The report examines nine indicators in four areas of solvency: cash solvency, budgetary solvency, long-run solvency and service-level solvency. The following section of the blog describes the City's performance in each of the nine indicators.

The **working capital to expenses ratio** indicator is a measure of cash solvency, which demonstrates a government's ability to generate sufficient financial resources to pay its current liabilities. The working capital to expenses ratio compares net current government-wide assets to monthly expenses and approximates how many months the government is able to pay for operations. A higher ratio and an increasing trend are considered favorable. The City of Chicago's working capital to expenses ratio averaged 4.0 months and decreased by nearly 0.2 months over the five-year period, placing it fifth among the 13 cities. At its lowest point in FY2008, Chicago's government-wide working capital to expenses ratio dropped to 3.3 months. In other words, at any point during the fiscal year 2008, Chicago had enough working capital to fund approximately three months and one week of operations.

The three indicators of budgetary solvency used in this report demonstrate a government's financial ability to maintain current or desired service levels. The **continuing services ratio** examines unrestricted net assets as a percentage of governmental expenses. Over the five-year period, Chicago's continuing services ratio experienced a decline which placed it eighth of the 13 cities. Chicago had the third lowest average continuing services ratio over five years. More troubling was the steady downward trend over five years, which means that Chicago was accumulating liabilities without maintaining offsetting assets. The **fund balance ratio** compares unrestricted general fund fund balance to general fund expenditures and reflects the government's budgetary savings. Although the City of Chicago's fund balance ratio experienced the largest growth of the 13 cities over the four-year period,[1] placing it first in rank, Chicago's actual ratio of unrestricted fund balance to operating expenditures is among the lowest and is a cause for concern.[2] The **operating deficit ratio** shows general fund operating surplus or deficit as a percentage of total operating expenses. The large size and consistent downward trend (9th among the 13 cities) of Chicago's operating deficit ratio is a cause for concern because it indicates that operating expenses consistently and significantly exceeded revenues. In addition, Chicago ran an operating deficit each of the past five fiscal years. These indicators reveal low levels of budgetary solvency, suggesting that Chicago was experiencing difficulty in maintaining current services with the existing revenue structure.

Indicators of long-run solvency assess the availability of future resources to pay for existing long-term obligations. The **net worth ratio** measures restricted and unrestricted net assets as a percentage of total assets. Chicago's net worth ratio has declined from a deficit of 4.5% in FY2007 to a deficit of 15.6% in FY2011, a downward trend that ranks it eighth of the 13 cities.

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[1] Due to the implementation of GASB 54 in FY2011, a five-year trend analysis of fund balance ratio is not available so FY2007 to FY2010 is used for ranking. For more information about GASB 54, see the Fund Balance Ratio section on page 26 of this report.
[2] The City's unrestricted fund balance to operating expenditures ratio does not include approximately $500 million that the City holds in long-term reserves from asset leases. For more details on the fund balance ratio and the City's long-term reserves, see page 26.

The deficits in net worth indicate a lack of available restricted and unrestricted net assets for governmental activities and the steady decline suggests that Chicago has leveraged its assets. The **debt service expenditure ratio** measures the portion of governmental expenditures allocated to debt service. Chicago's debt service expenditure ratio trend placed it sixth of the 13 cities. Although the indicator generally decreased over the five-year period indicating better fiscal performance, it reveals that a high proportion of governmental expenditures are being allocated to debt service. Chicago's average debt service expenditure ratio over the five years was the fourth highest of the 13 cities.

Lastly, the report considers service-level solvency by using per capita indicators that reflect a government's ability to sustain existing services at levels required by citizens. All indicators are adjusted for inflation and reflect 2011 dollars. Chicago's five-year growth in real **expenses per capita** ($232.68 per person) and total real **liabilities per capita** ($3,296.08 per person) have given it a ranking of tenth place and eleventh place, respectively. High rates of expenses per capita and liabilities per capita suggest an expensive government and a lower ability to maintain those services long-term. From FY2007 to FY2011, Chicago's real **taxes and fees per capita** have grown by $113.45 per person, placing it in ninth place of the 13 cities. Chicago's growth in taxes and fees per capita reflect a moderate growth in tax burden on residents, relative to the other cities.

Click here to read the Civic Federation's *Indicators of Financial Condition: A Comparison of the City of Chicago to 12 Other U.S. Cities*.