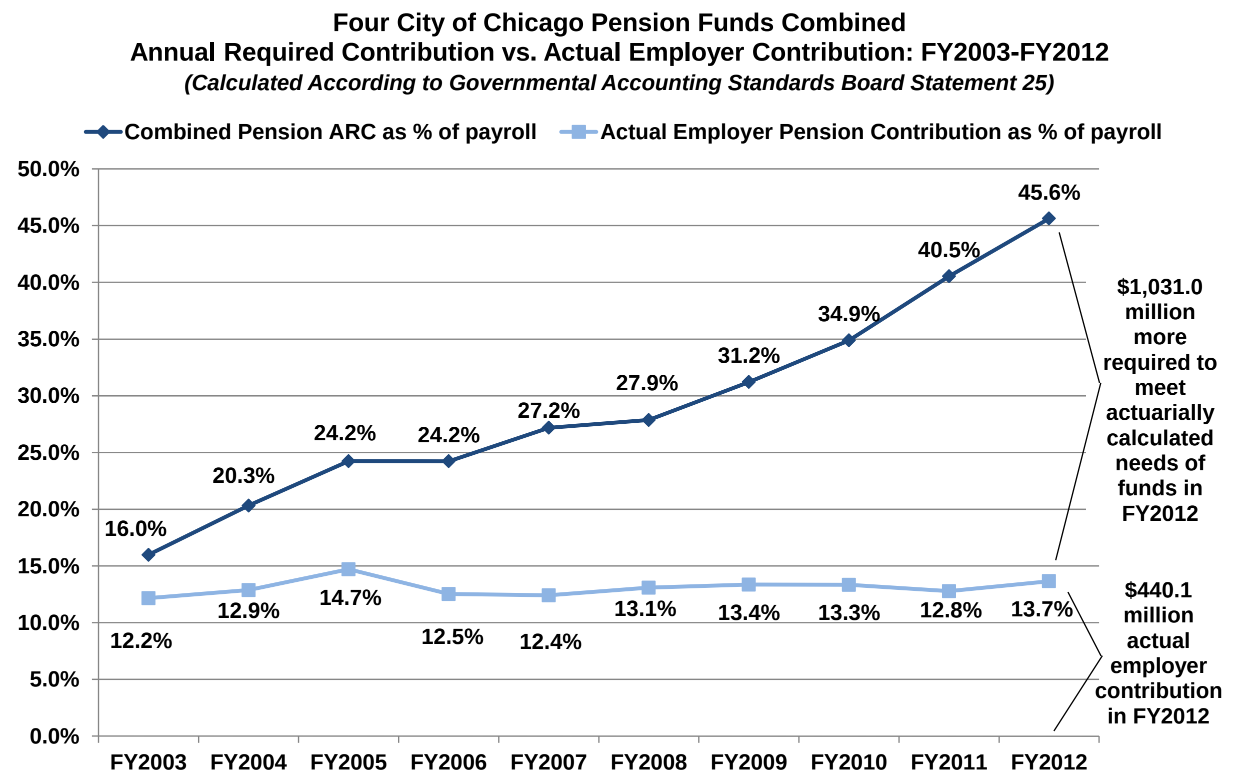
methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required City of Chicago contributions to its pension funds are set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator of how well a public entity is actually funding its pension plan.[136]

Expressing ARC as a percent of payroll provides a sense of scale and affordability. The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $5.1 billion shortfall. In 2012 the combined ARC for the four funds was nearly $1.5 billion or more than three times the actual employer contribution of $440.1 million. The combined employer pension contribution shortfall in FY2012 was more than $1.0 billion.

[136] See Appendix A on page 96 for more historical data on the four City of Chicago pension funds' annual required contributions.

The graph below illustrates the growing gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from a shortfall in FY2003 of 3.8 percentage points, or $107.9 million, to a gap of 32.0 percentage points in FY2012. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the City would have needed to contribute an additional 32.0% of payroll, or $1.0 billion, in FY2012.



Note: Beginning in FY2005, the ARC for the portion of OPEB paid for by the pension funds was calculated separately from the pension ARC. This graph shows only the pension ARC after FY2005. The OPEB ARC for the pension funds would add roughly 1-2% of payroll and the actual employer contribution was roughly 0-1% of payroll.
Sources: Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds, FY2003-FY2012.

The City of Chicago has consistently contributed its statutorily required amounts of 2.26 times the employee contribution made two years prior for the Fire Fund, 2.0 for the Police Fund, 1.25 for the Municipal Fund and 1.00 for the Laborers' Fund. However, these amounts have been less than the ARC for the last ten years. The pension fund actuaries estimate that in order to contribute an amount sufficient to meet the ARC in FY2012, the City would need to contribute a multiple of 7.47 for the Fire Fund, 5.25 for the Police Fund, 6.41 for the Municipal Fund and 7.48 for the Laborers' Fund.[137]

FY2012 Statutory Multiple for Employer Contribution vs. Annual Required Multiple			
	Unfunded Actuarial Accrued Liability Amortization Method Used for Financial Reporting	**Annually Required Multiple (Normal Cost + UAAL Amortization)**	**Statutory Multiple**
Fire	level dollar, open	**7.47**	2.26
Police*	level % of payroll, open	**5.25**	2.00
Municipal	level dollar, open	**6.41**	1.25
Laborers'	level dollar, open	**7.48**	1.00

*Police Fund also computes that the FY2012 annual required multiple using a level dollar amortization would be 7.43. See Police Fund FY2012 Actuarial Valuation p. 18.

Source: Respective Pension Fund FY2012 Actuarial Valuations.

The table below shows employee contribution levels, which are set in state statute as a percent of appropriated salary. It also shows the actual employer contributions for FY2012 as a percent of payroll. Employee contributions to the Fire Fund are highest, at 9.125% of salary. Employer contributions are highest for the Police Fund as a percent of payroll, at 20.4%.

City of Chicago Pension Funds Employee and Employer Contribution Requirements (current laws)			
Fund	**Employee Contribution** (% of appropriated salary)	**Employer Contribution** (multiple of employee contribution made two years prior)	**FY2012 Employer Contribution** (shown as % of payroll)
Fire	9.125%	2.26	20.1%
Police	9.00%	2.00	20.4%
Municipal	8.50%	1.25	10.0%
Laborers	8.50%	1.00	7.3%

Note: For non-teacher employees of the Chicago Public Schools, CPS "picks up" 7% of the employee contributions to the Chicago Municipal Fund.

Source: Police, Fire, Municipal and Laborers' Pension Fund Financial Statements FY2012.

Employer Contributions for Chicago Public Schools Members of the Municipal Fund

Roughly half of the Municipal Fund members are not City employees but are non-teacher employees of the Chicago Public Schools. CPS has not traditionally made an employer contribution to the Municipal Fund for these employees, beyond transferring associated federal

[137] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2012, p. 18; Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2012, p. 20; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2012, p. 87; and Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2012, p. 93.

grant revenue to the City for those Municipal Fund participants that are paid through federal grants. The City makes the full statutory Municipal Fund employer contribution through its property tax levy and personal property replacement tax revenue.[138]

Beginning with the FY2012 City budget, CPS was supposed to begin reimbursing the City for part of the statutory employer contribution the City has been making for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 was $32.5 million.[139] However, given CPS' financial difficulties, the City deferred the FY2012 and FY2013 reimbursement contributions from CPS and will defer the District's FY2014 reimbursement contribution as well.

CPS estimates that the FY2014 Municipal Fund contribution from the City (recorded as revenue) will be $54.6 million.[140] CPS budgeted $6.3 million to be reimbursed to the City for the employer pick-up of employees funded by federal grants for FY2013 and budgeted $5.6 million for FY2014.[141]

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administers a retiree benefit healthcare plan under the terms of a settlement agreement that expired on June 30, 2013.[142] Under the agreement, the four City of Chicago pension funds additionally all subsidize the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The pension funds provided $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants. The City's contribution was roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[143]

The settlement agreement called for the creation of a Retiree Healthcare Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any retiree healthcare benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[144]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, who met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or

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[138] City of Chicago, FY2014 Budget Overview, p. 17.
[139] City of Chicago, FY2012 Budget Overview, pp. 6 and 15.
[140] CPS FY2014 Proposed Budget, p. 20.
[141] Information provided by CPS Budget Office, July 17, 2012 and August 19, 2013.
[142] The most recent version of the settlement was dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/rhbc_report_to_mayor.html.
[143] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.
[144] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, Settlement Agreement, p. 8-10.

not continuing to provide retiree healthcare benefits and make recommendations.[145] Members of the Commission included then City of Chicago Comptroller Amer Ahmad; Leemore Dafney, Associate Professor of Management and Strategy, and the Herman Smith Research Professor in Hospital and Health Services at the Kellogg School of Management at Northwestern University; Will Irving, Laborers Union, Local 1001; and Michael Knitter, Executive Director of Compensation and Benefits at the University of Chicago.[146]

The Commission finished its work in January 2013 and released its report on January 11, 2013.[147] The report did not make any specific recommendations as to how the City should proceed regarding retiree healthcare, but instead offered a series of options with their projected cost to the City. These proposed options included: 1) continuing to provide retiree healthcare benefits at current support levels; 2) continuing to provide benefits at reduced support levels; and 3) eliminating City support for retiree healthcare benefits and placing non-Medicare eligible retirees on the Affordable Care Act Exchanges. The report additionally gave background on the City's history of the court case arising from the City of Chicago's provision of other post employment benefits (OPEB), as well as an analysis of current enrollment and costs.

On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013.[148] First, it would continue subsidies at current levels for all retirees through December 31, 2013. Second, annuitants retired before August 23, 1989, many of whom do not qualify for Medicare, will continue to receive current subsidy levels. Third, due to substantial projected increases in the cost of the plan, annuitants retired on or after August 23, 1989 will see a phase-out of the city's subsidy of benefits with an end to the plan by the beginning of 2017. Non Medicare-eligible retirees would then be able to access healthcare and federal subsidies through the federal Affordable Care Act exchanges. On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree healthcare plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[149]

On October 9, 2013, the City released the details for FY2014 for the previously announced reduction to retiree healthcare subsidies for those retired on or after August 23, 1989.[150] It is

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[145] Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_healthcarebenefitscommissionmeeting.html.

[146] Retiree Healthcare Benefits Commission, June 22, 2012 Meeting Minutes. Available at http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/retiree_healthcarebenefitscommissionjune222012.html. The Chicago City Council passed an ordinance on March 14, 2012 to indemnify the non-City employee members of the RHBC against lawsuits arising from their participation as members of the Commission. Ordinance O2012-1422.

[147] Retiree Healthcare Benefits Commission, Report to the Mayor's Office on the State of Retiree Healthcare, January 11, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.

[148] City of Chicago Department of Finance, "Annuitant Notice," May 15, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/Annuitant_Notice_May_15_2013.pdf.

[149] Public Act 98-0043.

[150] Chicago Mayor Rahm Emanuel's Press Office, "City Informs Retirees of Healthcare Adjustments For 2014," October 9, 2013. Available at

important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive healthcare coverage pursuant to their collective bargaining agreements will see no change to their coverage. The reductions to other affected retirees during FY2014 were announced as follows:

- For those who retired on or after August 23, 1989 and before July 1, 2005:
    - The City will provide up to a 41.25% subsidy toward these retirees' healthcare benefits. The current subsidy is 55%.
- For those who retired after July 1, 2005 through the present, the City subsidy will vary depending on years of City service. The City subsidy will be as follows for the following groups of retirees:
    - 20-plus years will be up to 37.5%. (Currently 50 percent.)
    - 15 through 19 years will be up to 33.75%. (Currently 45 percent.)
    - 10 through 14 years will be up to 30%. (Currently 40 percent.)[151]

Mayor Emanuel expects these changes to save the City approximately $24 million in FY2014.[152]

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http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2013/october_2013/city_informs_retireesofhealthcareadjustmentsfor2014.html.

[151] "City of Chicago 2014 Retiree Healthcare Plan – Questions and Answers." Available at http://ward32.org/wp-content/uploads/2013/10/Retiree_healthcare_fact_sheet_10.08.13.pdf.

[152] City of Chicago, FY2014 Budget Overview, p. 2.

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree healthcare plan totaled $886.7 million in FY2012. As described above, the City pays for a portion of the retiree healthcare premiums, but the pension funds also subsidize part of the employee portion of the premium. The following table shows the unfunded accrued actuarial liability reported for the pension funds, reflecting the obligations of each fund based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, so only the total City obligation is shown. The City's financial statements reported an FY2012 unfunded OPEB liability in FY2012 of $415.8 million for the portion subsidized by the pension funds and a FY2011 unfunded OPEB liability in FY2011 of $471.0 million for the portion subsidized by the City.[153] The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%. The combined unfunded OPEB liability for the City and the pension funds is $886.7 million.

City of Chicago OPEB Unfunded Liabilities: FY2012 (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Unfunded Actuarial Accrued Liability--Pension Funds	$ 162,083	$ 38,653	$168,811	$ 46,206	**$ 415,753**
Unfunded Actuarial Accrued Liability--City					**$ 470,952**
TOTAL					**$ 886,705**

Source: City of Chicago FY2012 CAFR, pp. 87 and 89.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2012, which is the most recent financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest:* Includes interest due on deposits payable by the City in the next fiscal year; and
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year.[154]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and other unspecified liabilities.

[153] City of Chicago, FY2012 Comprehensive Annual Financial Report, pp. 87 and 89. The FY2012 financial statements state that December 31, 2011 was the most recent actuarial valuation date for the portion of OPEB subsidized by the City. The City does not report a combined total liability for both the pension fund and the City OPEB subsidies, nor does it break out its liabilities by pension fund.
[154] City of Chicago FY2012 Comprehensive Annual Financial Report, p. 54-55.

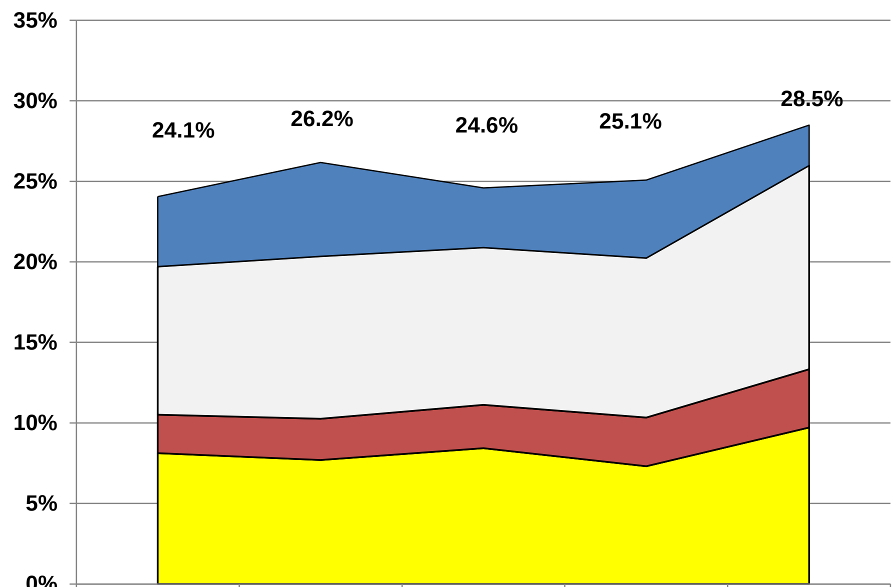
During the five-year period of this review, total short-term liabilities increased by 23.3%, rising from $1.34 billion to $1.66 billion. The following chart shows short-term liabilities by category and the percent change between FY2008 and FY2012.

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2008 - FY2012 (in $ thousands)									
Type	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**Two-Year Change**	**Two-Year % Change**	**Five-Year Change**	**Five-Year % Change**
Voucher Warrants Payable	$ 453,717	$ 410,820	$ 454,162	$ 428,259	$ 564,952	$ 136,693	31.9%	$ 111,235	24.5%
Accrued Interest	$ 133,412	$ 136,679	$ 144,935	$ 177,026	$ 210,413	$ 33,387	18.9%	$ 77,001	57.7%
Due to Other Funds	$ 513,640	$ 538,196	$ 525,993	$ 580,254	$ 735,495	$ 155,241	26.8%	$ 221,855	43.2%
Accrued & Other Liabilities	$ 242,496	$ 310,907	$ 199,324	$ 283,313	$ 145,803	$ (137,510)	-48.5%	$ (96,693)	-39.9%
Total	**$ 1,343,265**	**$ 1,396,602**	**$ 1,324,414**	**$ 1,468,852**	**$ 1,656,663**	**$ 187,811**	**12.8%**	**$ 313,398**	**23.3%**

Source: City of Chicago Comprehensive Annual Financial Report Balance Sheets Governmental Funds: FY2008-FY2012 .

Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[155] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The ratio has increased slightly between FY2008 and FY2012, rising from 24.1% to 28.5%. The average ratio during this period was 25.7%. The following graph shows the five-year trend in the City's short-term liabilities by category.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2008-FY2012



	FY2008	FY2009	FY2010	FY2011	FY2012
Accrued & Other Liabilities	4.3%	5.8%	3.7%	4.8%	2.5%
Due to Other Funds	9.2%	10.1%	9.8%	9.9%	12.6%
Accrued Interest	2.4%	2.6%	2.7%	3.0%	3.6%
Voucher Warrants Payable	8.1%	7.7%	8.4%	7.3%	9.7%

Source: City of Chicago,Comprehensive Annual Financial Reports, FY2008-FY2012.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[156]

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[155] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.
[156] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations.* (Upper Saddle River, NJ, 2001), pp. 476.

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

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Cash and Investments with Escrow Agent*: Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *Due from other funds or governments*: Receivables from those sources that are outstanding at the end of the fiscal year; and
- *Inventories:* The value of materials or supplies that will be used to provide goods or services within a one year period.

Chicago's current ratio was 3.4 in FY2012, the most recent year for which data is available. In the past five years, the City's current ratio averaged 3.8, far above the preferred benchmark of 2.0 and thus demonstrated a healthy level of liquidity. From FY2009 to FY2010, the current ratio increased from 3.9 to 4.3. This change was largely due to a $148.2 million, or 18.5%, increase in the value of investments and an $11.6 million or 35.9% decrease in the amount of accrued and other liabilities. Since then it has decreased. Between FY2008 and FY2012, the current ratio fell slightly from 3.6 to 3.4.

City of Chicago Current Ratio in the Governmental Funds: FY2008-FY2012
(in $ thousands)

	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$1,092,143	$1,606,394	$1,594,798	$ 664,643	$ 729,095	$ 64,452	9.7%	$ (363,048)	-33.2%
Investments	$ 763,171	$ 801,904	$ 950,161	$1,869,980	$ 1,626,647	$ (243,333)	-13.0%	$ 863,476	113.1%
Cash and Investments with Escrow Agent	$ 440,339	$ 491,626	$ 457,748	$ 498,483	$ 499,754	$ 1,271	0.3%	$ 59,415	13.5%
Receivables (Net of Allowances): Property Taxes	$1,279,226	$1,323,772	$1,423,922	$1,350,049	$ 1,258,648	$ (91,401)	-6.8%	$ (20,578)	-1.6%
Receivables (Net of Allowances): Accounts	$ 311,914	$ 318,862	$ 318,331	$ 309,947	$ 285,918	$ (24,029)	-7.8%	$ (25,996)	-8.3%
Due from Other Funds	$ 473,761	$ 502,384	$ 504,225	$ 518,329	$ 644,731	$ 126,402	24.4%	$ 170,970	36.1%
Due from Other Governments	$ 390,523	$ 383,396	$ 417,476	$ 526,139	$ 639,312	$ 113,173	21.5%	$ 248,789	63.7%
Inventories	$ 18,116	$ 19,658	$18,180.00	$ 24,055	$ 20,885	$ (3,170)	-13.2%	$ 2,769	15.3%
Total Current Assets	**$4,769,193**	**$5,447,996**	**$5,684,841**	**$5,761,625**	**$ 5,704,990**	**$ (56,635)**	**-1.0%**	**$ 935,797**	**19.6%**
Current Liabilities									
Voucher Warrants Payable	$ 453,717	$ 410,820	$ 454,162	$ 428,259	$ 564,952	$ 136,693	31.9%	$ 111,235	24.5%
Accrued Interest	$ 133,412	$ 136,679	$ 144,935	$ 177,026	$ 210,413	$ 33,387	18.9%	$ 77,001	57.7%
Due to Other Funds	$ 513,640	$ 538,196	$ 525,993	$ 580,254	$ 735,495	$ 155,241	26.8%	$ 221,855	43.2%
Accrued & Other Liabilities	$ 242,496	$ 310,907	$ 199,324	$ 283,313	$ 145,803	$ (137,510)	-48.5%	$ (96,693)	-39.9%
Total Current Liabilities	**$1,343,265**	**$1,396,602**	**$1,324,414**	**$1,468,852**	**$ 1,656,663**	**$ 187,811**	**12.8%**	**$ 313,398**	**23.3%**
Current Ratio	**3.6**	**3.9**	**4.3**	**3.9**	**3.4**	**-**	**-**	**-**	**-**

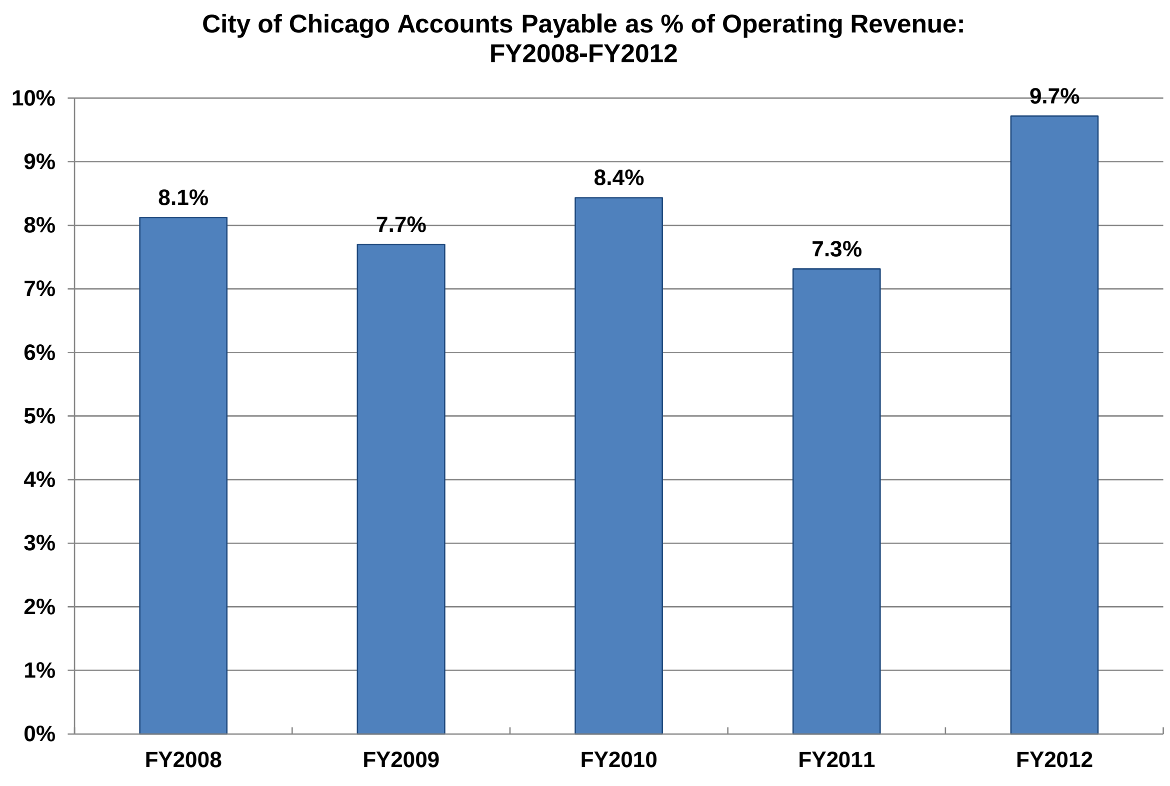
Source: City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds, FY2008-FY2012.

Accounts Payable as a Percentage of Operating Revenues

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

The City of Chicago's ratio of accounts payable to operating revenues has fluctuated over the past five years, falling and rising in successive years. Between FY2011 and FY2012, it rose from 7.3% to 9.7%. The City reports that this increase is due to an aggressive process of identifying and recording FY2012 year-end accruals that have been received but not yet paid. The majority of these accruals were related to capital improvement related expenses.[157]

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 8.3%, which is equal to one month's worth of outstanding bills. This not considered to be a cause for concern. The following graph shows the ratio trend between FY2008 to FY2012.



Source: City of Chicago, Comprehensive Annual Financial Reports, FY2008-FY2012.

[157] Information provided by City of Chicago Office of Budget and Management, November 11, 2013.

LONG-TERM LIABILITIES

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

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension liabilities (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt
- *Lease Obligations*: The amount reported annually is the present value of minimum future lease payments for a sale and lease back arrangements with third parties that the City entered into regarding the City-owned portion of a rapid transit line with a book value of $430.8 million in 2005.[158]
- *Claims and Judgments*: Claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. The amount reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[159]
- *Pollution Remediation*: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[160]

[158] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 69.
[159] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 20.
[160] City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 92.

The two-year increase in long-term liabilities from FY2011 to FY2012 was 9.2% or $1.4 billion. The five-year increase in total long-term obligations between FY2008 and FY2012 was 48.5%. This is a $5.4 billion increase. In the same five-year period, long-term debt (bonds, notes and certificates payable) rose by 23.1%, from nearly $7.5 billion to approximately $9.2 billion. Other liabilities, which include pension and lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 99.4%, or $3.7 billion. The single largest percentage and dollar increase over the five-year period was for pension obligations, which increased by 121.4%, or $3.5 billion. The steady increases in long-term obligations, particularly the large pension obligation increase, are a serious cause for concern.

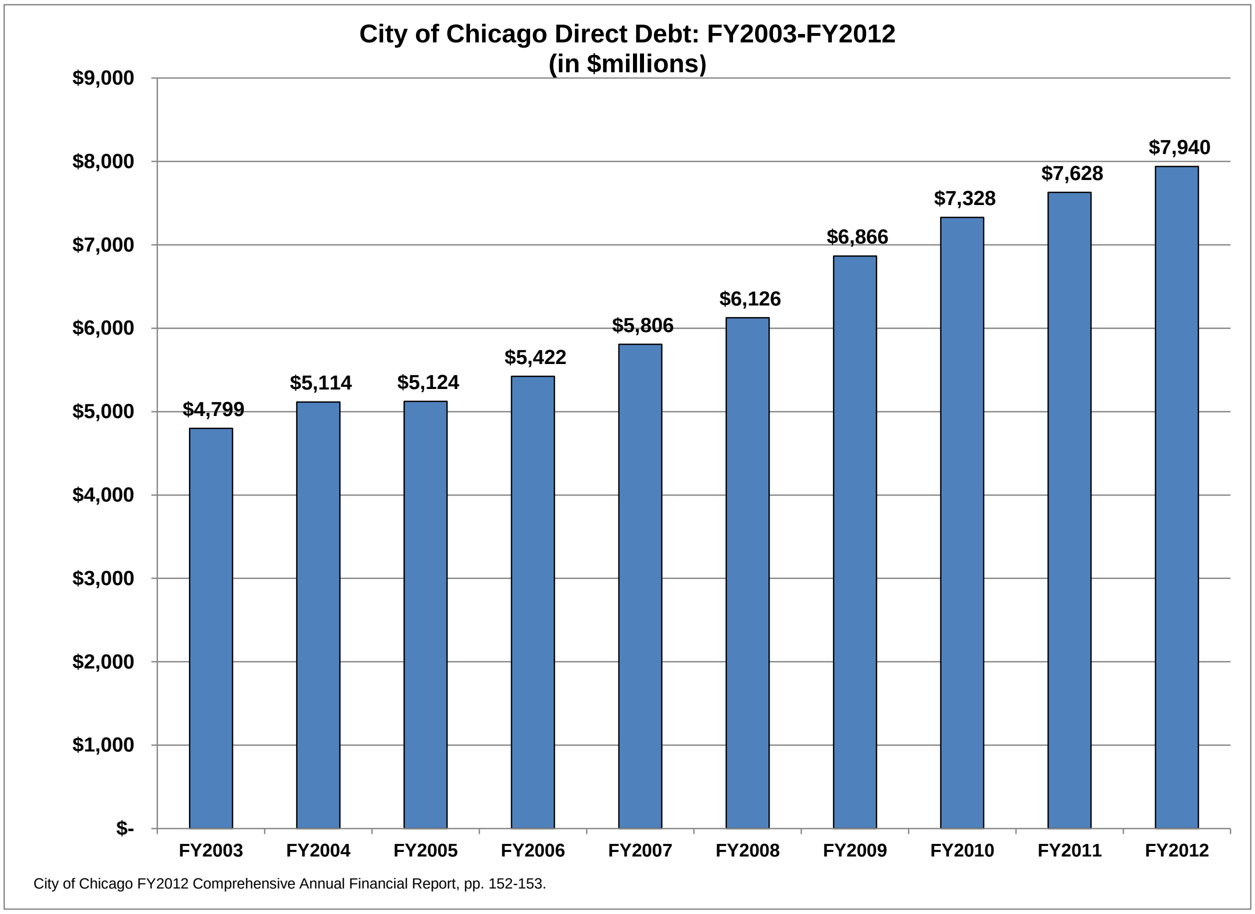
City of Chicago Long Term Liabilities for Governmental Activities
FY2008 - FY2012 (in $ thousands)

	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 6,455,979	$ 6,863,427	$ 7,504,739	$ 7,777,667	$ 8,011,830	$ 234,163	3.0%	$ 1,555,851	24.1%
Installment Purchase Agreement	$ 5,500	$ 3,500	$ 1,200	$ -	$ -	$ -	--	$ (5,500)	-100.0%
Tax Increment	$ 210,213	$ 186,158	$ 163,578	$ 131,561	$ 112,151	$ (19,410)	-14.8%	$ (98,062)	-46.6%
Revenue	$ 562,690	$ 564,842	$ 559,417	$ 776,027	$ 770,312	$ (5,715)	-0.7%	$ 207,622	36.9%
Subtotal Bonds, Notes and Certificates Payable	**$ 7,234,382**	**$ 7,617,927**	**$ 8,228,934**	**$ 8,685,255**	**$ 8,894,293**	**$ 209,038**	**2.4%**	**$ 1,659,911**	**22.9%**
Less unamortized debt refunding transactions	$ (134,773)	$ (159,810)	$ (171,150)	$ (166,065)	$ (170,180)	$ (4,115)	2.5%	$ (35,407)	26.3%
Add unamortized premium	$ 179,514	$ 173,347	$ 198,730	$ 196,637	$ 175,820	$ (20,817)	-10.6%	$ (3,694)	-2.1%
Add accretion of capital appreciation bonds	$ 185,454	$ 207,878	$ 235,412	$ 264,402	$ 283,010	$ 18,608	7.0%	$ 97,556	52.6%
Less converted portion of conversion bonds	$ (7,637)	$ (3,923)	$ -	$ -	$ -	$ -	--	$ 7,637	-100.0%
Total Bonds, Notes and Certificates Payable	**$ 7,456,940**	**$ 7,835,419**	**$ 8,491,926**	**$ 8,980,229**	**$ 9,182,943**	**$ 202,714**	**2.3%**	**$ 1,726,003**	**23.1%**
Pension Obligations	$ 2,874,722	$ 3,453,365	$ 4,216,250	$ 5,386,668	$ 6,364,927	$ 978,259	18.2%	$ 3,490,205	121.4%
Lease Obligations	$ 207,065	$ 169,282	$ 177,011	$ 166,787	$ 163,013	$ (3,774)	-2.3%	$ (44,052)	-21.3%
Pollution Remediation	$ 33,200	$ 37,368	$ 14,263	$ 11,235	$ 8,373	$ (2,862)	-25.5%	$ (24,827)	-74.8%
Claims and Judgments	$ 609,230	$ 627,370	$ 641,762	$ 667,650	$ 888,593	$ 220,943	33.1%	$ 279,363	45.9%
Total Other Liabilities	**$ 3,724,217**	**$ 4,287,385**	**$ 5,049,286**	**$ 6,232,340**	**$ 7,424,906**	**$ 1,192,566**	**19.1%**	**$ 3,700,689**	**99.4%**
Grand Total	**$ 11,181,157**	**$ 12,122,804**	**$ 13,541,212**	**$ 15,212,569**	**$ 16,607,849**	**$ 1,395,280**	**9.2%**	**$ 5,426,692**	**48.5%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2008-FY2012. Note 10: Long-Term Obligations

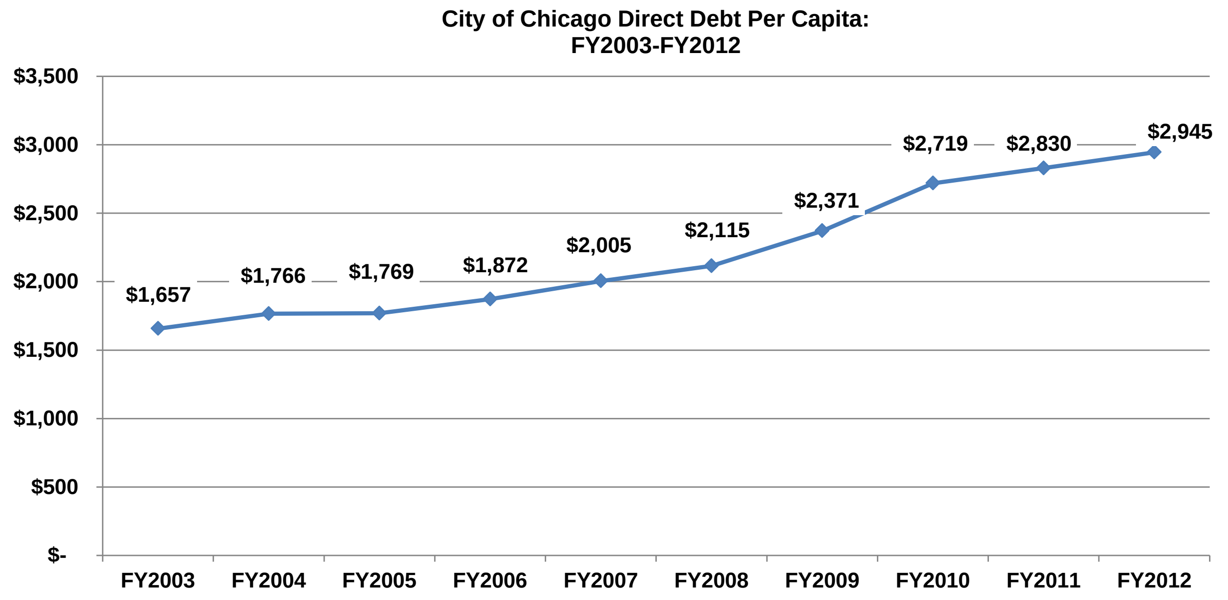
Long-Term Direct Debt Trends

Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 65.5%, or $3.1 billion. This represents an increase from nearly $4.8 billion in FY2003 to $7.9 billion ten years later.



Long-Term Direct Debt Per Capita

A common ratio used by ratings agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the past five years, between FY2008 and FY2012, direct debt per capita rose by 39.2% from $2,115 to $2,945. This upward trend comes amidst a ten-year increase in the City of Chicago's debt per capita of 77.6%, or $1,288. This large upward trend in debt per capita between FY2003 and FY2012 is cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.



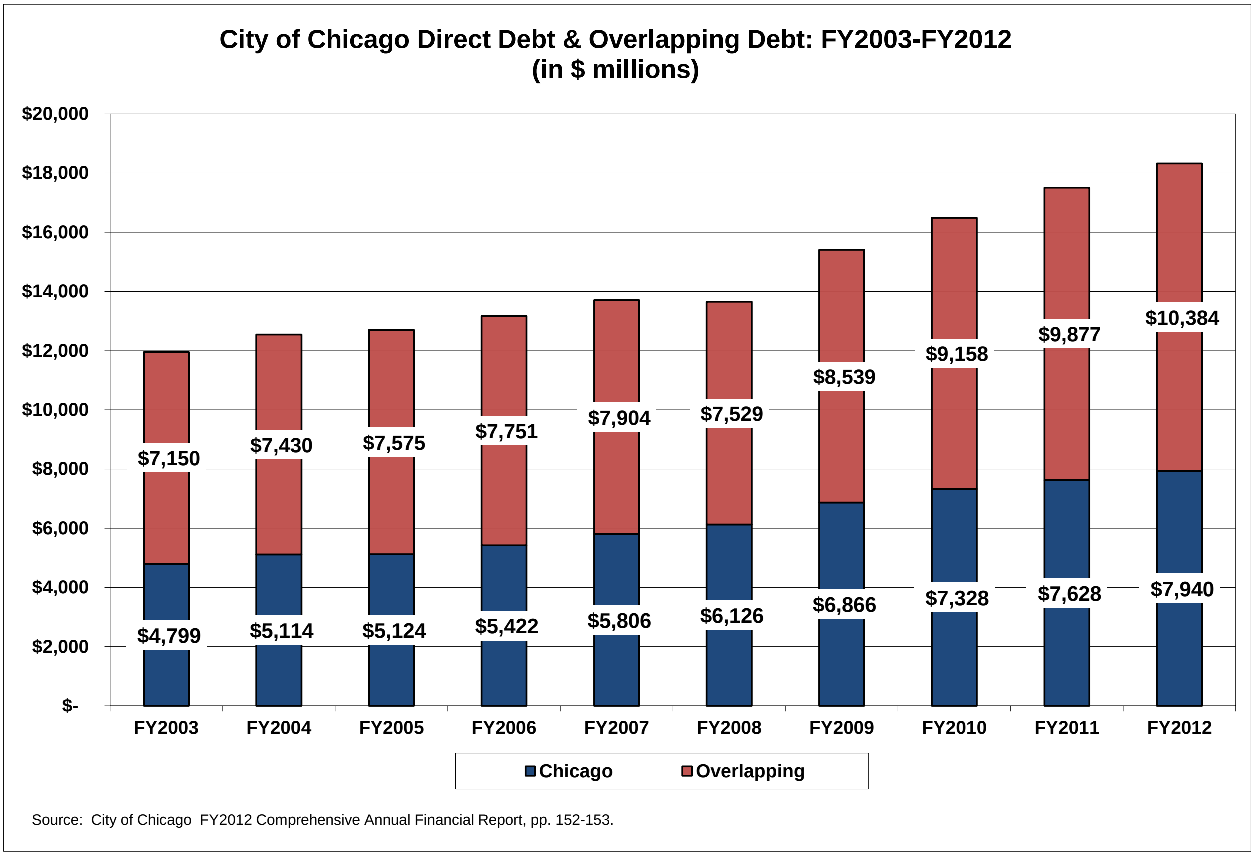
Source: City of Chicago, FY2012 Comprehensive Annual Financial Report, pp. 152-153.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[161] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2003 and FY2012, combined direct debt from other overlapping governments increased by 45.2% at the same time City of Chicago debt rose by 65.5%. Total direct debt from all eight major governments including Chicago rose by 53.4%. The rate of increase in direct debt issued by the City of

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

Chicago has far outpaced the increase for the other overlapping governments in the region. This is a cause for concern.



Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2014 are projected to be 24.5% of total local fund appropriations, or $1.7 billion out of expenditures of $7.0 billion. Since FY2010, debt service appropriations have risen by 37.7%, far outpacing the 13.6% increase in total appropriations. As a consequence, the ratio has increased steadily over the five year period reviewed from 20.2% to 24.5%. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[162]

City of Chicago Debt Service Appropriations as a Percentage of Total Appropriations: FY2010-FY2014			
	Debt Service	**Total Appropriation**	**Ratio**
FY2010	$ 1,241,164,403	$ 6,139,590,000	20.2%
FY2011	$ 1,291,683,500	$ 6,154,793,000	21.0%
FY2012	$ 1,437,125,733	$ 6,283,605,000	22.9%
FY2013	$ 1,520,332,540	$ 6,540,147,000	23.2%
FY2014	$ 1,708,603,837	$ 6,976,982,000	24.5%
Five-Year $ Increase	$ 467,439,434	$ 837,392,000	
Five Year % Increase	37.7%	13.6%	

Source: City of Chicago Program and Budget Summaries and Budget Recommendations: FY2010-FY2014.

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

Credit Ratings

In 2013 the ratings agencies issued a number of credit rating downgrades, reflecting the City's continued deteriorating financial outlook. This follows on the heels of a series of downgrades in 2010 through 2012. The following table summarizes credit ratings for various types of City bonds as of November 11, 2013. The narrative that follows discusses the various downgrade actions over the past three years.

City of Chicago Credit Ratings (as of 11/11/13)			
	Rating Agency		
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation Bonds			
City	A3	A+	A-
Revenue Bonds			
O'Hare Airport			
Senior Lien General Airport Revenue Bonds	A2	A-	A-
Passenger Facility Charge Revenue Bonds	A2	A-	A
Midway Airport			
First Lien - Revenue Bonds	A2	A	A
Second Lien - Revenue Bonds	A3	A-	A-
Water			
Senior Lien - Revenue Bonds	Aa2	AA	AA+
Junior Lien - Revenue Bonds	Aa3	AA-	AA
Wastewater			
Senior Lien - Revenue Bonds	A1	AA-	Not Rated
Junior Lien - Revenue Bonds	A2	A+	AA
Sales Tax	A3	AAA	A-
Motor Fuel Tax	Baa1	AA+	BBB+

Moody's Investors Services Rating Action, July 17, 2013; Paul Merrion, Crain's Chicago Business, "Why state's falling credit ratings hurt Chicago, June 7, 2013; Fitch Ratings. Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to BBB+: Outlook Negative, June 4, 2013; Fitch Ratings. Fitch Rates Chicago O'Hare airport, IL Revs 'A-', Outlook Negative; Affs PFCs at 'A', Outlook Stable, September 25, 2013; Chicago Tribune. S & P turns 'negative' on Chicago's financial outlook, September 16, 2013; Chicago Sun-Times, "Fitch lowers Chicago's bond rating," November 11, 2013 at http://www.suntimes.com/23683456-761/fitch-lowers-chicagos-bond-rating.html; City of Chicago website at http://www.cityofchicago.org/city/en/depts/fin/supp_info/bond_issuances0/credit_information.html.

Chicago Credit Rating Downgrades 2010-2012

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds to AA from AA+.[163] The City's rating outlook was changed to "negative." The downgrade reflected the City's weakening financial condition as a result of revenue declines and the accelerated use of asset lease reserves to balance the operating budget. The downgrade and negative outlook also reflected the City's large unfunded accrued actuarial pension liability.[164] On October 28, 2010

[163] The City's GO debt had been raised to AA+ as part of Fitch Ratings' recalibration of almost all municipal issuers in April 2010. Moody's and Standard & Poor's also undertook recalibrations intended to rate public and corporate debt on the same scale. Dan Seymour, "Fitch Recalibrates 38,000-Plus Ratings," *The Bond Buyer*, April 6, 2010.
[164] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.

Fitch announced another downgrade of the City's outstanding General Obligation bonds to AA- from AA, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[165]

Moody's also downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2 in August 2010. The reasons given for the downgrade were that the City was overly dependent on asset lease reserves that were being rapidly depleted, the City's pension funds are severely underfunded and the City maintains an above average debt burden characterized by a slow 32-year payout. Moody's noted, however, that Chicago maintains a large and diverse tax base, it still maintains reserves from the Skyway long-term lease and that management has taken steps to reduce expenditures.[166]

Moody's, Standard & Poor's and Fitch reaffirmed the City of Chicago's general obligation and sales tax bond ratings and gave the City's credit a stable outlook on October 18, 2011. At that time, the ratings agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[167]

In July 2012, Moody's downgraded O'Hare Airport senior lien general revenue bonds to A2 from A1 over concerns about slow growth in passengers and the bankruptcy of American Airlines, the airport's second largest carrier. The ratings agency noted that the ongoing O'Hare runway expansion effort faces considerable risk in its ability to contain costs and complete work on time because of the size and complexity of the project. Moody's affirmed the A2 rating for O'Hare passenger facility revenue bonds at this time.[168]

Chicago Credit Rating Downgrades in 2013

Chicago motor fuel tax bonds credit ratings were lowered by both Fitch and Moody's in June 2013 after they downgraded the State of Illinois' general obligation ratings. Fitch lowered the rating to BBB+ from A-. This action was triggered by Fitch's downgrade of the State of Illinois' general obligation bond rating to A- from A. Moody's reduced the rating on the bonds to Baa1 with a negative outlook from A3 one day after their state of Illinois rating was lowered to A2 from A3. Motor fuel taxes are distributed according to formula set by the state and are subject to annual appropriation by the General Assembly. The ratings agencies expressed concern that weakness in the state's financial condition raised concerns about the reliability of state revenues provided to local governments that are used to pay for local debt.[169]

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165 Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
166 Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
167 Fitch Ratings. Fitch Rates Chicago, IL GOs & Sales Tax Bonds 'AA-'; Outlook Stable. October 18, 2011 and Standard & Poor's. 'AAA' Rating Assigned To Chicago, IL's $229.5 Million Series 2011A-C Sales Tax Refunding Bonds. October 18, 2011. Fran Spielman, "500 jobs coming, bond rating steady," *Chicago Sun-Times*, October 19, 2011.
168 Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.
169 Fitch Ratings."Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BBB+'; Outlook Negative," June 4, 2013 and Pauk Merrion, *Crain's Chicago Business*, "Why state's falling credit rating hurts Chicago," June 7, 2013.

In July 2013, Moody's downgraded Chicago general obligation sales tax bonds to A3 from Aa3, water and sewer senior lien revenue bond to A1 from Aa2 and water and sewer junior lien bonds to A2 from Aa3. The outlook on all ratings was negative. The primary reason for the general obligation bond downgrade was the City's large and growing unfunded pension liabilities and the increasing budget pressures resulting from these obligations. The sales tax bonds were downgraded due to the "lack of legal separation between pledged sales tax revenues and the city's general operations." The downgrades of the water and sewer bonds reflected the ratings agency's concerns about how the City's water and sewer enterprises were linked to its general operations.[170]

In September 2013, Standard & Poor's (S&P) reduced the City's A+ general obligation bond rating from stable to negative. The downgrade was due to concerns that Chicago might reduce its reserves in order to pay for increased pension funding in fiscal year 2015. In that year the City must substantially increase contributions to two of its four retirement funds to meet state statuary requirements. S&P noted that the City could retain its A+ rating with a stable outlook if it devised a plan to make the forthcoming pension payments while maintaining a balanced budget and keeping reserves at current levels.[171]

Refunding Bonds

The Mayor's recommended FY2014 budget does not propose new debt refinancing but the budget benefits from $92.6 million in principal that was refunded in May 2012 and will not be repaid until FY2042.[172] The refunding bonds were sold with an annual interest rate of 5.432% and structured so that no principal payments are made for 30 years. Extending the life of the debt leads to a total interest cost of $150.9 million for the bonds that would have been otherwise paid for out of the operating budget in FY2014. Likewise, the FY2013 budget benefited from $41.2 million in refinanced principal from the same refunding that will cost an additional $67.1 million in interest over the next 30 years.

By extending the life of these bonds for 30 years, the City reaped current year savings to help balance its operating budget but incurred additional interest payments totaling $218.0 million due on the refunding bonds. The City will also need to make the full payment of $133.8 million in FY2042 when the principal that was refinanced in FY2013 and FY2014 matures.

The following chart shows the principal that was owed in FY2013 and FY2014 by the City but that was refinanced and paid for using refunding bond proceeds and will not be repaid until FY2042. The chart also shows the original bond series that were refunded and the amount of interest that will be paid over the life of the extended debt.

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[170] Moody's Investors Services. Rating Action: Moody's downgrades Chicago to A3 from Aa3, affecting $8.2 billion of GO and sales tax debt; outlook negative.
[171] Reuters. "S&P turns 'negative' on Chicago's financial outlook," September 16, 2013.
[172] City of Chicago, Taxable Project and Refunding Series 2012B, *Official Statement*, May 16, 2012, pp. Cover, G-1, G-2.

City of Chicago, Refunded Principal Payments and Additional Interest Owed for FY2013 & FY2014 (in $ millions)						
	FY2013		FY2014		Total	
Original Bond Series	Principal Refunded	New Interest	Principal Funded	New Interest	Total Principal Refunded	Total New Interest
1993A	$ 6.4	$ 10.4		$ -	$ 6.4	$ 10.4
1993B		$ -	$ 6.0	$ 9.8	$ 6.0	$ 9.8
1998		$ -	$ 4.0	$ 6.4	$ 4.0	$ 6.4
2001A		$ -	$ 2.3	$ 3.8	$ 2.3	$ 3.8
2003A	$ 3.1	$ 5.0	$ 3.3	$ 5.4	$ 6.4	$ 10.4
2004A	$ 2.1	$ 3.4	$ 2.4	$ 3.8	$ 4.5	$ 7.3
2005A	$ 13.1	$ 21.3	$ 59.6	$ 97.1	$ 72.7	$ 118.4
2005B	$ 2.4	$ 4.0	$ 1.8	$ 3.0	$ 4.3	$ 7.0
2006A	$ 1.5	$ 2.5	$ 1.6	$ 2.6	$ 3.1	$ 5.1
2007A	$ 0.2	$ 0.3		$ -	$ 0.2	$ 0.3
2007C	$ 12.3	$ 20.0	$ 11.5	$ 18.8	$ 23.8	$ 38.8
2008A	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.3
Total	**$ 41.2**	**$ 67.1**	**$ 92.6**	**$ 150.9**	**$ 133.8**	**$ 218.0**

City of Chicago, Taxable Project and Refunding Series 2012B, *Official Statement* , May 16, 2012, pp. Cover, G-1, G-2.

CAPITAL PROGRAM

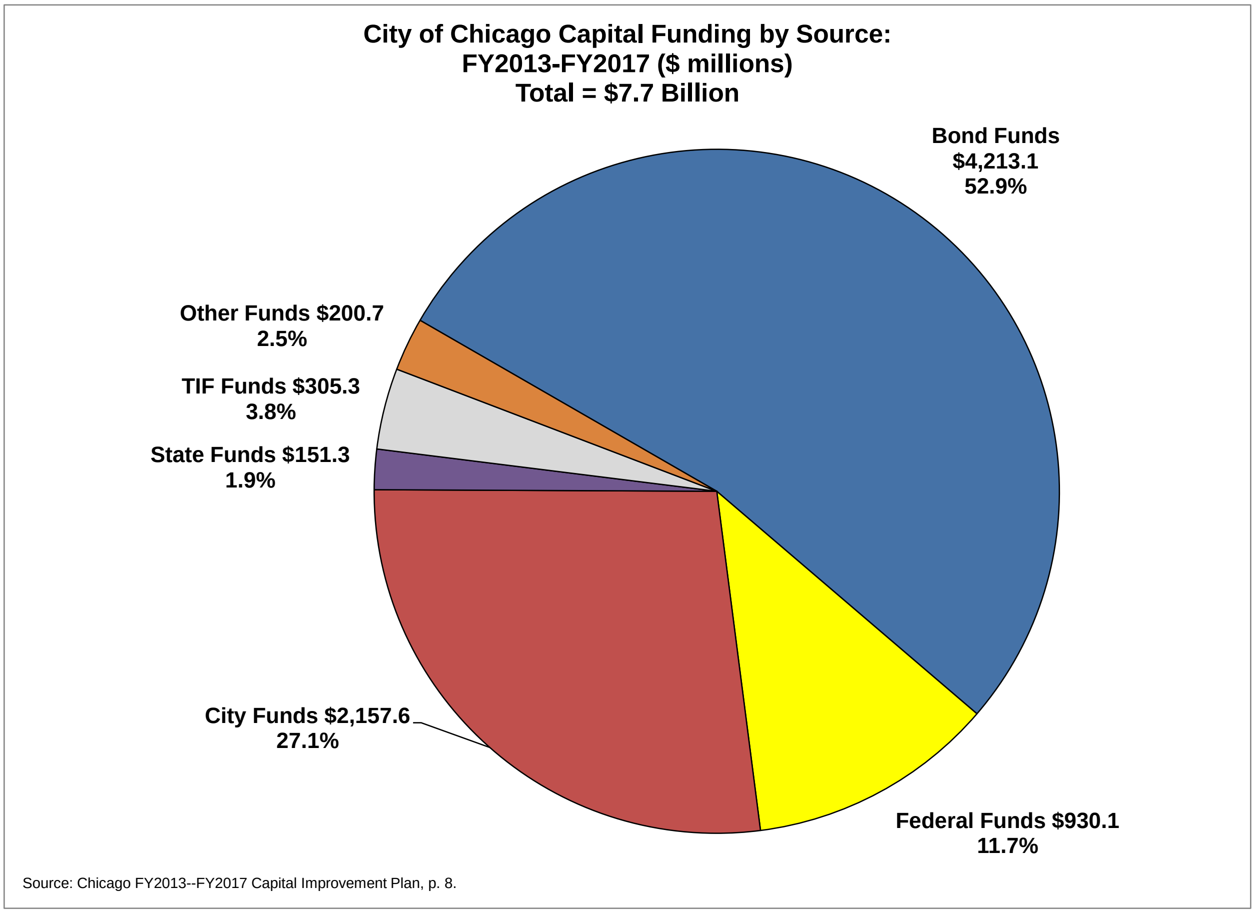
Mayor Emanuel announced the Building a New Chicago initiative in mid-2012. It is a ten year infrastructure program that involves coordination and cooperation between the City, coordinate agencies such as the Chicago Public Schools and the private sector. One of the elements of the initiative is the creation of an *Infrastructure Trust*, which is described below.

The City has released a FY2013-2017 Capital Improvement Plan (CIP).[173] This is the second CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

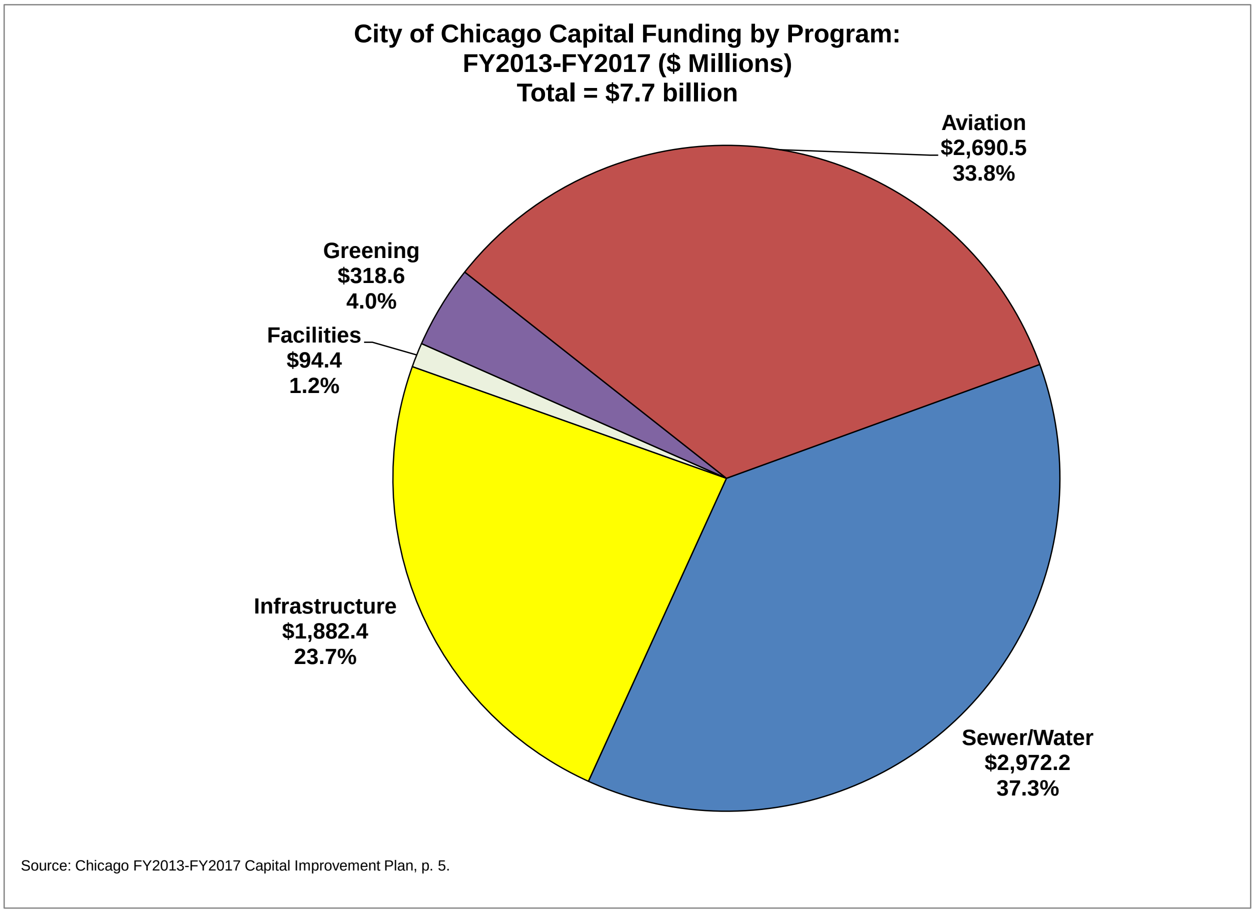
The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and to provide an estimate of the size and timing of future debt issuance. The first year of a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

[173] The FY2013-FY017 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2012%20Budget/2013-17CIP.pdf.

The FY2013-FY2017 CIP proposes $7.7 billion in planned projects. These will primarily be paid for with bond funds (52.9% of the total or $4.2 billion). City of Chicago funds will provide nearly $2.2 billion, or 27.1% of all funding. Federal funds will be used to finance 11.7%, or $930.1 million in projects. Smaller sums will be derived from the State, tax increment financing districts and other funds.



The next exhibit shows the distribution of CIP funds by program. The largest component of the capital program will be $3.0 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total $2.7 billion, or 33.8% of all funding. The next largest capital program will be for infrastructure, which will total nearly $1.9 billion, or 23.7% of funding. Smaller amounts will be used for facilities and greening projects such as greenways, street medians, neighborhood parks, streetscaping and natural areas.



The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines.[174] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

[174] See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually, although no CIP was produced for the FY2011-2015 period.
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[175]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear

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

APPENDIX A: UPDATE TO "RECOMMENDATIONS FOR A FINANCIALLY SUSTAINABLE CITY OF CHICAGO"

The following sections describe the initiatives that the City has implemented or begun to implement that advance the Civic Federation's recommendations as of November 12, 2013.

Personnel

Anticipated Savings: $162.1 million from FY2011 to FY2014

With personnel expenses comprising 81.5% of the proposed FY2014 Corporate Fund appropriations, it is necessary to examine the City's workforce, particularly in the area of public safety, in order to identify any significant savings in operating expenses. The Civic Federation commends the Mayor's efforts each year to restructure the workforce, reform work orders and cut waste. The Civic Federation identifies the following actions announced by the City since Mayor Emanuel assumed office:

- *Budgetary Savings from Phasing Out Retiree Healthcare Subsidy*: The City's FY2014 proposed budget includes $24.0 million in healthcare savings as a result of the phase out of the City's retiree healthcare subsidy. The plan takes advantage of the new healthcare outlook for retirees as a result of the Affordable Care Act and relieves the City of healthcare costs that were estimated to increase from an annual payout of $194.4 million in FY2014 to $540.7 million in FY2023.[176]
- *Reduction in Workforce and Elimination of Vacancies*: The FY2012 budget included a reduction of 2,505 FTEs, or 7.3% of the workforce from the FY2011 approved budget.[177] Total personnel services appropriations in the Corporate Fund declined by $132.7 million, or 4.9%, from the FY2011 approved budget.[178] The most significant cuts proposed were 1,252 eliminated sworn officer vacancies in the Police Department. These cuts were reflected in a $56.6 million decline in Corporate Fund personnel services appropriations for the Police Department. However, personnel services appropriations for all public safety departments were collectively down only 1.7% due to a $33.3 million increase for the Fire Department.[179] In FY2013 the City is proposing to reduce its workforce by 275 positions, including targeted vacancies.[180] These eliminations are not reflected in the trend analyses of personnel counts because the City is also budgeting its personnel in its budget books in a way that more accurately reflects its workforce. According to the City, approximately $45 million in cost savings were identified for FY2013, including vacancy sweeps and attrition ($20 million), savings from personnel-related healthcare costs in 2011 and 2012 ($20 million) and labor agreement savings ($5 million).[181]
- *Cuts in Management Payroll and Board and Commission Compensation*: Approximately $30 million in savings were expected in FY2011 with cuts to middle and senior management

[176] City of Chicago, Retiree Healthcare Benefits Commission, "Report to the Mayor's Office on the State of Retiree Healthcare," January 11, 2013.
[177] City of Chicago, FY2013 Budget Overview, p. 170.
[178] City of Chicago, FY2011 and FY2012 Appropriations Ordinance, Summary D.
[179] City of Chicago, FY2011 and FY2012 Appropriations Ordinance, Summary D.
[180] City of Chicago, FY2013 Budget Overview, pp. 22-23.
[181] City of Chicago, Office of Budget and Management, FY2013 Budget Presentation.

payrolls and a 50% reduction in compensation for members of City boards and commissions.[182]

- *Merge Overlapping Functions Across Departments*: With the elimination of redundant positions (and non-personnel costs), $3.5 million was estimated to be saved in FY2011.[183]
- *Vacation Rule Changes*: Beginning in 2011, non-represented employees will be allowed to carry over a maximum of five vacation days from one year to the next, reducing the monetary compensation of unused vacation days for retiring employees.[184]
- *New Reimbursement Policies*: In 2011 the City implemented new credit card and travel reimbursement policies aimed at increasing accountability and efficiency, which reduced the number of citywide credit cards from more than 500 to 8 and is projected to save approximately $1 million in travel expenditures in 2012.[185]

Pension Funds

On May 8, 2012, Mayor Emanuel addressed the Illinois General Assembly Personnel and Pensions Committee with his roadmap to retirement security. The plan outline included an increase in the retirement age for most civilian workers, a one percent annual increase in employee contributions for five years and a ten-year freeze in annual cost-of-living adjustments for current retirees. The Civic Federation was encouraged by Mayor Emanuel's pension reform initiative as it provided a strong outline of a comprehensive, balanced solution to the City of Chicago, CPS and Park District pension crises that included shared sacrifice by retirees, current employees and eventually taxpayers.

Mayor Emanuel and leadership of the Chicago Police Sergeants' union agreed to a tentative contract that included pay raises and significant pension reforms. However, on March 11, 2013 rank-and-file union members rejected the contract by a large majority. The contract would have been the first significant step toward implementation of Mayor Emanuel's outline of pension reforms and reducing the enormous costs of the City's pension system.

In addition to the Mayor's pension reform initiatives, the City has provided information on the its pension funds to the public via a new pension website and in its *Annual Financial Analysis* reports.[186] The information includes current funding statuses, the effect of unfunded liabilities on city finances and the City's historic and projected pension contributions.

However, much more must be done. On November 6, 2013, the Illinois General Assembly overwhelmingly passed a bill that would enact significant pension reform for the Chicago Park

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182 City of Chicago, Office of the Mayor, "2011 Savings Update at First 100 Days," press release, August 22, 2011; "Mayor Emanuel Announces Additional $25 million in Savings Through Middle and Senior Management Cuts," press release, October 3, 2011; and "Mayor Emanuel Announces Reduction in City Board and Commission Compensation," press release, August 29, 2011.

183 City of Chicago, Office of the Mayor, "2011 Savings Update at First 100 Days," press release, August 22, 2011.

184 City of Chicago, Office of the Mayor, "City Council Adopts City Employee Vacation Reform," press release, October 5, 2011.

185 City of Chicago, Office of the Mayor, "Mayor Emanuel Announces New City Employee Mileage Reimbursement and Local Transportation Policy to Increase Efficiency and Accountability," press release, October 8, 2011.

186 www.cityofchicago.org/retirementsecurity

District if signed into law by Governor Quinn.[187] The reforms include increases to the employer and employee contributions, increases to the minimum retirement age for Tier I employees and changes to automatic cost-of-living increases which would apply to current retirees. Mayor Emanuel applauded the General Assembly and referred to the legislation as "a balanced approach of reform and revenue."[188]

The City's Municipal and Laborers' pension funds are on a path to deplete their assets within ten to twenty years if reform measures are not implemented. The Police and Fire funds require an increase in statutory employer contribution next year that will increase the City's total required contributions from $483.4 million in FY2014 to nearly $1.1 billion in FY2015.[189] The pension liabilities have grown so large and the contributions needed to rescue the funds are so substantial that the City will have great difficulty funding the current pension promises it has made to its employees. The Federation strongly urges the City to work with relevant unions and to engage members of the Illinois General Assembly for immediate action on the much needed reform.

Police and Fire Departments
Anticipated Savings: at least $56.6 million in FY2012

The public safety departments, including the Office of Emergency Management, comprise 58.3% of the City's FY2014 proposed Corporate Fund budget. Mayor Emanuel and Police Superintendent Garry McCarthy took the following actions in FY2012 to evaluate and reorganize the Chicago Police Department:

- *Reorganizing the Command Structure of the Police Department*: Superintendent McCarthy's reorganization of the Chicago Police Department (CPD) eliminated two assistant superintendent and four deputy superintendent positions, creating a management system more similar to police departments in other major U.S. cities.[190]
- *Re-deployment of Additional Officers to the Beat*: The Mayor and CPD have deployed more officers previously assigned as Mobile Strike Force and Targeted Response Unit officers, administrative positions and detention aides to patrol higher crime areas.[191]
- *Consolidation of Space and Increased Coordination*: The FY2012 budget closed three police stations and consolidated the Police and Fire headquarters. The consolidated headquarters allowed the City to terminate a $350,000 lease previously used for the Fire Department headquarters.[192] The City anticipates savings in administrative expenses, better coordination between the public safety departments and combined strength of special units such as helicopter and marine operations.[193]

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[187] Senate Bill 1523, House Amendments 3 and 4 of the 98th General Assembly.
[188] Greg Hinz, "Park District pension reform moves in Springfield," *Crains Chicago Business*, November 6-7, 2013.
[189] Public Act 96-1495. City of Chicago, Annual Financial Analysis 2013, p. 90.
[190] See Chicago Police Department website for Organization Chart available at https://portal.chicagopolice.org (last visited on October 4, 2011).
[191] City of Chicago, Office of the Mayor, "Mayor Emanuel and Superintendent Garry McCarthy Announce the Deployment of Additional Police Officers to Communities Across Chicago," press release, July 17, 2011. FY2012 Budget Overview, p. 3.
[192] Communication with Office of Budget and Management, October 23, 2012.
[193] City of Chicago, FY2012 Budget Overview, p. 3.

- *Reduction in Expenses*: The FY2012 proposed budget included a significant reduction in the City's workforce, including the elimination of 1,252 sworn officer vacancies in the Police Department. The vacancy eliminations were reflected in a $56.6 million decline in final Corporate Fund personnel services appropriations for the Police Department.[194]

Procurement

Anticipated Savings: $2.8 million in FY2012, up to $25.0 million by FY2013

Mayor Emanuel implemented the Procurement Modernization Initiative on August 18, 2011. However, the Federation strongly urges the City to address the underlying structural issues that contribute to costly inefficiencies and a lack of accountability, including excessively complex contracts and slow procurement processes.

- *Including Procurement Performance Measurement Data on Data Portal*: In 2013 the City provides a number of data sets that include information on procurement performance metrics in areas such as City auctions and Task Order Requests (TOR).[195]
- *Procurement Modernization Initiative*: Mayor Emanuel has hired Accenture to perform a complete evaluation of citywide procurement services, which includes identifying contracts to be renegotiated or re-bid and working with City staff to redefine contracts and reduce costs.[196] As of October 2012, the City has identified $22 million in savings across funds and will continue to work with Accenture to meet the $25 million savings goal by the end of 2012. Accenture has been training City contracts negotiators and administrators to better renegotiate contracts for more favorable pricing and to improve Request for Proposals processing to increase bidding competition.[197]
- *Intergovernmental Joint Purchasing*: The City Council approved an intergovernmental agreement to increase the City's ability to work with other governments on procurement agreements, allowing the City to save an estimated $2.8 million in FY2012 with increased coordination, efficiency and purchasing power.[198] The City made a joint purchasing agreement with Cook County and Chicago Public Schools to purchase computers which is estimated to save the City $1 million annually and CPS $3 million annually starting in 2013.[199]
- *Reform Competitive Bidding Process with Reverse Auction*: In 2011 the Mayor announced the Reverse Auction initiative, which operates an open and competitive bidding process online, where vendors will have more than one chance to bid on a contract.[200]

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194 City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Appropriation Ordinance, Summary D.
195 See the City of Chicago's data portal website at https://chicago.legistar.com/Calendar.aspx.
196 City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Unprecedented City Procurement Modernization Initiative that Will Find Up to $25 Million in Savings by 2013," press release, August 18, 2011.
197 Communication with Office of Budget and Management, October 23, 2012.
198 City of Chicago, Office of the Mayor, "City Council Approves Resolution that Allows Joint Procurement with Other Governments," press release, October 5, 2011.
199 Communication with Office of Budget and Management, October 23, 2012.
200 City of Chicago, Office of the Mayor, "Mayor Emanuel Announces New Reforms to Ensure More Fairness, Competitiveness in City Contracting," press release, July 21, 2011.

Infrastructure

The Federation is encouraged by the "Building a New Chicago" program, but strongly urges the City to address the inefficiencies within its infrastructure management which include numerous overlapping functions in project management, maintenance, procurement, construction and compliance services.

- *CDOT's New Project Coordination Office*: In 2013 the Chicago Department of Transportation (CDOT) launched a program that maps out infrastructure maintenance projects across City departments, the Chicago Transit Authority and private utilities. CDOT meets with other City department officials, ComEd and Peoples Gas on a weekly basis to coordinate priorities and schedules. The information is plotted on web-based interactive maps which include large-scale ongoing projects, as well as basic street projects like resurfacing and upgrades to water mains and electrical, cable and natural gas lines. CDOT estimated savings in FY2012 to be approximately $10.1 million, almost half of which is due to eliminating duplicative work. The cost of implementing the program was $1.5 million.[201]
- *Increased Coordination of Infrastructure Projects*: In 2012 Mayor Emanuel initiated a three-year infrastructure plan called "Building a New Chicago." A major component of the program is increased coordination between City departments, unit governments and private sector utilities, allowing the entities to share information on long-term plans and schedules so that projects can be synchronized, reducing costs and burdens on residents.[202]
- *Exercise Financial Oversight Role Concerning Chicago Infrastructure Trust*: On April 24, 2012 the City Council approved an ordinance to establish an Infrastructure Trust. The Trust is designed to open new investment opportunities for the private sector to finance long-term infrastructure projects of the City and its unit governments. The Trust is advancing its first round of proposed projects in the final months of 2013 to the City Council for approval, as required under the enacting ordinance. It is important that aldermen closely scrutinize these deals since the use of new and complicated financing structures could impact future budget years despite the Trust's efforts to shift the risk of repaying the project funding away from the City and coordinate governments. Before approving any deal proposed by the Trust, the City Council should fully review all aspects of the financing to ensure that the cost estimates, potential savings and other revenues needed to support these deals are based on reasonable assumptions and best practices. The Council should also consider whether the cost of the capital provided is the lowest cost available for the governments and agencies engaged with the Trust or if conventional bonded financing or pay-as-you go funding could provide a better value.
- *Consolidation of Inspection Services*: In 2011 the City Council approved an ordinance that eliminated 16 unnecessary inspections across five departments, reducing on-site required inspections for businesses, improving inspector efficiency and increasing the City's focus on safety and areas of need.[203]

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[201] Jon Hilkevitch, "CDOT tries coordination to ease road work headaches," *Chicago Tribune*, April 8, 2013.
[202] City of Chicago, Annual Financial Analysis 2012, pp. 64-65.
[203] City of Chicago, Office of the Mayor, "City Council Passes Mayor Emanuel's New Reforms for Businesses and Reduces the Time it Takes to Obtain Business Licenses," press release, October 5, 2011.

Water and Sewer Enterprise Funds

- *Increased Revenues for Water Infrastructure Maintenance*: The FY2012 budget proposed phased-in increases in water rates for residents that continue through the FY2014 budget. Beginning in FY2013, water service fee exemptions for non-profit organizations were modified from a full exemption to a tiered exemption based on the organization's level of net assets.[204] As a result of these modifications, water and sewer fund revenues have increased from $704.4 million in FY2011 to over $1.0 billion projected for FY2014. The increased revenues will help fund the Mayor's plan to replace 100% of the City's century-old water pipes, re-line or replace over half of the City's sewer lines, re-line 140,000 sewer catch-basins and upgrade the four pumping stations in the next decade.[205]
- *Collection of Past-Due Water Services from Suburbs*: The City developed plans to recover nearly $15 million owed to the City from neighboring suburban municipalities, of which two-thirds are expected to be recovered by 2013.[206]
- *Multi-year Water Management Plan*: The Department of Water Management made progress in the development of a comprehensive water plan in 2011 which focuses on water meter installation, overhauling the water main replacement program and developing green infrastructure incentives.[207]

Alternative Service Delivery
Anticipated Savings: $2.2 million in FY2012, additional savings going forward

- *Managed Competition with Blue Cart Recycling*: Starting in October 2011, public and private crews both collect blue cart residential recycling in different areas of the City. The City evaluated the different teams' performance and identified ways to improve service and lower costs for the City in the future. In the first six months of the program, the City saved $2.2 million.[208] As noted in the FY2014 proposed budget, the City projects annual costs for citywide recycling to be 29% less than the costs of the program had the City not used managed competition.[209]
- *City-County Collaboration on Revenue Collection*: The Joint Committee on City-County Collaboration identified possible increased revenues that would result from sharing tax enforcement data and resources to increase compliance with similar City and County taxes, such as the cigarette tax.[210]
- *Pursue Midway Airport Privatization*: In February 2013, the City announced that responses to the City's request for qualifications for a Midway Lease showed strong interest with 16

[204] See the City of Chicago's website for not-for-profit exemptions related to water bills at http://www.cityofchicago.org/city/en/depts/fin/supp_info/revenue/not-for-profit_entityexemption.html.
[205] City of Chicago, FY2012 Budget Recommendations, Summary F; FY2012 Budget Overview, pp. 4-5; Mayor Rahm Emanuel's 2012 Budget Address, October 12, 2011.
[206] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Plans to Recover Nearly $15 Million in Past-Due Water Services from Suburban Municipalities," press release, October 2, 2011.
[207] City of Chicago, Office of the Mayor, "The First 30 Days of the Emanuel Administration," press release, June 16, 2011.
[208] City of Chicago, Office of the Mayor, "Mayor Rahm Emanuel Announces Citywide Recycling in 2013," press release, April 5, 2012.
[209] City of Chicago, Annual Financial Analysis 2013, p. 20.
[210] City of Chicago, Joint Committee on City-County Collaboration, June 2011, p. 81.

respondents. In March, the City announced that six of the 16 entities were determined to be qualified bidders and would move forward in the lease process. Of the six, two entities submitted bids and one eventually withdrew from the process. As a result, in September 2013, the Mayor announced that the City decided to withdraw its application to privatize Midway, noting that the City engaged in an open process that ended without a qualified and fair potential transaction.[211]

Tax Increment Financing (TIF)

- *TIF Data and Transparency*: On July 19, 2013 the City launched the Tax Increment Financing (TIF) Portal on its website. The application allows users to navigate geographically-based representations of TIF districts. The portal includes TIF project data by map, including descriptions of the purpose of the district, investments that have been made and approved by the City Council, redevelopment projects approved by the City Council and links to important documents, such as the establishment ordinance, annual reports and revenue projection data.[212] Additionally, the City Council approved the TIF Sunshine Ordinance on July 24, 2013 which delegated new responsibilities for online reporting of TIF information to the Department of Community Development (DCD). The ordinance addressed a few goals which included consolidating information about TIFs already posted on several city departments' web pages and providing the public with better information about TIF in a more accessible manner. The new TIF section of the DCD website consolidates information about the use of TIF and organizes the information into sub-sections containing district overviews, annual reports, Community Development Commission reports, district redevelopment plans, maps and narratives and frequently asked questions and success stories.[213]
- *TIF Surplus Policy*: Press reports in 2013 have indicated that the City is working on a TIF Surplus Executive Order.[214] The Civic Federation recommends that theTIF policy develop a more systematic way to evaluate and utilize any surplus funds. A formalized policy will help area local governments that receive portions of TIF surplus budget surplus more effectively.
- *TIF Task Force*: In 2011 Mayor Emanuel created the TIF Reform Panel, which included Civic Federation President Laurence Msall, to craft TIF policy and guidelines and make recommendations on how to improve the performance, transparency and accountability of the City's TIF program.[215] The Task Force produced a report that provides summaries of TIF revenues and expenditures and recommends that the City Council develop a multi-year economic development plan that includes coordination of TIF with the City's capital budget.[216]

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[211] Greg Hinz, "Emanuel tells fed Midway won't go private," *Crains Chicago Business*, September 26, 2013.
[212] City of Chicago, Office of the Mayor, "Mayor Emanuel Launches New TIF Portal Detailing Economic Development Projects Across the City," July 19, 2013.
[213] For more information on the TIF Sunshine Ordinance, see the Civic Federation's blog at http://www.civicfed.org/civic-federation/blog/chicago-tif-still-cloudy-even-under-sunshine-ordinance
[214] Fran Spielman, "Critics not impressed with mayor's new TIF pledge," *Chicago Sun-Times*, Ocotber 12, 2013. http://www.suntimes.com/news/cityhall/23097275-418/critics-not-impressed-with-mayors-new-tif-pledge.html
[215] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Formation of Task Force on TIF," press release, May 19, 2011.
[216] See the report on the City's website available here www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2011/august_2011/tax_increment_financing finalreport.html

Public Health Department

- *Transfer of Primary Care Clinics*: The FY2012 proposed budget included transferring some primary healthcare clinics to community-based federally qualified health clinics by July 2012, allowing the Chicago Department of Public Health to focus on citywide health policy.[217] In addition, the City has worked to consolidate City-operated mental health clinics and strengthen partnerships with private mental health organizations in order to maintain the same level of service.[218]

Surplus Vacant Property and Assets

- *Ordinance Addressing Vacant Buildings*: The Mayor and City Council worked together to pass an ordinance in October 2011 that shifted the financial burden of maintaining foreclosed-upon properties from the City to the banks, including routine maintenance issues such as boarding entrances, responding to complaints related to the building, cutting grass and shoveling snow.[219]

Chicago City Council

- *Grid-Based Garbage Collection*: The Department of Streets and Sanitation began implementation of a program to pick up residential garbage on a grid-based rather than a ward-based system in 2012.[220] The City anticipates savings of $18 million annually as of completion of the shift in April 2013.[221]
- *City Council Office of Financial Analysis*: The FY2014 proposed budget includes appropriations of $283,924 to create the City Council Office of Financial Analysis.[222] The enabling legislation is sponsored by Aldermen Pat Dowell, Michele Smith and Ameya Pawar. The office is designed to provide objective and independent analysis of annual budgets, asset leases, municipal marketing and public-private partnership proposals that would have a financial impact on the City. The office's proposed annual budget is partially funded by a $3,000 decrease in aldermanic expense allowance.[223]

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[217] City of Chicago, FY2012 Budget Overview, p. 75.
[218] Naomi Nix and Peter Nickeas, "23 arrested while protesting closing of mental facility," *Chicago Tribune*, April 14, 2012.
[219] City of Chicago, Office of the Mayor, "Mayor Emanuel Commends City Council and Alderman Pat Dowell for Passing Ordinance Addressing Vacant Buildings and Lender Responsibility," press release, July 28, 2011. An amendment to the original ordinance was passed by the City Council Committee on Housing and Real Estate on October 17, 2011 following the threat of legal action from affected banks. Hal Dardick, "Watered down vacant house measure passes City Council panel," *Chicago Tribune*, October 17, 2011.
[220] City of Chicago, FY2012 Budget Overview, p. 114.
[221] City of Chicago, Annual Financial Analysis 2013, p. 20.
[222] City of Chicago, FY2014 Budget Recommendations, p. 60. Media reports and communication with legislation sponsor Alderman Pawar indicate that the approved FY2014 budget for COFA will likely be $500,000.
[223] Fran Spielman, "Aldermen have less to give up with proposed independent budget office," *Chicago Sun-Times*, November 8, 2013.

Chicago Board of Elections Commissioners

- *Transfer Election Function to Cook County*: Through city-county collaboration, the City announced in 2012 that 3,000 fewer election judges and polling place administrators would be hired to staff elections.[224]

Budget Process and Format

- *More Accurate Budgeting of Personnel Count*: The Civic Federation commends the City for removing some "open line positions," which are full-time employees budgeted in hourly lines, and representing them more accurately as full-time positions in the FY2013 Budget Recommendations book. In addition, the City is reporting full-time equivalent (FTE) position counts along with full-time position counts in its Budget Overview. For the first time, the City provides five prior years of approved FTEs with its FY2013 proposed FTEs. Full-time equivalents include part-time and hourly wage earners and therefore provide a more accurate count of the City's workforce than full-time positions.
- *Executive Order for Long-Term Financial Analysis*: In May 2011 the Mayor signed an executive order to create an *Annual Financial Analysis* that includes a trend analysis of all City funds, a three-year baseline and alternative financial forecast and analyses of the City's reserves, capital program and financial policies.[225]
- *Data Portal*: The City administration has made efforts to increase the amount of data available on the City's website by including information on city contracts, salaries, crime data, lobbyist disclosures, vacant properties and TIF data.[226] Beginning with the FY2012 budget, the City added data related to the budget appropriations, including line-item budget recommendations and positions and salaries.[227]
- *Performance Metrics and ROI Standards for Capital Spending*: In 2011 the Office of Budget and Management finalized a long-term capital planning process that will use performance metrics and return-on-investment (ROI) standards.[228]
- *Grant Funding Reforms*: In 2011 the Mayor created the Grant Management Unit within the Office of Budget and Management, which oversees management, coordination and expenditures of all state and federal grant funding and oversees a centralized process of identifying, pursuing, collecting and analyzing grant funds.[229]

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[224] Kristen Mack, "City, county say $33.4 million to be saved through cooperation," *Chicago Tribune*, July 2, 2012.
[225] City of Chicago, Office of the Mayor, "Mayor Emanuel Signs Executive Order Creating a Long-Term Budgeting and Financial Planning Process for the City of Chicago," press release, May 20, 2011.
[226] City of Chicago, Office of the Mayor, "Mayor Emanuel Continues Commitment to Transparency, Posts Over 90,000 City Contracts Online," press release, August 3, 2011.
[227] See the City's data portal website at https://data.cityofchicago.org/.
[228] City of Chicago, Office of the Mayor, "The First 100 Days of the Emanuel Administration," press release, August 22, 2011.
[229] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Grant Funding Reforms to Prevent City from Leaving Millions on the Table, Saving $20 Million in 2012," press release, October 6, 2011.

APPENDIX B: LONG-TERM ASSET LEASE PROCEEDS

In 2005 the City of Chicago leased the Skyway toll road to a private operator for 99 years for $1.83 billion. In 2009 the City completed a similar deal that leased its parking meters to a private operator for 75 years for $1.15 billion. These proceeds were a principal method the City used to balance its budget between FY2005 and FY2011. Mayor Rahm Emanuel ended the practice of transferring proceeds into the Corporate Fund with his FY2012 budget. The City also began replenishing the parking meter reserves with a transfer of $20 million in FY2012, a transfer of $15 million in FY2013 and a proposed transfer of $5 million in FY2014.[230] At the end of 2013, the aggregate principal balance in the Skyway and parking meter asset lease reserve funds are expected to be approximately $615 million.[231]

This section describes the use of proceeds from these two lease transactions, as well as transactions involving municipal parking garages and Midway airport.

Skyway Lease

In 2005 the City leased the Chicago Skyway for $1.83 billion to a private operator for 99 years. The City deposited $500.0 million of the proceeds into a long-term reserve account, and $855.0 million was used to retire debt associated with the Skyway itself, along with other debt accrued by the City. The remaining $475.0 million was set aside for operating expenses: $100.0 million for a Human Infrastructure Fund and $375.0 million in a Mid-Term Reserve Fund.[232]

The principal balance of the Human Infrastructure Fund was fully drawn down by the end of 2009, as scheduled. By the end of 2011, the principal balance of the Mid-Term Reserve Fund was also fully drawn down.[233]

The following chart shows Skyway lease revenues and expenditures. The Mid-Term Reserve Fund has been depleted as it was used to balance the Corporate Fund budget from 2005 through 2010. The Skyway Human Infrastructure Fund has also been exhausted; it funded a variety of programs primarily focused on human service, job training and housing programs. The Parking Meter Human Infrastructure Fund described in the next section has taken its place and is being used to continue and expand the number of programs originally supported by Skyway funds. The Skyway Long-Term Reserve Fund principal of $500.0 million remains intact and is legally restricted per the Skyway lease transaction. Investment earnings from the account are transferred to the Corporate Fund. The 2013 Annual Appropriation Ordinance call for $18.0 million in investment earnings to be transferred to the Corporate Fund by the end of 2013.[234] In FY2014,

[230] City of Chicago, FY2014 Budget Overview, p. 1.
[231] City of Chicago, Annual Financial Analysis 2013, p. 62.
[232] The term "fund" is used loosely in this discussion and in the concession agreements. The remaining Skyway and parking meter lease proceeds that have not been expended or allocated to the Corporate Fund are held in one accounting entity called the "Service Concession and Reserve Fund." For a description of this fund, see City of Chicago, FY2011 Comprehensive Annual Financial Report, pp. 49-51.
[233] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html
[234] City of Chicago, FY2013 Annual Appropriations Ordinance, p. 18.

As of June 30, 2013, there were $506.1 million of Skyway lease proceeds remaining.

Skyway Lease Proceeds: As of June 30, 2013 (in $ thousands)					
	Debt Retirement	Long-Term Reserve Fund	Mid-Term Reserve Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/13)					
Proceeds	$ 855,000	$ 500,000	$ 375,000	$ 100,000	$ 1,830,000
Interest Earnings	$ -	$ 186,643	$ 50,134	$ 12,274	$ 249,051
Total	**$ 855,000**	**$ 686,643**	**$ 425,134**	**$ 112,274**	**$ 2,079,051**
Expenses, Transfers and Disbursements					
2005	$ 855,000	$ 18,244	$ 100,000	$ 34,000	$ 1,007,244
2006	$ -	$ 27,400	$ 50,000	$ 25,505	$ 102,905
2007	$ -	$ 26,497	$ 75,000	$ 19,058	$ 120,555
2008	$ -	$ 28,857	$ 50,000	$ 15,025	$ 93,882
2009	$ -	$ 25,079	$ 50,000	$ 12,198	$ 87,277
2010	$ -	$ 26,204	$ 50,000	$ 1,209	$ 77,413
2011	$ -	$ 17,950	$ 50,000	$ 5,203	$ 73,153
2012	$ -	$ 10,430	$ -	$ 72	$ 10,502
2013 (6/30/13)	$ -	$ -	$ -		$ -
Total	**$ 855,000**	**$ 180,661**	**$ 425,000**	**$ 112,270**	**$ 1,572,931**
Balance	**$ -**	**$ 505,982**	**$ 134**	**$ 4**	**$ 506,120**

Source: Historical Data from City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Parking Garage Lease

In 2006 the City leased its downtown underground parking garage system and three garages owned by the Chicago Park District to a private operator for 99 years. The City received a net payment of $215.2 million, which it used to pay transaction fees and retire parking garage debt. The total payment from the lessee was $563.0 million, of which the City used $347.8 million to purchase the Park District's garages as part of the transaction.[235] There are no City reserve funds associated with the parking garage lease transaction.

Midway Airport Lease

In 2008 the City signed a 99-year lease agreement with a private vendor to operate Midway airport. The vendor was ultimately unable to secure sufficient financing and withdrew from the agreement, forfeiting a $126.1 million security deposit in 2009. The deposit was used to pay $13.1 million of fees associated with the terminated transaction, and $33 million of existing debt as well as a transfer of $40 million to the Corporate Fund for use in the FY2009 budget. The

[235] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 94 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

remaining $40 million was placed in a short-term reserve fund from which $20 million was transferred to the Corporate Fund in 2010 and the final $20 million was transferred during 2011.[236] There will be no further reserves associated with this terminated lease transaction.

Parking Meter Lease

In 2009 the City leased its parking meters for $1.15 billion to a private operator for 75 years. The City allocated $400.0 million of the parking meter proceeds into a long-term reserve fund, the Revenue Replacement Fund, and set aside the remaining $751.4 million for operating expenses in the following funds:

- Mid-Term Reserve Fund – $325.0 million intended to be transferred to the Corporate Fund over five fiscal years ($25 million initially, $100 million to cover 2008 carried forward obligations, $50 million for 2009, $50 million for 2010, $50 million for 2011 and $100 million for 2012).[237]
- Budget Stabilization Fund – $326.3 million for largely discretionary purposes with no specified time period for transfer.
- Human Infrastructure Fund - $100 million intended to replace Skyway Human Infrastructure Fund.[238]

As illustrated in the following chart, the parking meter proceeds have been utilized at a rapid rate. The City will have spent over one billion dollars in parking meter revenue (combined Budget Stabilization, Mid-Term Reserve, and Revenue Replacement) funds in just three years, leaving the Budget Stabilization and Mid-Term Reserve funds essentially depleted.

The principal of the Mid-Term Reserve Fund was depleted at the end of 2011. The principal of the Budget Stabilization Fund was drawn down in 2010, and $125,000 in interest remained in the fund as of June 30, 2013. As of June 30, 2013, the Human Infrastructure Fund had a balance of $17.8 million.[239]

While the Skyway Long-Term Fund principal is required to stay intact at $500 million with only the earned interest transferred to the Corporate Fund, the parking meter Revenue Replacement fund was previously required to transfer at least $20 million in interest earnings per year to the Corporate Fund. If $20 million was not earned, then the balance had to come from the principal. As funds were borrowed from the principal, there were less funds available on which to earn interest, and therefore even more needed to be taken from principal to meet the $20 million annual requirement, perpetuating a downward spiral. With the passage of the FY2012 budget, the City amended the ordinance authorizing the parking meter lease agreement so that, like the Skyway Long-Term Reserve Fund, the amount transferred annually to the Corporate Fund can only come from interest earnings and not from the principal balance.[240] The FY2012 Annual

[236] City of Chicago, Annual Financial Analysis 2012, p. 55.
[237] These amounts total more than $325 million because interest income was also anticipated.
[238] City of Chicago, Annual Financial Analysis 2012, pp. 55-58 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
[239] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
[240] Communication with the Office of Budget and Management, October 23, 2012. See Section 12 of the FY2012 Annual Appropriation Ordinance.

Appropriation Ordinance included a projected $2.0 million in interest earnings from the parking meter Revenue Replacement Fund.[241] The City transferred $16 million in interest income from the Skyway Long-Term Reserve Fund and $2.0 million in interest income from the parking meter long-term reserve fund to its operating budget in FY2013.[242] The Revenue Replacement Fund earned $20.5 million in interest earnings between its establishment in 2009 and June 30, 2013 and the fund had a balance of $119.3 million at this time. As of June 30, 2013, the Mid-Term Reserve Fund had earned $4.9 million in interest since 2009 and had an empty balance.

Unlike the Skyway Long-Term Reserve Fund, the parking meter Revenue Replacement Fund principal has been used to close the deficits in the City's Corporate Fund. Amounts transferred to the Corporate Fund in excess of the $20 million annual transfer prescribed in the ordinance are considered borrowing and must be paid back. These borrowed amounts were $190 million in 2010 and $69.9 million in 2011. The City began to pay back these funds in FY2012, with a $20.0 million deposit in FY2012, a $15 million deposit in FY2013 and a proposed $5 million deposit in FY2014.[243]

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[241] City of Chicago, 2012 Annual Appropriation Ordinance, p. 18.
[242] City of Chicago, FY2013 Budget Overview, p. 15.
[243] City of Chicago, Annual Financial Analysis 2012, p. 58. FY2014 Budget Overview, p. 1.

As of March 31, 2012, there were $137.2 million of parking meter lease proceeds remaining.

Parking Meter Lease Proceeds: As of June 30, 2013 (in $ thousands)					
	Long-Term Reserve Fund*	**Mid-Term Reserve Fund**	**Budget Stabilization Fund**	**Human Infrastructure Fund**	**Total**
Revenues (through 6/30/13)					
Proceeds	$ 400,000	$ 325,000	$ 326,355	$ 100,000	$ 1,151,355
Interest Earnings	$ 20,473	$ 4,922	$ 2,863	$ 1,344	$ 29,602
Total	**$ 420,473**	**$ 329,922**	**$ 329,218**	**$ 101,344**	**$ 1,180,957**
Expenses, Transfers and Disbursements					
2009	$ 20,000	$ 150,000	$ 224,753	$ -	$ 394,753
2010	$ 210,000	$ 100,000	$ 103,795	$ 23,516	$ 437,311
2011	$ 89,900	$ 79,919	$ 53	$ 40,886	$ 210,758
2012	$ (18,728)	$ 3	$ 492	$ 17,308	$ (925)
2013 (6/30/13)**	$ -	$ -	$ -	$ 1,826	$ 1,826
Total	**$ 301,172**	**$ 329,922**	**$ 329,093**	**$ 83,536**	**$ 1,043,723**
Balance	**$ 119,301**	**$ -**	**$ 125**	**$ 17,808**	**$ 137,234**

Note: The 2012 Annual Appropriation Ordinance includes total transfers to the Corporate Fund of $2.0 million from the Long-Term Reserve Fund. The 2013 appropriations include a $5 million transfer from the Corporate Fund to the Human Infrastructure Fund

*Also referred to as Revenue Replacement Fund.

Source: City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Summary: Use of Long-Term Lease Proceeds

By June 30, 2013, the City will have utilized 72.7% of the Skyway proceeds for operating expenses and debt retirement, leaving a balance of $506.0 million in a long-term reserve. It will also have utilized 88.9% of the parking meter proceeds for operating expenses and debt retirement, leaving a balance of $119.3 million. The FY2013 balance of the parking meter proceeds is slightly better than in FY2011, when the City drained reserves to $80.0 million and had spent approximately 91.4% of proceeds on operating expenses.

The City allocated 100% of its parking garage proceeds toward debt retirement and closing costs. In contrast, 90.9% of the $1.15 billion in parking meter proceeds were spent on operating expenses including amounts borrowed from the parking meter long-term reserve fund to bridge Corporate Fund budget gaps from FY2009 to FY2011.

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

The following four tables compare the ARC to the actual City of Chicago contribution over the last ten years for each of the pension funds. These tables do not include the ARC for the pension funds' subsidy of retiree healthcare (see OPEB section of this report), which has been reported separately since FY2005.[244] In FY2012 the Municipal Fund had the largest ARC, at $690.8 million, followed by the Police Fund at $431.0 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $464.7 million.

The shortfall is the additional amount that should have been contributed in order to pay the normal cost for that year and amortize the unfunded liability over a period of 30 years. The Laborers' Fund employer contributions exceeded the ARC for the year 2003 but there were shortfalls in all subsequent years and over the entire 10-year period for the other three funds.

Chicago Policemens' Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2003	$ 181,545,562	$ 140,807,354	$ 40,738,208	77.6%	$ 887,555,791	20.5%	15.9%	61.4%
2004	$ 203,757,534	$ 135,744,173	$ 68,013,361	66.6%	$ 874,301,958	23.3%	15.5%	55.9%
2005	$ 238,423,459	$ 178,278,371	$ 60,145,088	74.8%	$ 948,973,732	25.1%	18.8%	50.7%
2006*	$ 262,657,025	$ 150,717,705	$ 111,939,320	57.4%	$ 1,012,983,635	25.9%	14.9%	49.3%
2007	$ 312,726,608	$ 170,598,268	$ 142,128,340	54.6%	$ 1,038,957,026	30.1%	16.4%	50.4%
2008	$ 318,234,870	$ 172,835,805	$ 145,399,065	54.3%	$ 1,023,580,667	31.1%	16.9%	47.3%
2009	$ 339,488,187	$ 172,043,754	$ 167,444,433	50.7%	$ 1,011,205,359	33.6%	17.0%	43.6%
2010	$ 363,624,570	$ 174,500,507	$ 189,124,063	48.0%	$ 1,048,084,301	34.7%	16.6%	39.7%
2011	$ 402,751,961	$ 174,034,600	$ 228,717,361	43.2%	$ 1,034,403,526	38.9%	16.8%	35.6%
2012	$ 431,010,173	$ 197,885,552	$ 233,124,621	45.9%	$ 1,015,170,686	42.5%	19.5%	30.8%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.
Source: Chicago Policemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2012, p. 77.

Chicago Firemen's Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2003	$ 111,079,054	$ 60,234,206	$ 50,844,848	54.2%	$ 335,170,501	33.1%	18.0%	47.4%
2004	$ 134,762,334	$ 55,532,454	$ 79,229,880	41.2%	$ 334,423,753	40.3%	16.6%	42.3%
2005	$ 161,696,388	$ 90,128,915	$ 71,567,473	55.7%	$ 341,252,492	47.4%	26.4%	41.8%
2006*	$ 160,246,525	$ 76,763,308	$ 83,483,217	47.9%	$ 387,442,074	41.4%	19.8%	40.4%
2007	$ 188,201,379	$ 72,022,810	$ 116,178,569	38.3%	$ 389,124,547	48.4%	18.5%	42.1%
2008	$ 189,940,561	$ 81,257,754	$ 108,682,807	42.8%	$ 396,181,778	47.9%	20.5%	39.8%
2009	$ 203,866,919	$ 89,211,671	$ 114,655,248	43.8%	$ 400,912,173	50.9%	22.3%	36.5%
2010	$ 218,388,037	$ 80,947,311	$ 137,440,726	37.1%	$ 400,404,320	54.5%	20.2%	32.4%
2011	$ 250,056,273	$ 82,869,839	$ 167,186,434	33.1%	$ 425,385,354	58.8%	19.5%	28.3%
2012	$ 271,505,718	$ 81,521,883	$ 189,983,835	30.0%	$ 418,964,763	64.8%	19.5%	24.4%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.
Source: Chicago Firemen's Annuity and Benefit Fund, Actuarial Valuation for the year ended December 31, 2006, p. 28 and Financial Statements for the year ended December 31, 2012, p. 29.

[244] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a percent of payroll and 0-1.3% to Actual Employer Contribution as a Percent of Payroll. See Civic Federation, *Status of Local Pension Funding Fiscal Year 2011*, May 21, 2012 for more information.

Chicago Municipal Employees' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2003	$ 158,614,805	$ 141,960,250	$ 16,654,555	89.5%	$ 1,395,513,060	11.4%	10.2%	79.9%
2004	$ 198,199,001	$ 154,000,624	$ 44,198,377	77.7%	$ 1,303,127,528	15.2%	11.8%	72.0%
2005	$ 285,291,350	$ 155,057,116	$ 130,234,234	54.4%	$ 1,407,323,058	20.3%	11.0%	68.5%
2006**	$ 303,271,824	$ 157,062,769	$ 146,209,055	51.8%	$ 1,475,877,378	20.5%	10.6%	67.2%
2007	$ 343,123,106	$ 139,606,140	$ 203,516,966	40.7%	$ 1,564,458,835	21.9%	8.9%	67.6%
2008	$ 360,387,176	$ 146,803,250	$ 213,583,926	40.7%	$ 1,543,976,553	23.3%	9.5%	62.9%
2009	$ 413,508,622	$ 148,046,490	$ 265,462,132	35.8%	$ 1,551,973,348	26.6%	9.5%	57.0%
2010	$ 483,948,339	$ 154,752,320	$ 329,196,019	32.0%	$ 1,541,388,065	31.4%	10.0%	49.8%
2011	$ 611,755,657	$ 147,009,321	$ 464,746,336	24.0%	$ 1,605,993,339	38.1%	9.2%	44.6%
2012	$ 690,822,553	$ 148,858,655	$ 541,963,898	21.5%	$ 1,590,793,702	43.4%	9.4%	37.2%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so one was computed from the % of ARC contributed.

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

Source: Municipal Employees' Annuity and Benefit Fund of Chicago FY2006 Actuarial Valuation, p. 94 and Financial Statements for the Year Ended December 31, 2012, p. 48.

Chicago Laborers' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2003	$ -	$ 366,920	$ (366,920)	0.0%	$ 205,691,917	0.0%	0.2%	103.1%
2004	$ 8,513,018	$ 202,684	$ 8,310,334	2.4%	$ 171,476,937	5.0%	0.1%	98.5%
2005	$ 12,744,103	$ 40,435	$ 12,703,668	0.3%	$ 182,809,397	7.0%	0.0%	93.9%
2006**	$ 17,599,766	$ 106,270	$ 17,493,496	0.6%	$ 193,176,272	9.1%	0.1%	92.0%
2007	$ 21,725,805	$ 13,256,147	$ 8,469,658	61.0%	$ 192,847,482	11.3%	6.9%	95.0%
2008	$ 17,652,023	$ 15,232,804	$ 2,419,219	86.3%	$ 216,744,211	8.1%	7.0%	86.8%
2009	$ 33,517,429	$ 14,626,771	$ 18,890,658	43.6%	$ 208,626,493	16.1%	7.0%	79.4%
2010	$ 46,664,704	$ 15,351,944	$ 31,312,760	32.9%	$ 199,863,410	23.3%	7.7%	73.8%
2011	$ 57,258,593	$ 12,778,697	$ 44,479,896	22.3%	$ 195,238,332	29.3%	6.5%	64.9%
2012	$ 77,566,394	$ 11,852,905	$ 65,713,489	15.3%	$ 198,789,741	39.0%	6.0%	55.4%

*The City did not levy a property tax for the Laborer's fund from 2001-2006 because it was over 100% funded, excluding the liabilities attributable to the Early Retirement Incentive. These amounts represent miscellaneous income and changes in reserves for tax loss and collections for prior years. The FY2005 funded ratio excluding the ERI was 96.3%, thus the City was required begin making regular employer contributions again in FY2007.

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

Source: Laborers' Annuity and Benefit Fund of Chicago, Actuarial Valuation for the year ended December 31, 2012, p. 93.