



The Civic Federation

Research * Information * Action * Est. 1894

Frequently Asked Questions about the Recommendations for a Financially Sustainable City of Chicago Report

Q: Why has the Civic Federation produced the report?

A: In recent years the Civic Federation has become increasingly troubled by the conditions of the City of Chicago's finances. Several years of short-term fixes have created fiscal challenges. With the new administration of City of Chicago Mayor Rahm Emanuel – the first new mayor in over 20 years – as well as 18 new aldermen, there exists an opportunity to institute reforms and put the City of Chicago on the path to fiscal sustainability.

Q: What is the goal of the report?

A: The Civic Federation's main goal in producing the report is to provide Mayor Emanuel, City Council and other City leaders with detailed recommendations on ways to address the City's serious financial challenges.

This report provides recommendations for creating a government that is more efficient, less costly and more accountable and can be implemented in the current fiscal year, FY2012 or FY2013. Cooperation between the City Council and the Mayor is key to implementing all of the major recommendations contained in this report. The goal of the recommendations is to help create a government that is more efficient, less costly, and more accountable to taxpayers.

The report provides a comprehensive examination of the major elements of City of Chicago government including personnel spending, pension funding, retiree healthcare, public safety, procurement, infrastructure, public health, among many others.

Q: What are the major problems facing the City of Chicago?

A: The City's fiscal issues are structural and not just the result of the economic downturn. In its 2006 analysis of the City's FY2007 proposed budget, the Civic Federation cited serious concerns with the health of the City's pensions, its dwindling reserve levels and high debt burden.¹

¹ Civic Federation, *City of Chicago FY2007 Proposed Budget: Analysis and Recommendations*, November 1, 2006, pp. 4, 5.

The City of Chicago has a structural deficit, a condition characterized by annual expenditure increases that consistently exceed recurring revenue increases during normal economic times. Annual budget deficits have continued to grow because the City has failed to enact measures that make deep enough spending reductions and/or utilize new or increased recurring revenues. Rather, the City has attempted to address its structural imbalance with insufficient spending reductions and non-recurring revenues, including over \$1 billion in proceeds from the long-term leases of the Skyway and parking meters.

The City also has inadequate corporate fund reserves. Between FY2000 and FY2009, the Corporate Fund unreserved fund balance dropped from \$80.7 million to just \$2.7 million. Fund balance is an important financial indicator for governments because it measures a jurisdiction's capacity to withstand financial emergencies.

Lastly, the City has a relatively high and growing level of bonded debt. The unfunded liabilities of the City's pension funds have also increased rapidly in recent years and will require dramatic action in order to maintain solvency in the funds. The City is facing a severe pension crisis. In April 2010, the City's Commission to Strengthen Chicago's Pension Funds reported that the Police and Fire pension funds were likely to run out of assets within ten years if nothing was done.

The problems identified in 2006 have only grown worse in the years since with the City resorting to short-term solutions in order to avoid making the necessary difficult choices. This has created new problems such as a large structural imbalance between revenues and expenditures that has grown worse with each fiscal year and the use of a significant portion of the proceeds from the leasing of City assets to close operating shortfalls.

Q: How did the City of Chicago end up in such a fiscal mess?

A: The problems are resultant of long-standing fiscal practices that have shifted costs into the future while also not factoring in the possibility of greater economic troubles. The recession of 2008 put extreme pressure on the City's ability to collect revenue, forcing it to rely on its corporate fund reserves and proceeds from asset lease deals to close budget gaps. However, the City's deficit problem is not due solely to the recent recession. Spending has continued to rise. Between FY2007 and FY2011, net appropriations for all local funds will have increased by 8.6%, rising from \$5.7 billion to \$6.2 billion.² Corporate Fund appropriations will approach \$3.3 billion in FY2011, an increase of 5.4% or \$165.9 million from FY2007.³

Q: Why has the City of Chicago had such large budget shortfalls and how can they be closed?

A: Over the past ten fiscal years, the City has had significant budget gaps. The budget gaps have grown from \$58.3 million in FY2002 to \$654.8 million in FY2011. For FY2012 Budget Director Alexandra Holt has estimated the deficit to be between \$600 and \$700 million.⁴ These deficits have grown dramatically because the City has failed to implement enough efficiencies, make deep enough spending cuts and/or utilize new or increased recurring revenues.

The increase in the City's annual budget deficit over time is a leading indicator that its expenses are outpacing its revenues. The City has experienced deep revenue declines in recent years due in part to the economic recession that officially ended in June 2009 and its lingering after effects.

Although the recommendations in this report are not specifically designed to close the FY2012 budget gap, the Civic Federation urges the City to address its structural deficit with a long-term planning strategy

² City of Chicago, FY2007 Appropriations Ordinance, p. IX and FY2011 Appropriations Ordinance, p. 3.

³ City of Chicago, FY2007 Appropriations Ordinance, p. V and FY2011 Appropriations Ordinance, p. 6.

⁴ Hunter Clauss, "Budget Chief: No Citywide Recycling This Year," *Chicago News Cooperative*, June 7, 2011.

that will cut costs, reduce the City's long-term liabilities, improve the processes with which City services are administered and make investments for future cost savings.

Q: Where did the reforms detailed in the report come from?

A: The evidence-based recommendations in the report come from close analysis of budget documents, expert interviews, previous Civic Federation recommendations and input the Civic Federation Chicago Finance Committee. It is our hope that these recommendations will be implemented by Mayor Emanuel and that policymakers and citizens alike will track progress and demand transparency and accountability. The cooperation of elected officials is key to most, if not all, of the major recommendations contained in this document.

Q: How will the Civic Federation follow up to see if its recommendations are being implemented?

A: The Civic Federation will revisit the status of the recommendations in its annual review of the City's budget, its testimony before the City Council and other Federation publications.

Q: How is this report different from Mayor Emanuel's Transition Report?

A: The Civic Federation's recommendations identify the responsible officials to lead and implement these changes, a timeline for implementation and the relative financial impact. When applicable, the recommendations include key proposals outlined in Mayor Emanuel's "Chicago 2011 Transition Plan," which was released prior to his inauguration. However, the recommendations in this report are based on data and research in the Federation's "Financial Challenges for the New Mayor of Chicago" report and in previous Civic Federation budget analyses.

Q: Where can I read more about the Civic Federation's work analyzing City of Chicago government?

A: The Civic Federation website features a bounty of information about governance and fiscal issues in the City of Chicago, including annual analyses of the City's budget and its pensions. Please **click here** to see all the research the Federation has published about the City. The Civic Federation blog also includes posts about the City of Chicago. [Visit the blog here.](#)