Indicators of Financial Condition:

A Comparison of the City of Chicago to 12 Other U.S. Cities from FY2009 through FY2013

October 7, 2015
Dedicated to Woods Bowman, long-time friend and supporter of the Civic Federation, without whom this report would not have been possible.
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INTRODUCTION

This report compares Chicago’s fiscal trends to 12 other major U.S. cities using financial indicators. Data are compiled from the audited financial statements from FY2009 through FY2013. The report finds that during the five-year period, the City of Chicago’s financial trends were less favorable on average than 11 of the 12 other cities.

Financial condition is a government’s ability to provide services and meet current and future obligations. Understanding a government’s financial condition is important to understanding its fiscal sustainability. A complete evaluation of a government’s financial condition requires a multi-faceted study of the government’s economy, finances and demographics—which we do not attempt here—but also an understanding of how it is faring compared to other governments. It is an indication of this last aspect of financial condition that the Federation provides with this report. At a time when Chicago and many other cities are facing ongoing financial difficulty, are Chicago’s financial trends more or less favorable than other cities’ trends?

Value of Financial Indicators

In assessing the financial health of local governments, much academic research has focused on developing measures of financial condition. Although there is no strict consensus on these measures, there is agreement that the financial condition of local governments is important to the effective, efficient and economical delivery of public services.

The Civic Federation draws from a number of studies where financial indicators were developed to create different measures of fiscal condition for states and local governments. One commonly used study is Kenneth Brown’s *The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities*. The article, published in 1993, was based on pre-GASB 34 data from 1989. Although the ten indices used were extremely useful for their simplicity and accessibility, the data only provided a snapshot from one year. Additionally, the data focused exclusively on governmental funds rather than the overall government. An examination of the overall government can provide a more comprehensive and comparable look at government operations.

In October 2009, the *Government Finance Review* published “Revisiting Kenneth Brown’s ‘10-Point Test’” which aimed to build on the strengths of Brown’s methodology by providing indicators of financial condition that could, “help a jurisdiction develop a better understanding of its financial condition, identify hidden or emerging problems, present a picture of strengths and

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1. While there are many variations in specific wording, the general concept of timely meeting financial obligations is found across the literature on financial condition. See the literature review for more information.
3. In 1999, the Governmental Accounting Standards Board (GASB) published its Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Statement 34 requires governments to present information in the first two financial statement exhibits using full accrual accounting encompassing all funds, as in the private sector. For more information, see Significance of GASB Statement 34 on page 6 of this report.
4. Brown provided 10 indices to evaluate municipal financial condition and to compare with national benchmarks based on population size. The data used for calculating ratios were available from audited financial reports.
weaknesses, introduce long-term considerations and provide a starting point for cities to consider financial policies that pertain to their particular city government.\(^5\)

The report used audited financial data from 2003 to 2006 for municipalities throughout the country. Ten indicators provided measures of cash solvency, budgetary solvency and long-run solvency, including a general fund fund balance ratio and debt service ratio. The article provided an overview of each of the indicators used and presented the data in a way that allows municipalities to assess their financial condition relative to national samples (in quartiles) based on population and median scores over time.

This report also draws from another frequently cited report “Measuring Financial Condition: A Study of U.S. States” by Xiaohu Wang et al. published in *Public Budgeting and Finance* in 2007. The study constructed 11 indicators from the government-wide Statement of Net Assets and Statement of Activities that assess four dimensions of financial solvency: cash, budget, long-run and service-level. The study tested the reliability and validity of the indicators as a good measure of financial condition. The results of the statistical analyses showed that the indicators are relatively reliable and valid in measuring financial condition and that government-wide information, as required by GASB 34, provides a useful reporting framework to evaluate the fiscal health of a government.\(^6\)

The indicators chosen for this report are relatively common and accessible in an attempt to present the data in a way that makes intuitive sense to a non-academic audience. This however does not mean that the indicators not included here are not relevant to the discussion of financial condition.

**Value of Trend Analysis**

As noted above, a full financial condition analysis evaluates the financial health or status of a government using annual financial statements data as well as external economic and demographic data.\(^7\) Also important to understanding a government’s financial health is a comparison to other governments. Direct comparison of one government’s financial condition to others is rendered difficult by 1) the lack of objective standards or benchmarks for most financial indicators calculated from financial statements and 2) the lack of comparability of the governments themselves. For many financial indicators there is no specific benchmark to which a government should aspire, simply an idea that a higher or lower number would be better, within reason. Even governments of a similar type, such as large cities, vary significantly in size, structure and services, making direct financial comparisons extremely difficult if not impossible.

However, it is possible to overcome these limitations by examining whether changes to a government’s financial condition over time are favorable or unfavorable relative to other governments. Trend analysis allows a researcher to compare one government with itself over


time, reducing concerns about comparability. Again, such an analysis does not provide an indication of good or bad overall financial condition but of whether a government is doing better or worse than it was a certain time period before. That government’s trend can then be compared to other governments’ trends to show the direction and magnitude of change relative to the other governments. Thus, a researcher can determine whether a government’s trends are generally more or less favorable than the others and therefore whether a government’s overall trends, good or bad, are out of the mainstream.

Data and Methodology
The following sections describe the sources of the data used and how data are analyzed in this report.

Significance of GASB Statement 34
The report uses data from exhibits presented in the financial statements in each government’s Comprehensive Annual Financial Report (CAFR). The financial statements are prepared using Generally Accepted Accounting Principles (GAAP) for governments, which are set by the Governmental Accounting Standards Board (GASB).

In 1999 GASB published its Statement 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments. Statement 34 requires governments to present information in the first two financial statement exhibits using full accrual accounting encompassing all funds, as in the private sector. These first two exhibits are called the government-wide Statement of Net Position and the Statement of Activities.

Most of the information presented in the government-wide financial statements must be calculated the same way by each government, so they provide more comparable data than were available before Statement 34. GASB required governments to implement the financial reporting changes between the fiscal years beginning 2001 and 2003, depending on the size of the government based on annual revenues.

Financial Statements
The government-wide financial statements report the activities of the primary government. The primary government includes governmental activities that are normally supported by taxes and intergovernmental revenues, as well as business-type activities that are normally supported by user fees and charges for services. These statements use the full accrual basis of accounting and have an “economic resources” measurement focus. The statements take into account all assets

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8 Prior to the implementation of GASB Statement No. 63 for fiscal years beginning after December 15, 2011, governments reported the Statement of Net Assets.
10 The full accrual basis of accounting is a method that attempts to recognize revenues when they are earned and expenses when they are incurred, not when cash changes hands.
(including capital assets) and most liabilities, even long-term liabilities that will come due only in the future.

Government-wide financial statements do not include fiduciary funds so actuarially accrued pension liabilities are not included. However, since the implementation of GASB Statement No. 27, governments report net pension obligations, which are the cumulative difference between annual pension costs and the employer’s contributions to its plans. The long-term focus provides a backdrop against which to evaluate the government’s fiscal health and the sustainability of its financial practices. It allows readers of financial statements to assess the impact of fiscal decisions that may create liabilities to be paid in the future.11

The government-wide financial statements used in this report include:

- **Statement of Net Position**: reports all financial and capital resources by measuring assets and deferred outflows of resources less liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions when the exchange took place. For the cities’ fiscal years prior to the implementation of GASB Statement No. 63, the Statement of Net Assets is used. In years after the implementation of GASB Statement No. 63, the Statement of Net Position is used, but to provide a consistent analysis across all fiscal years deferrals are excluded from calculations. Therefore net assets are analyzed in all years rather than net position; and

- **Statement of Activities**: reports the operations of the government by measuring the net (expense) revenue of its individual functions (such as general revenues, program fees, intergovernmental aid, etc.).12

In contrast to the “economic resources” measurement focus, the financial statements of the governmental funds use a “current financial resources” measurement focus. The goal of these financial statements is to report additional, more detailed information about the primary government. The current financial resources measurement focus shows near-term inflows and outflows using modified accrual accounting.13 It does not include the value of capital assets or long-term liabilities due in future years. According to GASB, governmental fund assets are generally expected to be liquidated within a year and liabilities are expected to be satisfied with current resources.

The governmental funds’ financial statements used in this report include:

- **Balance Sheet**: reports information about the current assets, liabilities and fund balances for each major fund and aggregated nonmajor funds; and

- **Statement of Revenues, Expenditures and Changes in Fund Balances**: reports information about the inflows, outflows and balances of current financial resources of each major fund and aggregated nonmajor funds.14

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13 The modified accrual basis of accounting recognizes revenues as those collected within the year or soon enough thereafter that can be used to finance current-year expenditures. Expenditures represent the use or expected use of current financial resources.
All data are for the primary government only and do not include discretely-presented component units. Each government’s CAFR includes a *Notes to Financial Statements* that describes the reporting entity and any discretely-presented component units. For the City of Chicago, the City’s financial statements do not include related organizations for which no fiscal dependence exists. These related organizations are the Chicago Park District, Chicago Public Schools, Community College District No. 508, Chicago Housing Authority and the Chicago Transit Authority. The City’s financial statements include the following entities as fiduciary trust funds: the Municipal Employees’ Annuity and Benefit Fund of Chicago, the Laborers’ and Retirement Board Employees’ Annuity and Benefit Fund of Chicago, the Policemen’s Annuity and Benefit Fund of Chicago and the Firemen’s Annuity and Benefit Fund of Chicago. To see similar reporting descriptions for each of the cities in this report, see Appendix D on page 50 of this report.

Government-wide data include tax-supported governmental functions and business-like activities such as city-owned utilities or airports. Population data are taken from population estimates by the United States Census Bureau for fiscal years 2009 and 2011 through 2013, and from the 2010 Census.

The following table illustrates the general structure of the audited financial statements contained in a government’s Comprehensive Annual Financial Report.

<table>
<thead>
<tr>
<th>Comprehensive Annual Financial Statements</th>
<th>Government-wide Statements</th>
<th>Fund Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statement:</td>
<td>Governmental Funds</td>
<td>Proprietary Funds</td>
</tr>
<tr>
<td>Statement of Net Position</td>
<td>Balance Sheet</td>
<td>Statement of Net Position</td>
</tr>
<tr>
<td>Statement of Changes in Fiduciary Net Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Basis:</td>
<td>Full accrual</td>
<td>Modified accrual</td>
</tr>
<tr>
<td>Measurement Focus:</td>
<td>Economic resources</td>
<td>Financial resources</td>
</tr>
</tbody>
</table>

Source: City of Baltimore, FY2013 Comprehensive Annual Financial Report, p. 4 and Governmental Accounting Standards Board, Summary of Statement No. 34.

**Cities and Fiscal Years**

This report analyzes five CAFRs of 13 large U.S. cities, most of which have also been the subject of analysis by the Pew Charitable Trusts’ Philadelphia Research Initiative. In addition

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to Chicago, the 12 other U.S. cities analyzed were Columbus, Pittsburgh, Philadelphia, Phoenix, Seattle, Los Angeles, Kansas City (MO), Baltimore, Houston, New York, Boston and Detroit.

According to the Philadelphia Research Initiative, the group of cities combined the largest cities in the U.S., early industrial cities, geographically diverse cities and cities hit particularly hard by the recession. The intention of this report is to add to a body of financial data on these cities that will examine their relative trends in fiscal condition from many angles.

The fiscal year 2009-2013 financial statements were used for all governments, since they were the most recent years for which audited data were available for all of the cities at the time the analysis was conducted. It is important to note that not every city uses the same fiscal year calendar. The fiscal years for each of the cities examined are below:

<table>
<thead>
<tr>
<th>Fiscal Years of 13 U.S. Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1 to April 30</td>
</tr>
<tr>
<td>Kansas City (MO)</td>
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<td></td>
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<td></td>
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</table>

**Financial Indicators**

A government’s financial condition can be measured using a number of conventional yardsticks, or financial indicators. Financial condition can be thought of as a government’s “ability to maintain existing service levels, withstand economic disruption and meet the demands of growth and decline.”¹⁶ As noted above, we do not attempt a full analysis of Chicago or the other cities’ financial condition here. Instead we focus on relative trends in financial indicators to get an idea of how cities have fared financially since the Great Recession.

To make some compensation for differences in size and scope of the different municipal governments, most the indicators are expressed as ratios. For example, the continuing services ratio shows unrestricted net assets relative to expenses of the same government. A government with $200 million in unrestricted net assets and $400 million in expenses would have the same 0.5 ratio as a government with $500 million in unrestricted net assets and $1 billion in expenses. Others are expressed on a per capita basis for similar reasons.

For most indicators used in this report, there are no objective standards of what ratios are “good” or “bad” for any one year. However, analysis of trends can provide context as to whether a city’s performance is favorable or unfavorable over a period of time. Additionally, because of the significant differences in size and scope of municipal governments, indicator outcomes can be

¹⁶ Craig S. Maher and Karl Nollenberger, “Revisiting Kenneth Brown’s ‘10-Point Test,’” Government Finance Review (October 2009). There are many definitions of financial condition in the literature, but most focus on the ability to maintain service levels over time.
difficult to compare across multiple cities. However, trend analysis allows the reader to compare one city to itself and then assess the relative performances of multiple cities over the same time period.

The indicators used in the report reflect four dimensions of solvency associated with the concept of financial condition. Each dimension of solvency is explained below, along with the coordinating financial indicators and the formulas used to calculate each indicator. Descriptions of the financial indicators used in this report are also consolidated into Appendix B on page 48.

Cash solvency demonstrates a government’s ability to generate sufficient financial resources to pay its current liabilities. The working capital to expenses ratio indicator, a measure of liquidity, compares net current government-wide assets to monthly expenses and assesses approximately how many months the government is able to pay for operations using its resources on hand. An increase in the working capital to expenses ratio over time may reflect increasing current net assets or decreasing annual expenses, both of which can generally be considered fiscally sound outcomes. As such, a higher ratio and an increasing trend are considered favorable.

1) Working Capital to Expenses Ratio:

\[
\text{Working Capital to Expenses Ratio} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\frac{1}{12} \times \text{Expenses}}
\]

Source of Data: Government-Wide Statement of Net Position

Budgetary solvency is related to a government’s financial ability to maintain current or desired service levels within the budget period by sufficiently funding operating expenses. The continuing services ratio indicator examines unrestricted net assets as a percentage of expenses for all funds government-wide. This indicator measures the degree to which unrestricted net assets can support continuing government services. An increase in the continuing services ratio over time may reflect increasing unrestricted net assets or decreasing government-wide expenses, both of which can lead to more readily available resources for the government. Therefore, a higher ratio and an increasing trend are considered favorable.

2) Continuing Services Ratio:

\[
\text{Continuing Services Ratio} = \frac{\text{Unrestricted Net Assets}}{\text{Total Expenses}}
\]

Sources of Data: Government-Wide Statement of Net Position and Government-Wide Statement of Activities

The fund balance ratio compares unrestricted general fund fund balance to general fund expenditures, reflecting the operating savings that a government has accumulated relative to the government’s operating expenditures for that fiscal year. The Government Finance Officers Association (GFOA) recommends that general-purpose governments maintain approximately 16.7% of their operating expenditures or revenues as fund balance. A government that meets the GFOA recommendation or has an increasing trend can be considered relatively fiscally sound.

with regard to fund balance levels. The fund balance ratio examines data reported with the modified accrual basis of accounting and could pose some comparability issues since it only examines the general fund, which can vary significantly between governments with regard to operational activities.

3) **Fund Balance Ratio:**

\[
\frac{\text{Unrestricted General Fund Fund Balance}}{\text{General Fund Expenditures}}
\]

Sources of Data: Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

The operating surplus (deficit) ratio shows the general fund operating surplus or deficit as a percentage of total operating expenses on an actual basis. This indicator reflects the difference between revenues and expenditures in completed fiscal years. Generally, a larger ratio reflects excess operating revenues over expenditures. Therefore, a ratio greater than zero and an increasing trend are considered favorable. The operating surplus (deficit) ratio examines data reported with the modified accrual basis of accounting and thus could pose the same issues of comparability as the fund balance ratio.

4) **Operating Surplus (Deficit) Ratio:**

\[
\frac{\text{General Fund Surplus or Deficit}}{\text{Net Operating Expenditures}}
\]

Source of Data: Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

**Long-run solvency** assesses 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. It is a measure of the net worth of a government and signifies the government’s ability to pay off existing long-term liabilities. A larger ratio indicates more accessible resources for the government and therefore, a higher ratio and an increasing trend are considered favorable.

5) **Net Worth Ratio:**

\[
\frac{\text{Restricted and Unrestricted Net Assets}}{\text{Total Assets}}
\]

Source of Data: Government-Wide Statement of Net Position

The debt service expenditure ratio is the percentage of debt service expenditures out of total governmental fund expenditures. The indicator can be used to assess service flexibility by determining the amount of expenses committed to annual debt service. With a higher debt service expenditure ratio, a larger portion of expenditures is being allocated to paying for debt issued by the government rather than regular government services. As such, a lower ratio and decreasing trend are considered favorable. The debt service expenditure ratio examines data reported with the modified accrual basis of accounting.

6) **Debt Service Expenditure Ratio:**

\[
\frac{\text{Debt Service Expenditure}}{}
\]
Lastly, by using per capita indicators, the report considers service-level solvency which reflects a government’s ability to maintain services at the quality and level required to ensure the safety and welfare of citizens and to meet their expectations and desires. Expenses per capita divides the total expenses of the primary government, which include governmental activities and business-type activities, by population. Higher expenses per capita reveal a more expensive government and lower solvency to sustain that expense level.\textsuperscript{18} Therefore, a lower ratio than the average of all of the cities and decreasing trend are considered favorable.

7) Expenses per Capita:
\[
\frac{\text{Total Primary Government Expenses}}{\text{Population}}
\]
Source of Data: Government-Wide Statement of Activities

Similarly, liabilities per capita divides the total liabilities of the primary government by population and represents the government’s relative indebtedness with regard to future taxpayers. Liabilities, as reported in the government-wide Statement of Activities, do not include unfunded pension liabilities. Since higher than average or increasing liabilities can be a cause for concern, a lower ratio than the average of all of the cities and decreasing trend are considered favorable.

8) Liabilities per Capita:
\[
\frac{\text{Total Liabilities}}{\text{Population}}
\]
Source of Data: Government-Wide Statement of Activities

Taxes and fees per capita divides all taxes and charges for services for primary government activities by population. Higher taxes and fees per capita reflect a higher tax burden for residents

and a lesser ability of the government to raise taxes or fees further to sustain current service levels. As such, a lower than average ratio and decreasing trend are considered favorable.

9) **Taxes and Fees per Capita:**

\[
\text{Total Primary Government Taxes and Charges for Services} \times \frac{100}{\text{Population}}
\]

Source of Data: Government-Wide Statement of Activities

**Indicator Trends and Rankings**

In order to provide a trend analysis in the simplest and most consistent manner, for each indicator this report ranks the 13 U.S. cities by largest five-year change in indicator outcomes. For all indicators, a rank closer to 1 is favorable. We call this “higher” throughout the report.

With five indicators, an increase in the ratio over time tends to show favorable performance. For example, growth in the net worth ratio may reflect a government’s increasing ability to pay off existing long-term liabilities. With the other four indicators, a decrease in the ratio over time tends to show favorable performance. For example, a declining debt service expenditures ratio may reflect a government’s waning need to allocate operating expenditures to debt service.

The indicator trend is determined by the following method:

- **Increased:** When the ratio increased over three out of four years, or when the indicator increased over two years and decreased over two years and a five-year increase is of greater magnitude than the average annual change;
- **Decreased:** When the ratio decreased over three out of four years, or when the indicator increased over two years and decreased over two years and the five-year decrease is of greater magnitude than the average annual change; and
- **Mixed:** When the indicator increased over two years, decreased over two years and the five-year change is not of greater magnitude than the average annual change.

The methodology used to generate indicator rankings in this report rewards favorable trends over the time period and not indicator outcomes in any year. As such, a high rank does not necessarily reflect sound fiscal condition. The reverse of this point is also true: It is important to remember a poor trend does not indicate poor financial condition. For example, Chicago’s fund balance ratio steadily decreased, giving Chicago an unfavorable trend and a low rank. Meanwhile, Detroit’s fund balance levels steadily improved, giving Detroit a favorable trend and high rank. However, Chicago has significantly higher fund balance levels and therefore greater overall budgetary stability than Detroit in each year examined.

Additionally, what may indicate an improved trend on its face – for example, a declining debt service expenditures ratio – may also indicate a lack of investment in infrastructure, which could be costly in the long-term. All trends should be thoroughly examined and caution should be taken before reading too much into any one indicator.
**Limitations**

Due to a number of factors, the analysis presented in this report has certain limitations. First, it is important to note that this report does not prescribe the way in which all governments ought to be examined to determine financial trends. There is a universe of hundreds of possible indicators of financial condition. The Civic Federation strove in this report to select useful, familiar financial indicators that make intuitive sense to present the City of Chicago’s relative financial trends. Another analysis using different indicators could possibly come to a different conclusion.

The 13 cities selected in the analysis represent vastly different governments and demographics. As such, each city has unique governmental operations, social and demographic compositions and local and state laws, all of which could influence the indicators but are not accounted for in the analysis. In addition, cities may implement accounting changes for any given fiscal year. These changes can have a significant impact on how financial data is reported and, when examining financial indicators based on this data over time, can create a misleading trend.

Additional limitations of this report are presented in the Executive Summary and Appendix C on page 49 of this report.

**AN ECONOMIC SNAPSHOT**

When analyzing the financial condition of the cities in this report, it is helpful to keep in mind the economic climate during the same period. Economic indicators offer a more comprehensive look at the cities’ financial condition by providing the context needed to help explain systemic trends or to help explain individual components of indicators. To provide an economic snapshot of the City of Chicago, this section examines population, unemployment, inflation and gross domestic product (GDP) data. Chicago performed in the less favorable half of the 13 cities for three of the economic indicators.

It is important to remember that the following indicators of economic condition represent data from calendar years 2009 through 2013, whereas the financial indicators presented later in this report represent data from fiscal years 2009 through 2013. Nine of the 13 cities studied do not have fiscal years that are the same as the calendar year. For complete economic data, see Appendix E of this report on page 55 which ranks the 13 cities by largest nominal or percentage increase over five years and presents the top five and bottom five cities. The appendix also includes a presentation of all economic indicators by city.

From 2009 to 2013 the City of Chicago experienced a significant drop in population, placing it in 11th place for change in population among the 13 cities. Chicago shrank by 4.6%, losing 132,486 residents. The city that grew by the largest percentage was Columbus at 6.9%, or 53,221 residents, while the city that declined the most was Detroit at 24.4%, or a loss of 222,220 residents.

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19 For each of the cities’ fiscal years, see page 9 of this report.
20 Population data come from the U.S. Department of Commerce, Bureau of the Census. Population estimates are annual estimates of resident population as of July 1st of each year for city areas only.
During the same time period, Chicago’s unemployment rate declined from 10.9% in 2009 to 10.5% in 2013.\(^{21}\) Since the unemployment rate for most of the other cities declined by a much larger amount, Chicago ranked 11\(^{th}\) for change in unemployment. Philadelphia ranked last and was the only city to experience a rise in the unemployment rate over the five-year period. The largest decrease in unemployment rate occurred in Detroit, where it fell from 24.9% in 2009 to 16.9% in 2013.

Between 2009 and 2013, the inflation rate in the City of Chicago grew from -1.2% to 1.1%.\(^{22}\) The inflation rate increased the most in Phoenix (from -1.4% to 1.3%) and increased the least in Seattle (from 0.6% to 1.2%). In 2009, 2012 and 2013, all 13 cities experienced disinflation from the previous year. Additionally, in 2009, eight of the 13 cities experienced deflation from the previous year.

Finally, Chicago’s gross domestic product (GDP) grew by 14.2%, or $73.4 billion between 2009 and 2013, placing it in 11\(^{th}\) place among the 13 cities.\(^{23}\) GDP grew for all 13 cities since 2009, with Houston ranked 1\(^{st}\) at 42.0%, or $153.1 billion, in growth. Phoenix experienced the least amount of growth in GDP with an 11.4%, or $21.4 billion, increase.

<table>
<thead>
<tr>
<th>City of Chicago Economic Indicators</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>5-Year Change</th>
<th>% Change</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2,851,268</td>
<td>2,695,598</td>
<td>2,707,120</td>
<td>2,712,920</td>
<td>2,718,782</td>
<td>-132,486</td>
<td>-4.6%</td>
<td>11(^{th})</td>
</tr>
<tr>
<td>Unemployment</td>
<td>10.9%</td>
<td>11.7%</td>
<td>11.3%</td>
<td>10.2%</td>
<td>10.5%</td>
<td>-0.4%</td>
<td>-3.7%</td>
<td>11(^{th})</td>
</tr>
<tr>
<td>Inflation</td>
<td>-1.2%</td>
<td>1.4%</td>
<td>2.7%</td>
<td>1.5%</td>
<td>1.1%</td>
<td>2.3%</td>
<td>195.7%</td>
<td>2(^{nd})</td>
</tr>
<tr>
<td>GDP (in $ billions)</td>
<td>$516.8</td>
<td>$532.3</td>
<td>$547.6</td>
<td>$571.0</td>
<td>$590.2</td>
<td>$73.4</td>
<td>14.2%</td>
<td>11(^{th})</td>
</tr>
</tbody>
</table>

Note: Population and unemployment rate data account for city areas only; inflation data account for metropolitan areas per the BLS; GDP data account for metropolitan statistical areas per the BEA. Unemployment rates are based on CPI data with base period 1982-84=100 and are not seasonally adjusted.


**SUMMARY OF FINDINGS**

In this report, the City of Chicago’s FY2009-FY2013 fiscal trends as revealed by nine indicators calculated from its financial statements were compared with the trends of 12 other U.S. cities. The report finds that during the five-year period, the City of Chicago’s financial trends were less favorable on average than 11 of the 12 other cities.

The table below shows each city’s summary rank, or the average relative trend ranking based on all nine indicators. The summary rank is grouped into high, middle and low performers.\(^{24}\) The City of Chicago ranked low with an average rank of 10 out of 13. Pittsburgh ranked highest with

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21 Unemployment data for all cities come from the U.S. Department of Labor, Bureau of Labor Statistics.
Unemployment data represent the annual average unemployment rates for city areas only.
22 Inflation data for all cities come from the U.S. Department of Labor, Bureau of Labor Statistics. The annual average consumer price index (CPI) is not seasonally adjusted, has a 1982-84 reference base and, for all cities except Columbus, represents the city’s metropolitan statistical area (MSA). CPI data for Columbus represents the Midwest Urban region because an MSA is not available. Inflation data produced in this report reflect percent changes in CPI from the previous year.
23 GDP data come from the U.S. Department of Commerce, Bureau of Economic Analysis. GDP data for each city represents the city’s metropolitan statistical area (MSA).
24 The Civic Federation used the following methodology to group the cities into performance levels: a high rank reflects an average indicator rank between 1 and 4, a middle rank reflects an average indicator rank between 5 and 8 and a low rank reflects an average indicator rank between 9 and 13.
an average rank of 3. The average ranks of eight of the 13 cities were within a close range between 6 and 7. The top two and bottom three cities were outliers. Pittsburgh and Seattle frequently ranked closer to one in their financial indicator trends, giving them considerably higher average ranks than the majority. The three cities that ranked lowest had significantly lower average ranks from frequently ranking in the bottom half for their financial indicator trends.

| Financial Indicators Average Ranking of 13 U.S. Cities: FY2009-FY2013 |
|------------------------|-----------------|-----------------|
| **Performance Level**  | **City**        | **Summary Rank** |
| **High**               | Pittsburgh      | 3               |
|                       | Seattle         | 4               |
| **Middle**             | Los Angeles     | 6               |
|                       | Phoenix         | 6               |
|                       | Baltimore       | 7               |
|                       | Boston          | 7               |
|                       | Columbus        | 7               |
|                       | Houston         | 7               |
|                       | Kansas City (MO)| 7               |
|                       | Philadelphia    | 7               |
| **Low**                | New York        | 9               |
|                       | Chicago         | 10              |
|                       | Detroit         | 10              |

Note: The summary rank is grouped into high performance (1 - 4), middle performance (5 - 8) and low performance (9 - 13).

While all the cities studied faced unfavorable trends for at least one indicator, Chicago’s averaged trends were less favorable compared to 11 of the 12 other cities in FY2009-FY2013. This does not mean that higher ranked cities’ overall financial condition was better than Chicago’s in any of the years studied. It means that they experienced more favorable trends in four areas of financial solvency than Chicago. This fact gives us an indication that other cities may have had a stronger recovery from recession and financial challenges.

The following table summarizes the City of Chicago’s trends in the four solvency areas and nine financial indicators analyzed in this report. Chicago performed in the more favorable half of the 13 cities based on two of the nine indicators: operating surplus (deficit) ratio (4th) and debt service expenditure ratio (5th). It is important to note that for all but two of the indicators, the fund balance ratio and the operating surplus (deficit) ratio, financial trends for a majority of the cities deteriorated over the five-year period. This is most likely due to the recession and its
aftermath. It indicates that while the cities’ general fund budgetary stability is improving, the stability of the government as a whole may still be a problem.

### City of Chicago
#### Relative Financial Condition Trends: FY2009-FY2013

<table>
<thead>
<tr>
<th>Area of Solvency</th>
<th>Indicator</th>
<th>Rank</th>
<th>Five-Year Change</th>
<th>Average Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Working Capital to Expenses Ratio</td>
<td>11</td>
<td>(2 weeks)</td>
<td>(3 days)</td>
</tr>
<tr>
<td>Budgetary</td>
<td>Continuing Services Ratio</td>
<td>12</td>
<td>-22.3%</td>
<td>-5.6%</td>
</tr>
<tr>
<td></td>
<td>Unrestricted Fund Balance Ratio*</td>
<td>12</td>
<td>-5.7%</td>
<td>-2.8%</td>
</tr>
<tr>
<td></td>
<td>Operating Surplus (Deficit) Ratio</td>
<td>4</td>
<td>12.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Long-Run</td>
<td>Net Worth Ratio</td>
<td>13</td>
<td>-14.3%</td>
<td>-3.6%</td>
</tr>
<tr>
<td></td>
<td>Debt Service Expenditure Ratio</td>
<td>5</td>
<td>-0.5%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Service-Level</td>
<td>Expenses Per Capita</td>
<td>12</td>
<td>$353</td>
<td>$88</td>
</tr>
<tr>
<td></td>
<td>Liabilities Per Capita</td>
<td>11</td>
<td>$3,300</td>
<td>$825</td>
</tr>
<tr>
<td></td>
<td>Taxes and Fees Per Capita</td>
<td>10</td>
<td>$338</td>
<td>$85</td>
</tr>
<tr>
<td><strong>Average Rank</strong></td>
<td><strong>10</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The unrestricted fund balance ratio trend reflects a three-year change because of a revision to GASB reporting standards for all statements after FY2011. For more information see the Fund Balance Ratio section of this report.

Note: For all indicators, a rank closer to 1 is favorable.


During the five-year period, the City of Chicago’s relative financial condition trends were generally unfavorable in all four areas of solvency. Chicago’s ability to generate financial resources in the short-term has generally declined, indicating a weakened but still relatively healthy cash solvency. A majority of the 13 cities experienced declines in the working capital to expenses ratio, also indicating weakened liquidity but not necessarily an overall poor cash position.

Two of Chicago’s three budgetary solvency indicators were unfavorable as well. The significant decline of the continuing services ratio reflects the large and growing deficits of unrestricted net assets, particularly Chicago’s loss of $3.7 billion in unrestricted net assets. This is primarily driven by inadequate funding for long-term liabilities including net pension obligations.\(^{25}\) A positive budgetary trend was its reduced operating deficit over the five-year period. However, Chicago also built up and then steadily depleted its budgetary reserves, with fund balance levels well below the GFOA’s recommended levels.

A majority of cities experienced unfavorable trends with the continuing services ratio. However, a large majority experienced favorable trends with the fund balance and operating surplus (deficit) ratios. This may suggest an overall improvement in the fiscal condition of the cities’ general funds, but that the cities continue to face challenges in government-wide operations,

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\(^{25}\) Reported net pension obligations are the cumulative difference between annual pension costs and the employer’s contributions to its plans since 1986 as required by reporting standards in GASB Statement No. 27. The cumulative pension funding shortfalls reported in the City’s audited financial statements do not represent total unfunded pension liabilities.
including the accumulation of long-term liabilities that are greater than the current value of their assets.

The long-run solvency indicators expose significant challenges for the City to meet its existing long-term obligations. Chicago’s plummeting net worth ratio is a warning that the City may face difficulty in paying off existing long-term liabilities. Despite an overall decline in the debt service expenditure ratio, the average over the five years for Chicago is among the higher half of the 13 cities.

A majority of the cities not only experienced unfavorable trends with the net worth ratio, but a majority also maintained deficits of net assets in at least four of the five years studied. Meanwhile, the debt service expenditure ratio increased for a majority of the cities. This indicates that for many cities, the long-term capability to meet financial obligations may be in decline.

Finally, while Chicago’s real expenses and real taxes and fees have grown correspondingly over the past five years by 12.1% and 18.5% respectively, Chicago’s real liabilities have grown by a significantly larger 36.7%. Chicago’s service-level solvency indicators suggest that Chicago is experiencing a growing imbalance between its long-term obligations and the means to fund them.

A majority of the cities experienced less than average growth in expenses per capita and liabilities per capita, which is a favorable outcome. This suggests that a group of outlier cities experienced declining service-level solvency. A majority of the cities also experienced above average growth in taxes and fees per capita, which may have been driven by a bettering economy.

**FINDINGS**
The following sections provide descriptions and rankings for each financial indicator.

**Cash Solvency**
Cash solvency demonstrates a government’s ability to generate sufficient financial resources to pay its current liabilities using its resources on hand. To measure cash solvency, this report examines the working capital to expenses ratio.

Over the five-year period, the average annual change for all cities combined was zero. In other words, on average the cities’ level of working capital per year remained the same while Chicago lost 0.1 months per year. Only five of the 13 cities experienced increases in the ratio, while most cities experienced declines. Though the downward trend signals an overall decline in operational liquidity, it does not necessarily mean that the cities are in poor cash position.
Working Capital to Expenses Ratio

The working capital ratio is a measure of operational liquidity and assesses government-wide assets, liabilities and monthly expenses which are all reported using the full accrual method of accounting. The ratio determines whether a government has the means available to cover its existing obligations in the short term.

Working capital can be thought of as a budgetary buffer if there are fluctuations in cash flow. When divided by monthly expenses, the working capital to expenses ratio can approximate how many months the government is able to maintain normal operations with its current level of resources. An increase in the working capital to expenses ratio over time may reflect increasing current net assets or decreasing annual expenses, both of which can generally be considered favorable outcomes.

The formula for the indicator is the following:

\[
\text{Current Assets} - \text{Current Liabilities} \\
\frac{1}{12} \text{Expenses}
\]

Source: Government-Wide Statement of Net Position and Statement of Activities

The working capital to expenses 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;
- **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;
- **Internal balances**: monies due from the government (positive) or due to the government (negative); and
- **Inventories**: government-wide inventories.

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26 Although the Government Finance Officers Association (GFOA) does not discuss working capital benchmarks for the primary government as an aggregate of governmental and proprietary activities, the GFOA does recommend appropriate levels of working capital in the enterprise or business-like funds. The GFOA recommends that a government’s target for working capital be no less than 45 days worth of annual operating expenses, or approximately 1.5 months. See Government Finance Officers Association, “Appropriate Levels of Working Capital in Enterprise Funds,” 2011.
Current liabilities are financial obligations that must be satisfied within one year. These may include items categorized as long-term liabilities due within one year, or the current portion of long-term liabilities. The working capital to expenses ratio formula uses the following current liabilities of a municipality:

- **Payables**: monies owed to vendors for goods and services;
- **Short-Term Debt**: loans taken out in anticipation of revenues that are paid back within 12 months or fewer;
- **Accrued Interest**: includes interest due on deposits payable by the government in the next fiscal year; and
- **Accrued and Other Liabilities**: includes self-insurance funds, unclaimed property and other unspecified liabilities.

The chart below compares the working capital to expenses ratio for 13 U.S. cities between FY2009 and FY2013. The City of Chicago’s working capital to expenses ratio decreased by nearly 0.6 months over the five-year period. At its lowest point in FY2013, Chicago’s government-wide working capital to expenses ratio dropped to 3.6 months. In other words, at any point during the fiscal year 2013, Chicago had enough working capital to fund approximately three months and two weeks of operations.

The working capital to expenses ratio reveals that only five of the 13 cities experienced increases in the ratio over the five-year period while eight decreased. Additionally, New York and Detroit experienced working capital deficits for at least two fiscal years. Chicago’s five-year average working capital to expenses ratio of 4.0 months was above the five-year average for all cities of 3.1 months.

### Working Capital to Expenses Ratio

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Average</th>
<th>Five-Year Change</th>
<th>Average Annual Change</th>
<th>Indicator Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Seattle</td>
<td>2.3</td>
<td>2.2</td>
<td>3.0</td>
<td>3.0</td>
<td>3.4</td>
<td>2.8</td>
<td>1.1</td>
<td>0.3</td>
<td>Favorable</td>
</tr>
<tr>
<td>2</td>
<td>New York</td>
<td>(0.0)</td>
<td>(0.2)</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>(0.0)</td>
<td>0.4</td>
<td>0.1</td>
<td>Favorable</td>
</tr>
<tr>
<td>3</td>
<td>Pittsburgh*</td>
<td>0.9</td>
<td>0.2</td>
<td>0.7</td>
<td>2.6</td>
<td>1.1</td>
<td>1.1</td>
<td>0.2</td>
<td>0.1</td>
<td>Favorable</td>
</tr>
<tr>
<td>4</td>
<td>Los Angeles*</td>
<td>5.8</td>
<td>6.5</td>
<td>6.7</td>
<td>6.7</td>
<td>6.0</td>
<td>6.3</td>
<td>0.2</td>
<td>0.1</td>
<td>Favorable</td>
</tr>
<tr>
<td>5</td>
<td>Columbus**</td>
<td>4.2</td>
<td>5.5</td>
<td>6.0</td>
<td>4.8</td>
<td>4.2</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0</td>
<td>Favorable</td>
</tr>
<tr>
<td>6</td>
<td>Phoenix</td>
<td>4.3</td>
<td>5.0</td>
<td>5.6</td>
<td>4.8</td>
<td>4.2</td>
<td>4.8</td>
<td>(0.2)</td>
<td>(0.0)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>7</td>
<td>Baltimore</td>
<td>2.3</td>
<td>1.4</td>
<td>3.2</td>
<td>2.2</td>
<td>2.1</td>
<td>2.2</td>
<td>(0.3)</td>
<td>(0.0)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>8</td>
<td>Boston***</td>
<td>4.1</td>
<td>3.6</td>
<td>3.4</td>
<td>3.5</td>
<td>3.5</td>
<td>3.8</td>
<td>0.4</td>
<td>(0.1)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>9</td>
<td>Philadelphia***</td>
<td>1.5</td>
<td>1.0</td>
<td>1.4</td>
<td>1.3</td>
<td>1.0</td>
<td>1.2</td>
<td>(0.4)</td>
<td>(0.1)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>10</td>
<td>Kansas City***</td>
<td>4.0</td>
<td>4.1</td>
<td>1.0</td>
<td>4.4</td>
<td>3.6</td>
<td>3.4</td>
<td>(0.4)</td>
<td>(0.1)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>11</td>
<td>Chicago</td>
<td>4.2</td>
<td>4.4</td>
<td>3.9</td>
<td>4.1</td>
<td>3.6</td>
<td>4.0</td>
<td>(0.6)</td>
<td>(0.1)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>12</td>
<td>Detroit</td>
<td>2.7</td>
<td>(0.7)</td>
<td>0.9</td>
<td>0.5</td>
<td>1.6</td>
<td>0.6</td>
<td>(1.0)</td>
<td>(0.3)</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>13</td>
<td>Houston</td>
<td>4.6</td>
<td>4.9</td>
<td>5.7</td>
<td>5.5</td>
<td>3.0</td>
<td>4.7</td>
<td>(1.5)</td>
<td>(0.4)</td>
<td>Unfavorable</td>
</tr>
</tbody>
</table>

| Average | 3.1 | 2.9 | 3.0 | 3.4 | 2.9 | 3.1 | (0.2) | (0.0) |

*Five-year change for Pittsburgh is 0.25 and for Los Angeles is 0.22.
**Five-year change is equal to 0.04 and average annual change is equal to 0.02.
***Five-year change for Boston is (0.36), for Philadelphia is (0.41) and for Kansas City is (0.44).

Note: Minimal differences in averages may occur due to rounding. Cities are ranked in order of largest five-year change.


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27 The current portion of long-term debt is the portion of a long-term obligation that will be settled during the next year by using current assets. Steven M. Bragg, *Interpretation and Application of Generally Accepted Accounting Principles* (New Jersey: Wiley, 2011), 39.
To help explain some of the fluctuations in the working capital to expenses ratios above, the exhibit below shows each of the components of the ratio for Chicago and the highest and lowest ranked cities from FY2009 to FY2013.

The dip in Chicago’s ratio in FY2011 can be attributed to a $352.8 million, or 12.7%, increase in current liabilities from FY2010 to FY2011. Another dip in the ratio in FY2013 can be attributed to a $300.3 million loss in unrestricted current assets from FY2012. This includes a decrease of over $165.1 million in cash and cash equivalents and a loss of nearly $137.0 million in investments government-wide.²⁸

Seattle’s working capital to expenses ratio increased by 1.1 months from FY2009 to FY2013, ranking it first among the 13 cities. The ratio increased because while Seattle’s current liabilities grew by $145.8 million, or 26.8%, over the five-year period, its current assets increased by $456.4 million, or 43.3%. Much of the increase in current assets is due to growing operating cash and investments.²⁹

In the City of Houston, the working capital to expenses ratio fell significantly from FY2009 to FY2013. In FY2013 the ratio dropped to its lowest level at 3.0 months, due in large part to a significant decline in current assets in FY2013 and growing current liabilities associated with debt starting in FY2012. The loss of current assets is due to a $735.5 million drop in equity in pooled cash and investments. Between FY2011 and FY2013, Houston added $100.5 million in bonds payable within one year and $94.1 million in commercial paper due within one year to its current liabilities.³⁰

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Five-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Seattle</td>
<td>2.3</td>
<td>2.2</td>
<td>3.0</td>
<td>3.0</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>Current Assets</td>
<td>$1,053.9</td>
<td>$1,050.4</td>
<td>$1,251.0</td>
<td>$1,331.6</td>
<td>$1,510.3</td>
<td>$456.4</td>
</tr>
<tr>
<td></td>
<td>Current Liabilities</td>
<td>$543.2</td>
<td>$555.3</td>
<td>$591.8</td>
<td>$653.0</td>
<td>$689.0</td>
<td>$145.8</td>
</tr>
<tr>
<td></td>
<td>Monthly Expenses</td>
<td>$219.1</td>
<td>$224.7</td>
<td>$220.6</td>
<td>$224.1</td>
<td>$240.1</td>
<td>$21.0</td>
</tr>
<tr>
<td>11</td>
<td>Chicago</td>
<td>4.2</td>
<td>4.4</td>
<td>3.9</td>
<td>4.1</td>
<td>3.6</td>
<td>(0.6)</td>
</tr>
<tr>
<td></td>
<td>Current Assets</td>
<td>$5,427.3</td>
<td>$5,835.4</td>
<td>$5,897.6</td>
<td>$5,743.1</td>
<td>$5,442.7</td>
<td>$15.4</td>
</tr>
<tr>
<td></td>
<td>Current Liabilities</td>
<td>$2,724.9</td>
<td>$2,784.6</td>
<td>$3,137.4</td>
<td>$2,760.1</td>
<td>$2,774.9</td>
<td>$50.1</td>
</tr>
<tr>
<td></td>
<td>Monthly Expenses</td>
<td>$650.0</td>
<td>$693.3</td>
<td>$710.7</td>
<td>$734.1</td>
<td>$742.7</td>
<td>$92.7</td>
</tr>
<tr>
<td>13</td>
<td>Houston</td>
<td>4.6</td>
<td>4.9</td>
<td>5.7</td>
<td>5.5</td>
<td>3.0</td>
<td>(1.5)</td>
</tr>
<tr>
<td></td>
<td>Current Assets</td>
<td>$2,787.1</td>
<td>$2,962.7</td>
<td>$3,143.7</td>
<td>$3,288.8</td>
<td>$2,524.5</td>
<td>$262.6</td>
</tr>
<tr>
<td></td>
<td>Current Liabilities</td>
<td>$1,208.0</td>
<td>$1,271.9</td>
<td>$1,195.9</td>
<td>$1,406.4</td>
<td>$1,475.6</td>
<td>$67.6</td>
</tr>
<tr>
<td></td>
<td>Monthly Expenses</td>
<td>$344.7</td>
<td>$345.9</td>
<td>$340.4</td>
<td>$340.7</td>
<td>$345.9</td>
<td>$1.2</td>
</tr>
</tbody>
</table>

Note: Minimal differences may occur due to rounding. Cities are ranked in order of largest five-year change.

²⁸ City of Chicago, Comprehensive Annual Financial Reports, FY2012 and FY2013.
²⁹ City of Seattle, Comprehensive Annual Financial Reports, Statement of Net Position, FY2013.
³⁰ City of Houston, Comprehensive Annual Financial Reports, FY2012 and FY2013.
Budgetary Solvency

Budgetary solvency is related to a government’s financial ability to maintain current or desired service levels within the budget period by sufficiently funding operating expenses. To measure budgetary solvency, this report examines the continuing services ratio, the fund balance ratio and the operating surplus (deficit) ratio.

A majority of cities experienced unfavorable trends with the continuing services ratio. However, a large majority experienced favorable trends with the fund balance and operating surplus (deficit) ratios. This may suggest an overall improvement in the fiscal condition of the cities’ general funds, but that the cities continue to face challenges in government-wide operations, including the accumulation of long-term liabilities that are greater than the current value of their assets.

<table>
<thead>
<tr>
<th>Budgetary Solvency</th>
<th>Ratio</th>
<th>Average Annual Change - All Cities</th>
<th>Average Annual Change - Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Continuing Services</td>
<td>-1.7%</td>
<td>-8.9%</td>
</tr>
<tr>
<td></td>
<td>Fund Balance*</td>
<td>0.8%</td>
<td>-2.8%</td>
</tr>
<tr>
<td></td>
<td>Operating Surplus (Deficit)</td>
<td>2.7%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

*The fund balance ratio reflects a three-year trend because of a revision to GASB reporting standards for FY2011 statements. For more information see the Fund Balance Ratio section of this report.


Continuing Services Ratio

The continuing services ratio examines both governmental funds and business-type enterprise funds, presenting a comprehensive look at the government’s operations. The ratio assesses government-wide net assets and expenses, which are reported using the full accrual method of accounting.

Though the general fund is the government’s main operating fund, a fiscally stressed general fund may appear to be healthy due to transfers or loans from other funds.31 There could also be fiscal distress in a city’s other significant funds. As such, it is useful to examine both the continuing services ratio, which includes a government-wide view and the general fund fund balance ratio, which only looks at the general fund and is introduced in the next section.

The continuing services ratio financial indicator examines unrestricted net assets for all funds as a percentage of expenses for all funds. This indicator measures the degree to which unrestricted net assets can support continuing government services.32 The difference between a government’s

assets (the resources it can use to operate the government) and its liabilities (its obligations to turn over resources to other individuals and organizations) is called its net assets.\textsuperscript{33}

Net assets are reported in three categories: net investment in capital assets, restricted and unrestricted. The first category shows the value of capital assets minus the outstanding debt that was incurred to build the assets and accumulated depreciation. Restricted net assets are limited to a specific purpose, such as activities funded by grants from other governments or revenues set aside for payment of debt service.

Unrestricted net assets are the net assets not included in the other two categories and can generally be used for any purpose. They are not necessarily cash assets and may in fact be a negative number, or deficit, because they include offsetting liabilities. For example, large debt obligations may contribute to an unrestricted net assets deficit even though those long-term liabilities are not all due in the current year. The formula for the continuing services ratio is the following:

\[
\frac{\text{Unrestricted Net Assets}}{\text{Total Expenses}}
\]

Source: Government-Wide Statement of Net Position and Statement of Activities

A higher continuing services ratio, or an increasing trend, can be considered favorable. Having negative unrestricted net assets in one fiscal year does not mean that a government is insolvent or in financial crisis, but rather that it has accumulated long-term liabilities that are greater than the current value of its assets. Negative unrestricted net assets demonstrates the extent to which future taxing power has already been committed to payment of liabilities.\textsuperscript{34} Multiple consecutive deficits are a cause for concern. This brings up the issue of intergenerational equity because liabilities have been incurred in providing services, but not enough assets have been set aside to cover them. In other words, future generations of taxpayers will need to pay for liabilities incurred in the past.

The chart below compares the continuing services ratio between FY2009 and FY2013. Over the five-year period, four of the 13 cities experienced increasing continuing services ratios. Nine cities, including Chicago, decreased.

Chicago experienced continuing services deficits in all five fiscal years, with the largest deficit of 86.2% in FY2013. This means that long-term commitments exceed available resources by the equivalent of nearly one year of expenditures. This is primarily driven by inadequate funding for long-term liabilities including net pension obligations of $7.6 billion, as well as future liability claims driven from personnel, property, pollution and casualty claims ($879.8 million).\textsuperscript{35}

\textsuperscript{33} For fiscal years after the implementation of GASB Statement No. 63 after December 15, 2011, the governments report Net Position, which includes deferrals, in addition to assets and liabilities. However, as noted above, to ensure consistent trends the Civic Federation has excluded deferrals and instead uses net assets in its indicators here.


\textsuperscript{35} City of Chicago, FY2013 Comprehensive Annual Financial Report, p. 20.
Net pension obligations (NPO) are the cumulative difference between annual pension costs and the employer’s contributions to its plans since 1986 as required by reporting standards in GASB Statement No. 27. According to the City of Chicago, both the City and its employees have contributed the statutorily-required amounts into Chicago’s four pension funds, but for a number of reasons including inadequate funding mechanisms, demographic changes, benefit enhancements, economic factors and lawmaker inaction, the pension funds’ unfunded liabilities have grown to $19.2 billion at the end of FY2013.36

New York had the lowest continuing services ratio of the 13 cities with a deficit of 202.2% in FY2012, which means its long-term commitments exceed its available resources by the equivalent of over two years of expenditures. The City of Phoenix had a continuing services ratio of 60.3% in FY2013. Its available resources were in excess of its commitments, which indicate it is better able to maintain services with its current revenue structure than those cities with unfavorable ratios.

Pittsburgh had the second lowest five-year average continuing services ratio at -113.0%, but improved the most over the time period examined.

To further examine some of the fluctuations in the continuing services ratios above, the exhibit below shows each of the components of the ratio for Chicago and the highest and lowest ranked cities from FY2009 to FY2013. Chicago ranked twelfth of the 13 cities with a 35.6 percentage point drop over five years. Chicago’s deficit of unrestricted net assets grew from $3.9 billion in FY2009 to $7.7 billion in FY2013, a 94.9% increase. This means that it was accumulating liabilities without maintaining offsetting assets. At the same time, expenses of the primary government grew from $7.8 billion to $8.9 billion, an increase of 14.3%. This indicates that Chicago’s existing fiscal structure and level of services may not be sustainable in the long-term.

36 Unfunded liability is the difference between the value of the pension’s actuarial liability and the value of its assets.
37 City of Chicago, Annual Financial Analysis 2014, p. 88. Unfunded liabilities are not reflected in the NPO.
In comparison, although Pittsburgh also maintained significant continuing services deficits, its unrestricted net assets increased by $135.0 million while expenses grew by $32.0 million over the five-year period. Detroit’s unrestricted net assets declined by $1.1 billion, or by 121.3%, while expenses fell by $434.0 million, or 14.9%.

### Fund Balance Ratio

Fund balance is a term commonly used to describe the net assets of a governmental fund and is an important indicator of fiscal health. This section examines the unrestricted fund balance levels of the general fund – the government’s main operating fund – which is reported using the modified accrual method of accounting. It is important to note that the services provided under the general fund can differ greatly between cities. For example, in New York City schools are funded from the General Fund whereas in Chicago they are funded in a legally separate unit of government. As such, it is useful to examine both the general fund in addition to the government as a whole.

The Government Finance Officers Association (GFOA) recommends that general-purpose governments 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, which is approximately 17%. The GFOA statement adds that each unit of government should adopt a formal policy that considers its own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.\(^{38}\)

In order to address the sometimes inconsistent application of reporting standards for fund balance by governments, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions in February 2009. 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 government is

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bound to honor constraints on the specific purposes for which amounts in the fund can be spent.”

GASB required that governments implement the new reporting standards with their FY2011 financial statements. Due to the new classifications of fund balance per the GASB 54 implementation, a complete analysis of the fund balance ratio from FY2009 to FY2013 is not possible. The following section will compare fund balance ratios from FY2009 to FY2010 and FY2011 to FY2013 separately.

The formula for the indicator is the following:

Prior to GASB 54 (FY2009-FY2010)

\[
\text{Unreserved General Fund fund balance} \over \text{General Fund Expenditures}
\]

After GASB 54 (FY2011-FY2013)

\[
\text{Unrestricted General Fund fund balance} \over \text{General Fund Expenditures}
\]

Sources: Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. A variety of external and internal constraints may prevent portions of the fund balance from being available for budgeting. 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.

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 fund balance ratio examines unrestricted fund balance, which includes the committed, assigned and unassigned fund balance components. The five GASB components are described as the following:

- **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

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40 Unrestricted fund balance includes assigned, unassigned and committed fund balance.
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 fund, the remaining surplus of net resources after funds have been identified in the four categories above.\(^{42}\)

The following chart shows the unreserved general fund balance level from FY2009 to FY2010 as a ratio of expenditures. It is important to be aware that the fund structure and use of the general fund can differ significantly among local units, impacting the fund balance ratios. For example, some governments transfer out significant amounts of general fund resources to subsidize other governmental funds, which would not be accounted for as expenditures. As noted above, the mix of services provided under the general fund also differs greatly.

From FY2009 to FY2010, Chicago’s unreserved general fund fund balance increased by 2.6%, placing it in fifth place of the 13 cities. However, with a level of fund balance at 2.7% of general

fund expenditures in FY2010, Chicago was in 9th place of the 13 cities and below the GFOA recommended level.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>Average</th>
<th>Two-Year Change</th>
<th>Indicator Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Detroit</td>
<td>-28.7%</td>
<td>-14.6%</td>
<td>-21.6%</td>
<td>14.2%</td>
<td>Favorable</td>
</tr>
<tr>
<td>2</td>
<td>Columbus*</td>
<td>8.7%</td>
<td>14.2%</td>
<td>11.5%</td>
<td>5.4%</td>
<td>Favorable</td>
</tr>
<tr>
<td>3</td>
<td>Phoenix</td>
<td>18.0%</td>
<td>23.3%</td>
<td>20.7%</td>
<td>5.3%</td>
<td>Favorable</td>
</tr>
<tr>
<td>4</td>
<td>Kansas City</td>
<td>2.5%</td>
<td>5.9%</td>
<td>4.2%</td>
<td>3.4%</td>
<td>Favorable</td>
</tr>
<tr>
<td>5</td>
<td>Chicago</td>
<td>0.1%</td>
<td>2.7%</td>
<td>1.4%</td>
<td>2.6%</td>
<td>Favorable</td>
</tr>
<tr>
<td>6</td>
<td>Philadelphia</td>
<td>-7.2%</td>
<td>-7.0%</td>
<td>-7.1%</td>
<td>0.2%</td>
<td>Favorable</td>
</tr>
<tr>
<td>7</td>
<td>New York</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.0%</td>
<td>Unfavorable**</td>
</tr>
<tr>
<td>8</td>
<td>Seattle</td>
<td>14.6%</td>
<td>14.2%</td>
<td>14.4%</td>
<td>-0.4%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>9</td>
<td>Baltimore</td>
<td>2.8%</td>
<td>2.2%</td>
<td>2.5%</td>
<td>-0.6%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>10</td>
<td>Los Angeles</td>
<td>7.4%</td>
<td>6.6%</td>
<td>7.0%</td>
<td>-0.9%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>11</td>
<td>Houston</td>
<td>16.3%</td>
<td>11.4%</td>
<td>13.9%</td>
<td>-4.9%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>12</td>
<td>Pittsburgh</td>
<td>15.9%</td>
<td>10.3%</td>
<td>13.1%</td>
<td>-5.6%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>13</td>
<td>Boston</td>
<td>35.2%</td>
<td>27.7%</td>
<td>31.5%</td>
<td>-7.5%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>6.7%</td>
<td>7.5%</td>
<td>7.1%</td>
<td>0.9%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Minimal differences in averages may occur due to rounding. Cities are ranked in order of largest two-year change.

*Columbus implemented reporting changes to fund balance per GASB 54 in FY2009.

**The fund balance ratio for New York decreased from 0.755% in FY2009 to 0.751% in FY2010.


The following chart shows the FY2011 to FY2013 fund balance ratios for each of the cities. Per the implementation of GASB 54 reporting standards, these fund balance levels reflect unrestricted general fund fund balance, which includes committed, assigned and unassigned general fund fund balance.

Over the three-year period, only two cities – Chicago and Phoenix – experienced decreases in fund balance levels. Chicago’s fund balance ratio fell from 10.2% in FY2011 to 4.6% in FY2013. Phoenix’s fund balance fell by a larger amount, but Phoenix maintains a much healthier amount of reserves at 21.5% in FY2013. New York completely drew down its general fund fund balance in FY2011 and reported no unrestricted general fund fund balance through FY2013.43

Detroit maintained a deficit of fund balance in each of the three years, but managed to reduce the deficit from 15.9% in FY2011 to 9.9% in FY2013. Detroit’s annual fund balance deficits are largely due to a significant amount of general fund disbursements to fund various operating subsidies, including the maintenance of bus operations and the payments for debt service principal and interest.44 Over the three-year period, the fund balance levels for a large majority of the cities were relatively healthy and did not fluctuate significantly.

44 City of Detroit, FY2012 Comprehensive Annual Financial Report, p. 94.
Not considered in this analysis are Chicago’s legally restricted reserves from the leases of the Skyway toll road and parking meters because they are not unrestricted fund balance.\(^{45}\) At the end of 2013, after depleting much of the parking meter reserves, the aggregate principal balance in the Skyway and parking meter asset lease reserve funds was approximately $628.0 million.\(^{46}\)

Chicago has made efforts to replenish some of the parking meter reserves as part of its budgets since FY2012. Although rating agencies upgraded Chicago’s general obligation bond ratings in response to the creation of the Skyway reserve,\(^{47}\) the use of other lease reserves to maintain operating expenses over time has influenced decisions by rating agencies to downgrade its bonds.\(^{48}\) Since the long-term asset lease reserves are legally restricted, they are not considered unreserved or unrestricted fund balance.

The next chart presents the fund balance components for the City of Chicago and the cities with the highest and lowest changes in General Fund fund balance from FY2011 to FY2013. Although a five-year trend analysis of the ratio itself is not possible due to the reclassification of fund balance components, the following chart shows both the General Fund unreserved and unrestricted fund balance levels, as well as General Fund expenditures for the fiscal years 2009

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\(^{45}\) 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 leased its parking meters to a private operator for 75 years for $1.15 billion.


\(^{48}\) Yvette Shields, “Chicago’s Mayor Takes Aim at Deficit,” The Bond Buyer, October 12, 2011.
through 2013.

Chicago’s level of Corporate Fund expenditures has not fluctuated much over the five-year period, showing relative stability in its spending. In contrast, the City of Philadelphia has decreased government expenditures by $398.3 million and increased its fund balance levels from deficits to 5.5% unrestricted fund balance in FY2013. Phoenix on the other hand has maintained healthy levels of reserves, with its unreserved fund balance at its lowest level of 18.0% in FY2009.

Credit rating agencies, which regularly monitor the size of governmental fund balances, prefer large reserves so that there is a degree of assurance that debt service payments will be made. However, a government consistently maintaining excessive reserves may raise concerns from taxpayers and citizens’ groups about whether the government is taxing too much and hoarding the proceeds.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011*</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Five-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Philadelphia</td>
<td>-7.2%</td>
<td>-7.0%</td>
<td>-1.3%</td>
<td>2.1%</td>
<td>5.5%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General Fund Unreserved Fund Balance</td>
<td>$ (274.6)</td>
<td>$ (251.8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General Fund Unrestricted Fund Balance</td>
<td>-</td>
<td>-</td>
<td>$ (45.7)</td>
<td>$ 70.5</td>
<td>$ 188.0</td>
<td>-</td>
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<tr>
<td></td>
<td>General Fund Expenditures</td>
<td>$3,811.6</td>
<td>$3,581.8</td>
<td>$3,611.6</td>
<td>$3,318.2</td>
<td>$3,413.3</td>
<td>$ (398.3)</td>
</tr>
<tr>
<td>12</td>
<td>Chicago</td>
<td>0.1%</td>
<td>2.7%</td>
<td>10.2%</td>
<td>6.8%</td>
<td>4.6%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Corporate Fund Unreserved Fund Balance</td>
<td>$ 2.7</td>
<td>$ 81.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Corporate Fund Unrestricted Fund Balance</td>
<td>-</td>
<td>-</td>
<td>$ 311.5</td>
<td>$ 210.4</td>
<td>$ 142.3</td>
<td>-</td>
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<tr>
<td></td>
<td>Corporate Fund Expenditures</td>
<td>$3,014.1</td>
<td>$3,033.9</td>
<td>$3,040.4</td>
<td>$3,081.4</td>
<td>$3,109.1</td>
<td>$ 95.0</td>
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<td>13</td>
<td>Phoenix</td>
<td>18.0%</td>
<td>23.3%</td>
<td>30.9%</td>
<td>25.9%</td>
<td>21.5%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General Fund Unreserved Fund Balance</td>
<td>$ 190.3</td>
<td>$ 231.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General Fund Unrestricted Fund Balance</td>
<td>-</td>
<td>-</td>
<td>$ 291.0</td>
<td>$ 251.1</td>
<td>$ 216.4</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>General Fund Expenditures</td>
<td>$1,056.9</td>
<td>$ 991.1</td>
<td>$ 943.1</td>
<td>$ 969.3</td>
<td>$1,008.2</td>
<td>$ (48.8)</td>
</tr>
</tbody>
</table>

Note: Minimal differences may occur due to rounding.
*The components of the fund balance ratio changed in FY2011 due to a reporting change per GASB 54.

In addition to a general increase in fund balance levels between FY2011 and FY2013 among the 13 municipal governments, many governments maintained healthy levels of budgetary reserves. When examining the average fund balance ratio over the three years, six units exceeded the GFOA standard of approximately 17%. Nine cities maintained an average fund balance ratio of 10% or more.

**Operating Surplus (Deficit) Ratio**

The operating surplus (deficit) ratio shows the general fund operating surplus or deficit as a percentage of total operating expenditures on an actual basis and not a budgeted basis. A positive ratio occurs when an operating surplus exists, or when revenues exceed expenditures. A negative ratio occurs when an operating deficit exists, or when expenditures exceed revenues. The ratio examines the general fund revenues and expenditures, which are reported using the modified accrual method of accounting.
Governments and the media often report the projected deficit or budget shortfall for the upcoming fiscal year as they are developing a budget, but they do not report how much money has actually been received and spent. The projected deficit provides a framework for the government to determine how much expenditures need to be reduced, revenues increased or reserves used in developing its budget.

In contrast, the operating surplus (deficit) ratio examined here is rarely widely reported. It reflects the difference between revenues and expenditures in completed fiscal years. The formula for the operating surplus (deficit) ratio is the following:

\[
\text{General Fund Surplus or Deficit} = \frac{\text{Net Operating Expenditures}}{\text{Net Operating Expenditures}}
\]

Sources: Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

A higher operating surplus ratio, or an increasing trend, can be considered favorable. A deficit in one year does not necessarily indicate financial difficulty. A government may have had an unusually large expenditure in the current year, but prudently planned for such an event by conserving resources in previous periods. Credit ratings agencies are generally concerned when there are two or more consecutive years of deficits, when the size of deficits is increasing or when there is an abnormally large deficit (5% to 10%). In addition, the continuous recurrence of deficits may exhaust a government’s reserves.

The chart below compares the general fund operating surplus (deficit) ratio between FY2009 and FY2013. Over the five-year period, eleven cities, including Chicago, experienced favorable trends in the operating surplus (deficit) ratio, meaning that surpluses grew, deficits shrank or deficits became surpluses. The other two cities experienced unfavorable trends, meaning that deficits grew, surpluses shrunk or surpluses became deficits. Two cities – Chicago and Philadelphia – experienced deficits in each of the five years.

In FY2013 the City of Chicago had an operating deficit of 2.5% of expenditures, a significant reduction from its operating deficit of 15.0% in FY2009. The shift is due to a large reduction in the deficit of Corporate Fund revenues over expenditures. In other words, in FY2009 Chicago’s Corporate Fund revenues were $452.5 million below expenditures. That deficit was reduced to $78.6 million in FY2013. Much of the lost revenue in FY2009 occurred in elastic or economically sensitive revenues including sales, income and transaction taxes.

Chicago’s operating deficit ratio shows that operating expenses exceeded revenues in each of the five years, a strong indication that a structural deficit exists. A structural deficit is a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time. Philadelphia was the only other city in this study to run an operating deficit.

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each of the five years. Although Chicago ran an operating deficit in each of the five years examined, the significant reduction of the deficit is a sign of improvement.

Over the five-year period, only Pittsburgh and Columbus’ ratios showed unfavorable trends though Pittsburgh still exhibited sound financial condition by running general fund surpluses each year. The unfavorable trend in Pittsburgh is due in part to an increase in general fund expenditures on public safety and general services, as well as a reduction in real estate taxes, particularly in FY2013 when the total taxable assessed valuation for the City of Pittsburgh decreased by 45%.52

Columbus’ operating surplus ratio declined by 2.2 percentage points over the five years, the largest decline of the 13 cities and a change from surplus to deficit. This is primarily due to a faster pace of growth in general fund expenditures versus revenues. While Columbus’ general fund expenditures increased by $162.1 million, or 27.5%, general fund revenues increased by $147.6 million, or 24.7%.

It is also important to note that although Detroit runs an operating surplus in each of the five years, Detroit transfers a significant amount of resources out of its general fund in order to subsidize other operating services. These transfers out are not reflected in the ratios below, but are reflected in the general fund fund balance ratio, which is why Detroit runs a deficit of fund balance in each of the five years examined. For more information, see the fund balance ratio section of this report on page 26.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Average</th>
<th>Five-Year Change</th>
<th>Average Annual Change</th>
<th>Indicator</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Phoenix</td>
<td>-71.5%</td>
<td>-69.1%</td>
<td>7.0%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>-26.0%</td>
<td>73.1%</td>
<td>18.3%</td>
<td>Favorable</td>
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<tr>
<td>2</td>
<td>Detroit</td>
<td>9.7%</td>
<td>11.1%</td>
<td>14.0%</td>
<td>10.6%</td>
<td>31.8%</td>
<td>15.5%</td>
<td>22.1%</td>
<td>5.5%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Philadelphia</td>
<td>-14.7%</td>
<td>-6.5%</td>
<td>-2.3%</td>
<td>-2.1%</td>
<td>-1.9%</td>
<td>-5.5%</td>
<td>12.8%</td>
<td>3.2%</td>
<td>Favorable</td>
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<tr>
<td>4</td>
<td>Chicago</td>
<td>-15.0%</td>
<td>-13.9%</td>
<td>-8.5%</td>
<td>-5.2%</td>
<td>-2.5%</td>
<td>-9.0%</td>
<td>12.5%</td>
<td>3.1%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Los Angeles</td>
<td>1.9%</td>
<td>1.0%</td>
<td>6.8%</td>
<td>6.5%</td>
<td>8.8%</td>
<td>5.0%</td>
<td>6.9%</td>
<td>1.7%</td>
<td>Favorable</td>
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<tr>
<td>6</td>
<td>New York</td>
<td>3.4%</td>
<td>6.1%</td>
<td>8.4%</td>
<td>6.1%</td>
<td>9.3%</td>
<td>6.7%</td>
<td>5.9%</td>
<td>1.5%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Houston</td>
<td>7.3%</td>
<td>1.7%</td>
<td>1.4%</td>
<td>9.4%</td>
<td>12.2%</td>
<td>6.4%</td>
<td>4.8%</td>
<td>1.2%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Boston</td>
<td>-0.6%</td>
<td>-7.2%</td>
<td>-7.0%</td>
<td>2.1%</td>
<td>3.3%</td>
<td>-1.9%</td>
<td>3.9%</td>
<td>1.0%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Kansas City</td>
<td>9.5%</td>
<td>9.8%</td>
<td>13.8%</td>
<td>11.5%</td>
<td>11.7%</td>
<td>11.2%</td>
<td>2.2%</td>
<td>0.6%</td>
<td>Favorable</td>
<td></td>
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<tr>
<td>10</td>
<td>Baltimore</td>
<td>5.1%</td>
<td>6.0%</td>
<td>7.0%</td>
<td>5.8%</td>
<td>5.7%</td>
<td>5.9%</td>
<td>5.9%</td>
<td>0.6%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Seattle</td>
<td>27.8%</td>
<td>29.3%</td>
<td>29.0%</td>
<td>37.3%</td>
<td>28.4%</td>
<td>30.4%</td>
<td>0.6%</td>
<td>0.1%</td>
<td>Favorable</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Pittsburgh</td>
<td>25.3%</td>
<td>5.3%</td>
<td>31.2%</td>
<td>27.1%</td>
<td>24.2%</td>
<td>22.6%</td>
<td>-1.1%</td>
<td>-0.3%</td>
<td>Unfavorable</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Columbus</td>
<td>1.4%</td>
<td>9.7%</td>
<td>6.8%</td>
<td>-2.9%</td>
<td>-0.8%</td>
<td>2.8%</td>
<td>-2.2%</td>
<td>-0.6%</td>
<td>Unfavorable</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>-0.8%</td>
<td>-1.3%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>10.1%</td>
<td>4.9%</td>
<td>10.9%</td>
<td>2.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Minimal differences in averages may occur due to rounding. Cities are ranked in order of largest five-year change.

To further examine the fluctuations in the operating surplus (deficit) ratios above, the exhibit below shows each of the components of the ratio for Chicago and the highest and lowest ranked cities from FY2009 to FY2013.

The fluctuation in Phoenix’s excess revenues in the general fund in FY2011 is due to a reporting change. Phoenix began reporting certain revenues, which were previously reported in other governmental funds, in the general fund. What appears to be a surge from deficit to surplus in the General Fund does not reflect the overall deficit of revenues across all of Phoenix’s governmental funds. Chicago’s operating deficit ratio has improved over the five-year period. Much of the reduced deficit of Corporate Fund revenues over expenditures during the five-year time period is due to fewer economically sensitive revenues received in FY2009 and FY2010, reflecting the difficulty of maintaining a budget balance in those years.

As noted above, Columbus’ decline is largely due to an imbalance between growth in general fund expenditures and revenues. Columbus’ general fund expenditures increased by $162.1 million, or 27.5%, while general fund revenues increased by $147.6 million, or 24.7%. Between FY2009 and FY2013, general fund spending on public safety increased. Additionally, funding for health and recreational services was transferred from other governmental funds to the general fund. Although there was an overall increase in general fund revenues, revenues received from property taxes and fines and forfeits decreased over the five-year period.53

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Five-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Phoenix</td>
<td>-71.5%</td>
<td>-69.1%</td>
<td>7.0%</td>
<td>2.1%</td>
<td>1.6%</td>
<td>73.1%</td>
</tr>
<tr>
<td></td>
<td>General Fund Revenues Over (Under) Expenditures</td>
<td>$(756.2)</td>
<td>$(684.8)</td>
<td>$65.7</td>
<td>$19.9</td>
<td>$16.2</td>
<td>$772.3</td>
</tr>
<tr>
<td></td>
<td>General Fund Expenditures</td>
<td>$1,056.9</td>
<td>$991.1</td>
<td>$943.1</td>
<td>$969.3</td>
<td>$1,008.2</td>
<td>(48.8)</td>
</tr>
<tr>
<td>4</td>
<td>Chicago</td>
<td>-15.0%</td>
<td>-13.9%</td>
<td>-8.5%</td>
<td>-5.2%</td>
<td>-2.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td>Corporate Fund Revenues Over (Under) Expenditures</td>
<td>$(452.5)</td>
<td>$(423.1)</td>
<td>$(259.3)</td>
<td>$(160.7)</td>
<td>$(78.6)</td>
<td>$373.9</td>
</tr>
<tr>
<td></td>
<td>Corporate Fund Expenditures</td>
<td>$3,014.1</td>
<td>$3,033.9</td>
<td>$3,040.4</td>
<td>$3,081.4</td>
<td>$3,109.1</td>
<td>$95.0</td>
</tr>
<tr>
<td>13</td>
<td>Columbus</td>
<td>1.4%</td>
<td>9.7%</td>
<td>6.8%</td>
<td>-2.9%</td>
<td>-0.8%</td>
<td>-2.2%</td>
</tr>
<tr>
<td></td>
<td>General Fund Revenues Over (Under) Expenditures</td>
<td>$8.2</td>
<td>$61.0</td>
<td>$44.6</td>
<td>$(21.5)</td>
<td>$(6.3)</td>
<td>$(14.5)</td>
</tr>
<tr>
<td></td>
<td>General Fund Expenditures</td>
<td>$590.2</td>
<td>$627.7</td>
<td>$660.2</td>
<td>$728.8</td>
<td>$752.3</td>
<td>$162.1</td>
</tr>
</tbody>
</table>

Note: Minimal differences may occur due to rounding. Cities are ranked in order of largest five-year change.

Source: Local government Comprehensive Annual Financial Reports, Statements of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds, FY2009-FY2013

### Long-Run Solvency

Long-run solvency assesses the availability of future resources to pay for existing long-term obligations. To measure long-run solvency, this report examines the net worth ratio and the debt service expenditure ratio.

Overall, the cities experienced unfavorable trends with long-run solvency. A majority of the cities experienced unfavorable trends in the net worth ratio. Additionally, a majority of the cities maintained net worth deficits in at least four of the five years studied. Chicago’s net worth ratio declined significantly, indicating a large and growing imbalance between available resources and long-term liabilities over the five year period. While Chicago maintained a relatively flat trend in the debt service expenditure ratio, suggesting that an equal proportion of spending was allocated

53 City of Columbus, Comprehensive Annual Financial Report, FY2009, p. 48; FY2013, p. 46.
to debt services over the five-year period, debt service expenditure grew for a majority of the other cities.

<table>
<thead>
<tr>
<th>Long-Run Solvency</th>
<th>Average Annual Change - All Cities</th>
<th>Average Annual Change - Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Worth</td>
<td>-0.3%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Debt Service Expenditure</td>
<td>0.1%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>


**Net Worth Ratio**

The difference between a government’s assets, the resources it can use to operate the government, and its liabilities, its obligations to turn over resources to other individuals and organizations, is called its net assets.\(^{54}\) It is the broadest single number included in the financial statements. It is a measure of the net worth of a government and signifies the government’s ability to pay off existing long-term liabilities.\(^{55}\)

The net worth ratio measures government-wide restricted and unrestricted net assets as a percentage of its total assets, which are reported using the full accrual method of accounting. A larger net worth ratio indicates a higher level of long-term solvency. The formula for the net worth ratio is the following:

\[
\text{Restricted and Unrestricted Net Assets} \div \text{Total Assets}
\]

Source: Government-Wide Statement of Net Position and Statement of Activities

Net investment in capital assets is excluded because governments cannot generally use these assets to pay off long-term obligations.\(^{56}\) Restricted net assets are net assets with constraints placed on their use either by external groups (such as creditors, laws or regulations of other governments) or by enabling legislation. Unrestricted net assets are all other net assets: those without constraints or invested in capital assets.

A deficit of net assets in one year does not mean that the government is unable to pay for current expenses. Rather, a deficit represents a shortage of assets available to meet all of a government’s obligations if they were due immediately. Recurring and growing deficits are a cause for concern.

The net worth ratio varied considerably among the 13 cities. When examining the average ratio over the five-year period, seven cities’ average net worth ratios were deficits, including Chicago.

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\(^{54}\) For fiscal years after the implementation of GASB Statement No. 63 after December 15, 2011, the governments report Net Position, which includes deferrals, in addition to assets and liabilities. However, as noted above, to ensure consistent trends the Civic Federation has excluded deferrals and instead uses net assets in its indicators here.


In FY2013 Chicago had a net worth ratio of -15.8% meaning there was no available restricted and unrestricted net assets. In five years, Chicago’s net worth ratio decreased by 18.1 percentage points, due largely to a $5.5 billion decline in restricted and unrestricted net assets.

Phoenix had the largest positive balance in FY2013 with restricted and unrestricted net assets representing 19.0% of total net assets, meaning that 19.0% of Phoenix assets are owned free and clear whereas Chicago has leveraged its assets. New York had the largest negative balance in FY2013 with restricted and unrestricted net assets representing -133.9% of total net assets. While New York’s total assets grew steadily over the five-year period, New York’s restricted and unrestricted net assets grew from a deficit of $91.2 billion in FY2009 to a deficit of $115.2 billion in FY2013. This is largely due to growing other post-employment benefits (OPEB) liabilities and debt issued for capital assets not reported as City-owned. This kind of debt includes debt for capital projects by the New York City Transit Authority and some public libraries and cultural institutions.57

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Average</th>
<th>Five-Year Change</th>
<th>Average Annual Change</th>
<th>Indicator Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pittsburgh</td>
<td>-151.5%</td>
<td>-184.4%</td>
<td>-135.5%</td>
<td>-94.7%</td>
<td>-106.3%</td>
<td>-130.6%</td>
<td>45.2%</td>
<td>11.3%</td>
<td>Favorable</td>
</tr>
<tr>
<td>2</td>
<td>Seattle</td>
<td>6.1%</td>
<td>4.6%</td>
<td>6.1%</td>
<td>6.4%</td>
<td>8.5%</td>
<td>6.3%</td>
<td>2.4%</td>
<td>0.6%</td>
<td>Favorable</td>
</tr>
<tr>
<td>3</td>
<td>Phoenix</td>
<td>17.2%</td>
<td>18.6%</td>
<td>19.1%</td>
<td>19.3%</td>
<td>19.0%</td>
<td>18.6%</td>
<td>1.8%</td>
<td>0.5%</td>
<td>Favorable</td>
</tr>
<tr>
<td>4</td>
<td>Columbus</td>
<td>9.7%</td>
<td>9.9%</td>
<td>10.8%</td>
<td>11.0%</td>
<td>10.7%</td>
<td>10.4%</td>
<td>1.0%</td>
<td>0.2%</td>
<td>Favorable</td>
</tr>
<tr>
<td>5</td>
<td>Los Angeles</td>
<td>14.9%</td>
<td>15.7%</td>
<td>14.8%</td>
<td>14.5%</td>
<td>14.1%</td>
<td>14.8%</td>
<td>-0.8%</td>
<td>-0.2%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>6</td>
<td>Kansas City</td>
<td>4.5%</td>
<td>3.9%</td>
<td>3.5%</td>
<td>4.2%</td>
<td>2.7%</td>
<td>3.8%</td>
<td>-1.7%</td>
<td>-0.4%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>7</td>
<td>Houston</td>
<td>-3.6%</td>
<td>-5.1%</td>
<td>-5.7%</td>
<td>-6.7%</td>
<td>-7.4%</td>
<td>-5.7%</td>
<td>-3.8%</td>
<td>-0.9%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>8</td>
<td>Baltimore</td>
<td>-0.2%</td>
<td>-4.7%</td>
<td>-4.4%</td>
<td>-2.5%</td>
<td>-4.9%</td>
<td>-3.3%</td>
<td>-4.7%</td>
<td>0.0%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>9</td>
<td>New York</td>
<td>-128.1%</td>
<td>-135.8%</td>
<td>-137.5%</td>
<td>-135.2%</td>
<td>-133.9%</td>
<td>-134.1%</td>
<td>-5.7%</td>
<td>-1.4%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>10</td>
<td>Boston</td>
<td>13.0%</td>
<td>4.2%</td>
<td>2.2%</td>
<td>2.7%</td>
<td>4.5%</td>
<td>5.3%</td>
<td>-8.6%</td>
<td>-2.1%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>11</td>
<td>Philadelphia</td>
<td>-5.6%</td>
<td>-11.1%</td>
<td>-9.9%</td>
<td>-10.7%</td>
<td>-15.3%</td>
<td>-10.5%</td>
<td>-9.6%</td>
<td>-2.4%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>12</td>
<td>Detroit</td>
<td>-4.1%</td>
<td>-13.5%</td>
<td>-12.9%</td>
<td>-19.1%</td>
<td>-20.8%</td>
<td>-14.1%</td>
<td>-16.6%</td>
<td>-4.2%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>13</td>
<td>Chicago</td>
<td>2.3%</td>
<td>-1.6%</td>
<td>-6.4%</td>
<td>-10.4%</td>
<td>-15.8%</td>
<td>-6.4%</td>
<td>-18.1%</td>
<td>-4.5%</td>
<td>Unfavorable</td>
</tr>
</tbody>
</table>

Average: -17.5% -21.5% -19.7% -17.0% -18.8% -18.9% -15.5% -9.3%

To further examine the fluctuations in the net worth ratios above, the exhibit below shows each of the components of the ratio for Chicago and the highest and second lowest ranked cities from FY2009 to FY2013.

From FY2009 to FY2013, Chicago’s deficit of restricted and unrestricted net assets steadily grew, ultimately reflecting a decline of $5.5 billion over the five-year period despite an increase of $3.6 billion in assets. Detroit is slightly less worse off with a $1.6 billion decline in restricted and unrestricted net assets and a $589.1 million loss in total assets. According to the City of Detroit, the growing deficit of restricted and unrestricted net assets beginning in FY2010 can be attributed to a number of factors including the implementation of reporting changes, high unemployment and depressed property values, increasing expenses and liabilities for post-employment benefits other than pensions and losses from the liquidation of Detroit’s Water and Sewage Disposal Funds swap obligations.58

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57 City of New York, FY2013 Comprehensive Annual Financial Report, p. 17
Pittsburgh’s net worth ratio has fluctuated between -164.4% and -94.7%, but its overall growth since FY2009 is the largest of the 13 cities. Over the five-year period, liabilities have consistently exceeded assets at the close of each fiscal year. The deficits, which range from a low of $455.0 million in FY2012 to a peak of $598.3 million in FY2010, result primarily from outstanding general obligation bonds that were issued to finance projects that do not result in regular assets recorded in the financial statements. Such funding includes payments toward pensions, financing economic development efforts and infrastructure maintenance expenditures. 59

Over time, consistent or increasing deficits of restricted and unrestricted net assets suggest lower long-run solvency. Chicago’s trend, in particular, is a major concern as it indicates deterioration in the City’s financial condition. On average, Chicago’s restricted and unrestricted net assets deficit grew by nearly $1.4 billion annually since FY2009. The City has growing long-term liabilities and is not generating adequate additional resources to meet those demands.

### Debt Service Expenditure Ratio

Many cities across the United States have a large and increasing direct debt load, which can be a major indicator of financial risk. Long-term debt consists of tax-supported debt components such as general obligation bonds and notes as well as bond premium and issuance costs. Credit rating agencies take into account a government’s debt load when deciding that government’s bond rating. They regard debt service that exceeds 20% of operating revenues as a potential problem; 10% and below is considered acceptable. 60

---

59 City of Pittsburgh, FY2010 Comprehensive Annual Financial Report, p. i.
The debt service expenditure ratio examines debt service expenditures in the governmental funds, which are reported using the modified accrual method of accounting. The formula for the debt service ratio is the following:

\[
\text{Debt Service Expenditure} \quad \text{Total Expenditures}
\]

Sources: Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

Debt service expenditures include principal retirement, interest and other fiscal charges made in the current fiscal year. The ratio of debt service expenditures as a percentage of total governmental fund expenditures can be used to assess service flexibility with the amount of expenses committed to annual debt service. As the ratio increases, service flexibility decreases because more operating resources are being committed to a required financial obligation. In other words, the more a government spends on financing its debt, the less it will have available to fund ongoing services. Therefore, a decreasing trend with the debt service expenditure ratio is favorable.

The chart below compares debt service expenditures between FY2009 and FY2013. The City of Chicago’s debt service expenditure ratio fluctuated close to 12.0% except in FY2011, when it reached a low of 9.3%. Chicago’s debt service expenditure ratio’s five-year average of 11.6% is greater than the five-year average for all 13 cities of 9.8%. The relatively large size of the ratio is a cause for concern because it indicates that a large portion of Chicago’s operating expenses are being designated for long-term obligations. According to Chicago’s Annual Financial Analysis, the city’s debt level has increased for the past decade in order to fund capital projects and “working capital” expenses including street maintenance, retroactive salary and pension payments resulting from union contract renegotiations and litigation settlements and judgments.\(^{61}\)

None of the 13 cities experienced a consistent decline in its debt service expenditure ratio, although many cities generally declined over the five-year period. Houston had the single highest ratio of all the 13 cities over the five-year period at 20.1% in FY2009. Over the five years, Houston reduced its debt service ratio to 11.5%, a decline of 8.6 percentage points which was the largest decline of the 13 cities.

Philadelphia had the single lowest debt service expenditure ratio at 3.3% in FY2009, but experienced a growth of 2.4 percentage points to 5.7% in FY2013. Philadelphia was also the city

\(^{61}\) City of Chicago, Annual Financial Analysis 2014, p. 82.
with the lowest five-year average debt service expenditure ratio at 3.9%, while Pittsburgh had the highest at 18.1%.

To further examine the fluctuations in the debt service ratios above, the exhibit below shows each of the components of the ratio for Chicago and the highest and lowest ranked cities from FY2009 to FY2013. As the ratio increases – as either debt service expenditures increase or total governmental expenditures decrease – service flexibility decreases because more operating resources are being committed to a required financial obligation. Therefore, a decreasing trend with the debt service expenditure ratio is favorable.

As noted above, Houston experienced the largest decline in the debt service expenditure ratio over the five-year period. During this time, debt service expenditures dropped by 51.8%, or $326.5 million, while total governmental expenditures declined by 15.9%, or $499.9 million. Columbus, which ranked last, experienced a significant increase in debt service expenditures in FY2013. This is largely due to a payment of $121.4 million to refund existing bonds in that year. In June 2013, Columbus sold $359.7 million of general obligation refunding bonds in order to reduce interest costs.62

The City of Chicago’s ratio has remained relatively flat overall, with total governmental expenditures increasing by only 1.0% over the five years. However, in FY2012, Chicago’s debt service expenditures increased by $184.3 million, or 29.8%, from FY2011. This is largely due to

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62 City of Columbus, FY2013 Comprehensive Annual Financial Report, pp. 46 and 76.
the sale of bonds with net proceeds of $627.1 million, a portion of which was used to refund existing bonds.\textsuperscript{63}

### Debt Service Ratio Components: FY2009-FY2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>Five-Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Houston</td>
<td>20.1%</td>
<td>12.0%</td>
<td>13.0%</td>
<td>18.6%</td>
<td>11.5%</td>
<td>-8.6%</td>
</tr>
<tr>
<td></td>
<td>Debt Service Expenditures</td>
<td>$630</td>
<td>$340</td>
<td>$354</td>
<td>$518</td>
<td>$303</td>
<td>$(326.5)</td>
</tr>
<tr>
<td></td>
<td>Total Expenditures</td>
<td>$3,141</td>
<td>$2,828</td>
<td>$2,725</td>
<td>$2,783</td>
<td>$2,642</td>
<td>$(499.9)</td>
</tr>
<tr>
<td>5</td>
<td>Chicago</td>
<td>12.5%</td>
<td>11.9%</td>
<td>9.3%</td>
<td>12.2%</td>
<td>12.0%</td>
<td>-0.5%</td>
</tr>
<tr>
<td></td>
<td>Debt Service Expenditures</td>
<td>$786</td>
<td>$756</td>
<td>$618</td>
<td>$803</td>
<td>$762</td>
<td>$(24.6)</td>
</tr>
<tr>
<td></td>
<td>Total Expenditures</td>
<td>$6,269</td>
<td>$6,334</td>
<td>$6,622</td>
<td>$6,564</td>
<td>$6,333</td>
<td>$63.8</td>
</tr>
<tr>
<td>13</td>
<td>Columbus</td>
<td>11.9%</td>
<td>11.2%</td>
<td>9.8%</td>
<td>10.8%</td>
<td>18.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td></td>
<td>Debt Service Expenditures</td>
<td>$132</td>
<td>$131</td>
<td>$128</td>
<td>$143</td>
<td>$279</td>
<td>$147.4</td>
</tr>
<tr>
<td></td>
<td>Total Expenditures</td>
<td>$1,105</td>
<td>$1,166</td>
<td>$1,309</td>
<td>$1,316</td>
<td>$1,537</td>
<td>$432.1</td>
</tr>
</tbody>
</table>

Note: Minimal differences may occur due to rounding. Cities are ranked in order of smallest five-year change.


### Service-Level Solvency

Service-level solvency reflects a government’s ability to maintain services at the quality and level required to ensure the safety and welfare of citizens and to meet their expectations and desires.\textsuperscript{64} Expenses per capita, liabilities per capita and taxes and fees per capita are measures of a government’s service-level solvency. Generally, higher indicators reveal lower levels of solvency.

Expenses and governmental liabilities per capita assess the cost of services. Taxes and fees per capita reflect the tax burden placed on residents. As such, trends that are lower than the average of all of the cities are favorable for all of these indicators. A majority of the cities experienced less than average growth in expenses per capita and liabilities per capita, suggesting that a group of outlier cities experienced declining service-level solvency. A majority of the cities also experienced above average growth in taxes and fees per capita, which may have been driven by a bettering economy.

### Service-Level Solvency

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Average Annual Change - All Cities</th>
<th>Average Annual Change - Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Expenses per Capita</td>
<td>$16.95</td>
<td>$88.26</td>
</tr>
<tr>
<td>Real Liabilities per Capita</td>
<td>$270.84</td>
<td>$825.04</td>
</tr>
<tr>
<td>Real Taxes and Fees per Capita</td>
<td>$64.98</td>
<td>$84.54</td>
</tr>
</tbody>
</table>


All of the data for the following indicators have been adjusted for inflation to reflect 2013 dollars. Financial data come from the government-wide Statement of Net Position\textsuperscript{65} and

\textsuperscript{63} City of Chicago, FY2012 Comprehensive Annual Financial Report, p. 72.


\textsuperscript{65} Statement of Net Assets for the years before implementation of GASB Statement No. 63.
Statement of Activities, which use the full accrual method of accounting. Population data come from the United States Census Bureau’s annual estimates as of July 1 for each year and the 2010 Census. During the five-year period, the City of Chicago’s population declined by 132,486 residents.66

**Expenses per Capita**

Expenses per capita divides the total expenses of the primary government, which include governmental activities and business-type activities, by population. Higher expenses per capita generally reveal a more expensive government and lower solvency to sustain that expense level.67 However, it is important to note that higher expenses do not necessarily translate to a higher burden on taxpayers since business-type activities include expenses funded by user fees. For example, expenses per capita in Chicago include expenses incurred by O’Hare and Midway Airports even though those activities are funded by airport fees and not property or consumer taxes.

The exhibit below ranks each of the 13 U.S. cities by their five-year average annual change and five-year change in expenses per capita. From FY2009 to FY2013, Chicago’s real expenses grew by an average of $88 per person annually, the twelfth highest average increase of the 13 cities. Over the five-year period, Chicago’s real expenses grew by $353 per person.

Real expenses for Chicago’s primary government increased by $572.3 million from FY2009 to FY2013. Over the five-year period, budgeted appropriations for governmental activities have increased in the following program areas: public safety, public service enterprises and most significantly in the city’s General Financing Requirements, which include pension contributions, long-term debt payments and other cross-department expenses. Budgeted appropriations for all

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66 See Appendix E on page 551 of this report for other cities’ populations.
other areas have generally declined, including finance and administration, city development, community services, regulatory and infrastructure services.\textsuperscript{68}

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
\textbf{Rank} & \textbf{City} & \textbf{Average Annual} & \textbf{Rank} & \textbf{City} & \textbf{Five-Year} \\
\hline
1 & Boston & $ (55) $ & 1 & Boston & $ (221) $
\hline
2 & Seattle & $ (34) $ & 2 & Seattle & $ (136) $
\hline
3 & Houston & $ (26) $ & 3 & Houston & $ (106) $
\hline
4 & Pittsburgh & $ (11) $ & 4 & Pittsburgh & $ (46) $
\hline
5 & Kansas City & $ (1) $ & 5 & Kansas City & $ (3) $
\hline
6 & Columbus & $ 6 $ & 6 & Columbus & $ 23 $
\hline
7 & Philadelphia & $ 8 $ & 7 & Philadelphia & $ 34 $
\hline
8 & Phoenix & $ 29 $ & 8 & Phoenix & $ 117 $
\hline
9 & Los Angeles & $ 34 $ & 9 & Los Angeles & $ 135 $
\hline
10 & Detroit & $ 37 $ & 10 & Detroit & $ 149 $
\hline
11 & Baltimore & $ 39 $ & 11 & Baltimore & $ 154 $
\hline
12 & Chicago & $ 88 $ & 12 & Chicago & $ 353 $
\hline
\hline
\hline
\textbf{Average} & $ 17 $ & \textbf{Average} & $ 68 $
\hline
\end{tabular}
\end{table}

\textbf{Liabilities per Capita}

Liabilities per capita divides the total liabilities of the primary government by population and represents the government’s relative indebtedness with regard to future taxpayers. The exhibit below ranks each of the 13 U.S. cities by their five-year average annual change and five-year change in liabilities per capita. From FY2009 to FY2013, Chicago’s real liabilities grew by an average of $825 per person annually, the eleventh highest average annual increase. Over the five-year period, liabilities grew by $3,300 per person.

Chicago’s real liabilities grew by $7.8 billion from FY2009 to FY2013. Over the five-year period, real long-term debt (bonds, notes and certificates payable) rose by 11.0%, from nearly $8.4 billion to $9.3 billion. Of its long-term liabilities, the single largest percentage and dollar increase over the five-year period was for cumulative pension funding shortfalls, which increased by 105.5% or $3.9 billion after depreciation.\textsuperscript{69} The steady increases in long-term

\textsuperscript{68} For more details on the City’s appropriations trends from FY2009 to FY2013, see the Civic Federation’s \textit{City of Chicago FY2013 Proposed Budget: Analysis and Recommendations}, October 31, 2012, p. 46.

\textsuperscript{69} City of Chicago, Comprehensive Annual Financial Reports, FY2009-FY2013, Note 10: Long-Term Obligations. For budgetary trends, see also the Civic Federation’s \textit{City of Chicago FY2014 Proposed Budget: Analysis and Recommendations}, November 13, 2013. The cumulative pension funding shortfalls reported in the City’s audited financial statements do not represent total unfunded pension liabilities. Reported net pension obligations are the cumulative difference between annual pension costs and the employer’s contributions to its plans since 1986 as required by reporting standards in GASB Statement No. 27.
obligations, particularly the large increase in pension funding shortfalls, are a cause for concern.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Average Annual</th>
<th>Rank</th>
<th>City</th>
<th>Five-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pittsburgh</td>
<td>$ (132)</td>
<td>1</td>
<td>Pittsburgh</td>
<td>$ (527)</td>
</tr>
<tr>
<td>2</td>
<td>Seattle</td>
<td>$ (13)</td>
<td>2</td>
<td>Seattle</td>
<td>$ (51)</td>
</tr>
<tr>
<td>3</td>
<td>Philadelphia</td>
<td>$ 15</td>
<td>3</td>
<td>Philadelphia</td>
<td>$ 58</td>
</tr>
<tr>
<td>4</td>
<td>Baltimore</td>
<td>$ 29</td>
<td>4</td>
<td>Baltimore</td>
<td>$ 115</td>
</tr>
<tr>
<td>5</td>
<td>Kansas City</td>
<td>$ 69</td>
<td>5</td>
<td>Kansas City</td>
<td>$ 274</td>
</tr>
<tr>
<td>6</td>
<td>Phoenix</td>
<td>$ 99</td>
<td>6</td>
<td>Phoenix</td>
<td>$ 397</td>
</tr>
<tr>
<td>7</td>
<td>Boston</td>
<td>$ 126</td>
<td>7</td>
<td>Boston</td>
<td>$ 503</td>
</tr>
<tr>
<td>8</td>
<td>Houston</td>
<td>$ 144</td>
<td>8</td>
<td>Houston</td>
<td>$ 577</td>
</tr>
<tr>
<td>9</td>
<td>Columbus</td>
<td>$ 147</td>
<td>9</td>
<td>Columbus</td>
<td>$ 589</td>
</tr>
<tr>
<td>10</td>
<td>Los Angeles</td>
<td>$ 380</td>
<td>10</td>
<td>Los Angeles</td>
<td>$ 1,520</td>
</tr>
<tr>
<td>11</td>
<td>Chicago</td>
<td>$ 825</td>
<td>11</td>
<td>Chicago</td>
<td>$ 3,300</td>
</tr>
<tr>
<td>12</td>
<td>New York</td>
<td>$ 836</td>
<td>12</td>
<td>New York</td>
<td>$ 3,345</td>
</tr>
<tr>
<td>13</td>
<td>Detroit</td>
<td>$ 996</td>
<td>13</td>
<td>Detroit</td>
<td>$ 3,982</td>
</tr>
</tbody>
</table>

Average $ 271 Average $ 1,083


**Taxes and Fees per Capita**

Taxes and fees per capita divides all taxes and charges for services for primary government activities, including business-type activities, by population. Higher taxes and fees per capita reflect a higher tax burden for residents. The exhibit below ranks each of the 13 U.S. cities by their five-year average annual change and five-year change in real taxes and fees per capita.

From FY2009 to FY2013, Chicago’s taxes and fees grew by an average of $85 per person annually, the fourth highest average annual increase. Over the five-year period, taxes and fees grew by $338 per person.

The City of Chicago’s real taxes and fees increased by $677.3 million, or 13.0% over the five-year period. The overall increase since FY2009 is largely driven by growth in real revenues from Chicago’s business-type activities, including a 48.5% increase in water and sewer revenues and a 36.7% increase in airport revenues to fund infrastructure improvements. Property tax revenues have increased by 6.4% over the five-year period when adjusted for inflation. Other local tax revenue, which includes utility, sales, transportation, transaction, recreation and other taxes, have declined by 3.6% when adjusted for inflation.\(^70\)

\(^{70}\) City of Chicago, Comprehensive Annual Financial Reports, Statements of Activities, FY2009-FY2013.
From FY2009 to FY2013, Chicago’s real expenses and real taxes and fees were increasing correspondingly by an average of $88 and $8 per capita annually. However, Chicago’s real liabilities grew by an average of $825 per capita annually. This suggests that while Chicago may be maintaining its current level of services sufficiently, it is experiencing a growing imbalance between its long-term obligations and the means to fund them.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Average Annual</th>
<th>Rank</th>
<th>City</th>
<th>Five-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kansas City</td>
<td>$ (4)</td>
<td>1</td>
<td>Kansas City</td>
<td>$ (16)</td>
</tr>
<tr>
<td>2</td>
<td>Pittsburgh</td>
<td>$ (2)</td>
<td>2</td>
<td>Pittsburgh</td>
<td>$ (8)</td>
</tr>
<tr>
<td>3</td>
<td>Phoenix</td>
<td>$ 1</td>
<td>3</td>
<td>Phoenix</td>
<td>$ 4</td>
</tr>
<tr>
<td>4</td>
<td>Los Angeles</td>
<td>$ 27</td>
<td>4</td>
<td>Los Angeles</td>
<td>$ 107</td>
</tr>
<tr>
<td>5</td>
<td>Columbus</td>
<td>$ 35</td>
<td>5</td>
<td>Columbus</td>
<td>$ 139</td>
</tr>
<tr>
<td>6</td>
<td>Houston</td>
<td>$ 49</td>
<td>6</td>
<td>Houston</td>
<td>$ 195</td>
</tr>
<tr>
<td>7</td>
<td>Baltimore</td>
<td>$ 69</td>
<td>7</td>
<td>Baltimore</td>
<td>$ 275</td>
</tr>
<tr>
<td>8</td>
<td>Philadelphia</td>
<td>$ 75</td>
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<td>Philadelphia</td>
<td>$ 300</td>
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<tr>
<td>9</td>
<td>Seattle</td>
<td>$ 81</td>
<td>9</td>
<td>Seattle</td>
<td>$ 323</td>
</tr>
<tr>
<td>10</td>
<td>Chicago</td>
<td>$ 85</td>
<td>10</td>
<td>Chicago</td>
<td>$ 338</td>
</tr>
<tr>
<td>11</td>
<td>Detroit</td>
<td>$ 97</td>
<td>11</td>
<td>Detroit</td>
<td>$ 388</td>
</tr>
<tr>
<td>12</td>
<td>Boston</td>
<td>$ 110</td>
<td>12</td>
<td>Boston</td>
<td>$ 440</td>
</tr>
<tr>
<td>13</td>
<td>New York</td>
<td>$ 224</td>
<td>13</td>
<td>New York</td>
<td>$ 895</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average</th>
<th></th>
<th>Average</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 65</td>
<td></td>
<td>$ 260</td>
</tr>
</tbody>
</table>

Activities.
APPENDIX A: GLOSSARY

Accrual Basis of Accounting (or Full Accrual): An accounting method that attempts to recognize revenues when they are earned and expenses when they are incurred, not when cash changes hands. The Governmental Accounting Standards Board (GASB) requires this accounting method for governments. Contrast this term to “modified accrual basis of accounting.”

Accrued Interest: Interest due on deposits payable by the government in the next fiscal year.

Accrued and Other Liabilities: Self insurance funds, unclaimed property and other unspecified liabilities.

Assets: Resources a government owns or controls that can be used in the provision of services or the generation of other resources to support service provision.

Balance Sheet: The financial statement for the governmental funds that focuses on the balances of spendable resources available at the end of the fiscal year.

Budgetary Solvency: The ability to maintain current or desired service levels within the budget period by sufficiently funding operating expenses.

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 Solvency: The ability to generate sufficient financial resources to pay its current liabilities.

Comprehensive Annual Financial Report (CAFR): A set of government financial statements comprising the financial report of a state, municipal or other governmental entity that complies with the generally accepted accounting principles (GAAP) set by the Governmental Accounting Standards Board (GASB).

Corporate Fund: The City of Chicago’s General Fund, or main operating fund.

Current Assets: Assets that are reasonably expected to be converted into cash within one year.

Current Liabilities: Obligations that are due within one year, including accounts payable, accrued liabilities and liabilities due to other units of government.

Debt Service Expenditure: The amount that a local government must pay each year for principal and interest on debt. Expenditures are made from the major governmental operating funds and the debt service fund and are recorded in accordance with prescribed accounting principles.

71 All definitions are from various audited financial statements and Investopedia.
Deflation: Deflation occurs when the general price level of goods and services decline, shown by a negative inflation rate.

Disinflation: Disinflation occurs when the inflation rate, or the growth in the general price level of goods and services, slows.

Expenditures: Outflows of resources, under modified accrual, that occur when resources are consumed or goods and services are purchased and received.

Expenses: Outflows of resources, under full accrual, that occur when assets are consumed or costs are incurred.

Financial Solvency: The ability to finance expected services on a continuing basis with recurring resources.

Full Accrual Basis of Accounting: An accounting method that attempts to recognize revenues when they are earned and expenses when they are incurred, not when cash changes hands. The Governmental Accounting Standards Board (GASB) requires this accounting method for governments. Contrast this term to “modified accrual basis of accounting.”

Fund: A grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Fund Balance: The difference between fund assets and fund liabilities accumulated over the life of the fund.

General Fund: A government’s main operating fund. The City of Chicago’s General Fund is called the Corporate Fund.

Generally Accepted Accounting Principles (GAAP): Uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

Governmental Accounting Standards Board (GASB): A private non-profit body responsible for establishing and improving accounting and financial reporting standards for governmental units in the United States. Although they do not have the force of law, governments are required to follow GASB standards in order to obtain clean opinions from their auditors and failure to comply with GASB standards can adversely affect a state or local government’s attempts to issue bonds.

Governmental Fund: A fund that accounts for the basic, typically tax-supported activities of a government; governmental fund types include general, special revenue, debt service, capital projects and permanent funds.

Internal balances: Monies due from (positive) or due to (negative) the government.
**Inventories:** Government-wide inventories that are included as current liabilities.

**Investments:** Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly.

**Liabilities:** Amounts a government owes to others.

**Long-Run Solvency:** The ability to pay for existing long-term obligations. Long-run solvency assesses the impact of existing long-term obligations on future resources.

**Modified Accrual Basis of Accounting:** A basis of accounting that recognizes revenues as those collected within the year or soon enough thereafter that can be used to finance current-year expenditures. Expenditures represent the use or expected use of current financial resources.

**Net Pension Obligations:** 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 1986 as required by reporting standards in GASB Statement No. 27.

**Payables:** Monies owed to vendors for goods and services

**Receivables:** Monetary obligations owed to the government including property taxes and interest on loans.

**Revenues:** Inflows of resources that are measurable and collectible; under modified accrual, they are also available to finance current-period expenditures.

**Service-Level Solvency:** The ability to maintain services at the quality and level required to ensure the safety and welfare of citizens and to meet their expectations and desires.

**Short-Term Debt:** Loans taken out in anticipation of revenues that are paid back within 12 months or less.

**Statement of Activities:** The government-wide financial statement that presents information showing how the government's net assets changed during each fiscal year.

**Statement of Net Assets:** The government-wide financial statement that presented information on all of the government’s assets and liabilities with the difference reported as net assets. This statement was required prior to the implementation of GASB Statement No. 63 for fiscal years starting after December 15, 2011.

**Statement of Net Position:** The government-wide financial statement that presents information on all of the government’s assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position, upon implementation of GASB Statement No. 63. In this analysis, the Civic Federation excludes deferrals for the years after implementation of GASB Statement No. 63 to ensure consistent analysis across years and therefore uses net assets and not net position.
Statement of Revenues, Expenditures and Changes in Fund Balance: The financial statement for the governmental funds which focuses on near-term inflows and outflows of spendable resources.
## APPENDIX B: SUMMARY OF FINANCIAL INDICATORS

<table>
<thead>
<tr>
<th>Financial Indicator</th>
<th>Summary of Financial Indicators</th>
<th>Source</th>
<th>Method of Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Solvency:</strong> The ability to generate sufficient financial resources to pay current liabilities.</td>
<td>Working Capital to Expenses Ratio</td>
<td>Current Assets - Current Liabilities (1/12) Expenses</td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td></td>
<td>Fund Balance Ratio</td>
<td>Unrestricted General Fund Fund Balance General Fund Expenditures</td>
<td>Balance Sheet</td>
</tr>
<tr>
<td></td>
<td>Operating Surplus (Deficit) Ratio</td>
<td>General Fund Surplus or Deficit Net Operating Expenditures</td>
<td>Statement of Revenues, Expenditures and Changes in Fund Balance</td>
</tr>
<tr>
<td><strong>Budgetary Solvency:</strong> The ability to maintain current or desired service levels within the budget period by sufficiently funding operating expenses</td>
<td>Continuing Services Ratio</td>
<td>Unrestricted Net Assets Total Expenses</td>
<td>Statement of Net Assets Statement of Activities</td>
</tr>
<tr>
<td></td>
<td>Net Worth Ratio</td>
<td>Restricted and Unrestricted Net Assets Total Assets</td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td></td>
<td>Debt Expenditure Ratio</td>
<td>Debt Service Expenditure Total Expenditures</td>
<td>Statement of Revenues, Expenditures and Changes in Fund Balance</td>
</tr>
<tr>
<td><strong>Long-Run Solvency:</strong> The availability of future resources to pay for existing long-term obligations.</td>
<td>Expenses per Capita</td>
<td>Total Primary Government Expenses Population</td>
<td>Statement of Activities</td>
</tr>
<tr>
<td></td>
<td>Governmental Liabilities per Capita</td>
<td>Total Liabilities Population</td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td></td>
<td>Taxes and Fees per Capita</td>
<td>Total Primary Government Taxes and Charges for Services Population</td>
<td>Statement of Activities</td>
</tr>
<tr>
<td><strong>Service-Level Solvency:</strong> The ability to maintain services at the quality and level required to ensure the safety and welfare of citizens and to meet their expectations and desires.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX C: LIMITATIONS OF FINANCIAL INDICATOR ANALYSIS

Due to a number of factors, the analysis presented in this report has certain limitations including the following:

- This report does not prescribe the way in which all governments ought to be examined to determine financial condition. There is a universe of hundreds of possible indicators of financial condition. The Civic Federation strove in this report to select useful, familiar financial indicators that make intuitive sense to present the City of Chicago’s relative financial trends to a non-academic audience;
- The 13 cities selected in the analysis represent vastly different governments and demographics. Each city has unique governmental operations, social and demographic compositions and local and state laws, all of which could influence the indicators but are not accounted for in the analysis;
- Primary government operations for each of the cities can include vastly different services. For example, the New York City public school system is a branch of the municipal government, whereas Chicago’s public school system is a separate district governed by the Board of Education. In FY2013 nearly 29.7% of New York’s general fund expenditures were allocated to education.\(^2\)
  The City of Chicago, however, does not fund public education with its general fund since public education is funded through Chicago Public Schools (CPS);\(^3\)
- In addition to varying services, the report does not examine differences in the responsibilities of each government or compare capital condition;
- Although all cities are analyzed during the same time period (2009-2013 fiscal years) and include the economic recession and aftermath, regional differences can affect the indicators and are not accounted for in the analysis;
- Cities may implement accounting changes for any given fiscal year. These changes can have a significant impact on how financial data is reported and, when examining financial indicators over time, can create a misleading trend;
- The report uses pre-GASB 68 audited financial statements and therefore do not include a consistently applied measurement of unfunded actuarial accrued pension liabilities;\(^4\) and
- An indicator that appears to have a negative trend may reflect a planned service choice by a government. For example, a city may have increasing debt service expenditures as a result of a major capital or infrastructure project. Conversely, a government with falling debt service expenditures could be neglecting its capital condition.

\(^2\) City of New York, FY2013 Comprehensive Annual Financial Report, p. 44. This allocation does not include expenditure for City University.

\(^3\) Although the City of Chicago does not fund public education directly, it does make pension contributions on behalf of non-teacher CPS employees, has issued debt on behalf of CPS and has funded school construction through tax increment financing.

\(^4\) GASB Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability on the balance sheet and to more comprehensively measure the annual costs of pension benefits. The provisions of Statement 68 are effective after June 15, 2014.
APPENDIX D: REPORTING ENTITY DESCRIPTIONS

The following descriptions of each cities’ reporting entities can be found in Note 1 of the respective FY2013 Comprehensive Annual Financial Report. All discretely presented component units and related organizations report separate and independent financial statements. The following are definitions of component unit categories.\(^75\)

**Component Unit:** A governmental unit for which elected officials of a primary government are financially accountable; a unit of government formed exclusively for the benefit of the primary unit or has the same governing body as the primary unit. A component unit has the ability to: a) remove appointed members of its board; b) modify or approve its budget or revenues; c) veto, overrule, or modify decisions of the board; or d) assume legal responsibility for financial deficits or provide financial assistance. A legally separate unit of government can still be a component unit even if any of the previously mentioned conditions are met.

**Blended Component Unit:** A component unit should be reported using the blended method in either of the following circumstances: a) The component unit’s governing body is substantively the same as the governing body of the primary unit; or b) The component unit provides services entirely, or almost entirely, to the primary unit or otherwise benefits the primary government, even though it does not provide services directly to it.

**Discretely Presented Component Unit:** Component units that are not blended but included with the primary government discrete presentation.

**Related Organization:** A related organization is an organization for which the primary government is not financially accountable, but is otherwise accountable because that government appoints a voting majority of the organization’s board.

**Joint Ventures:** A contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which all participants retain an ongoing financial interest or responsibility.

**Jointly Governed Organizations:** Regional or multi-governmental arrangements that are governed by representatives from each of the governments that create the organizations without ongoing financial interest or responsibility by the participating governments.

**Fiduciary Fund:** The trust and agency funds used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds.

**Baltimore Blended Component Units:**
- Baltimore Industrial Development Authority (IDA) and Enoch Pratt Free Library (EPFL).

Discretely Presented Component Units:
- Baltimore City Public School System (BCPSS) and Baltimore Hotel Corporation (BHC).

Related Organizations:

Boston
Blended Component Units:
- State-Boston Retirement System (SBRS), Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC).

Chicago
The City includes the Chicago Public Library.
Related Organizations:
- Chicago Park District, Chicago Public Building Commission, Chicago Public Schools, Community College District No. 508, Chicago Housing Authority and the Chicago Transit Authority.

Fiduciary Trust Funds:
- The Municipal Employees’ Annuity and Benefit Fund of Chicago, the Laborers’ and Retirement Board Employees’ Annuity and Benefit Fund of Chicago, the Policemen’s Annuity and Benefit Fund of Chicago and the Firemen’s Annuity and Benefit Fund of Chicago.

Columbus
Joint Ventures:
- Franklin Park Conservatory Joint Recreation District, Affordable Housing Trust for Columbus and Franklin County (AHT) and Columbus-Franklin County Finance Authority.

Component Units:
- RiverSouth Authority and the Columbus Next Generation Corporation.

Detroit
Blended Component Units:
- Detroit Building Authority, Public Lighting Authority, Detroit General Retirement System Service Corporation (DGRSSC), Detroit Police and Fire Retirement System Service Corporation (DPFRSSC)

Discretely Presented Component Units:
- Detroit Brownfield Redevelopment Authority (DBRA), Detroit Public Library (DPL), Detroit Transportation Corporation (DTC), Downtown Development Authority (DDA), Eastern Market Corporation (EMC), Economic Development Corporation (EDC), Greater Detroit Resource Recovery Authority (GDRRA), Local Development Finance Authority (LDFA), Museum of African American History (MAAH), Detroit Land Bank Authority
(DLBA), Eight Mile/Woodward Corridor Improvement Authority (EMWCIA) and Detroit Employment Solutions Corporation (DESC).

### Houston

**Blended Component Units:**
- Houston Firefighters’ Relief and Retirement Fund, Houston Municipal Employers Pension System and Houston Police Officers’ Pension System.

**Discretely Reported Component Units:**
- Houston First Corporation, Houston Housing Finance Corporation, Houston Zoo, Inc., City Park Redevelopment Authority, East Downtown Redevelopment Authority, Fifth Ward Redevelopment Authority, Fourth Ward Redevelopment Authority, Greater Greenspoint Redevelopment Authority, Greater Houston Convention and Visitors Bureau, Gulfgate Redevelopment Authority, Hardy Near Northside Redevelopment Authority, Houston Area Library Automated Network, Houston Arts Alliance, Houston Downtown Park Corporation, Houston Forensic Science LGC, Inc., Houston Mediasource, Houston Parks Board, Inc., Houston Parks Board LGC, Inc., Houston Public Library Foundation, Houston Recovery Center LGC, Lamar Terrace Public Improvement District, Land Assemblage Redevelopment Authority, Leland Woods Redevelopment Authority, Leland Woods Redevelopment Authority II, Main Street Market Square Redevelopment Authority, Memorial City Redevelopment Authority, Memorial-Heights Redevelopment Authority, Midtown Redevelopment Authority, Miller Theater Advisory Board, Inc., Old Sixth Ward Redevelopment Authority, OST/Almeda Corridors Redevelopment, Saint George Place Redevelopment Authority, South Post Oak Redevelopment, Southwest Houston Redevelopment Authority, Upper Kirby Redevelopment Authority and Uptown Development Authority.

**Related Organizations:**
- Access Houston Cable Corporation, Coastal Water Authority, Employees Deferred Compensation Plan, Harris County-Houston Sports Authority, Metropolitan Transit Authority of Harris County, Houston Clean City Commission and the Miller Theater Advisory Council.

### Kansas City

**Blended Component Units:**
- Kansas City Municipal Assistance Corporation (KCMAC), Police Retirement System and the Civilian Employees’ Retirement System.

**Discretely Presented Component Units:**
- Port Authority of Kansas City, Missouri, Land Bank of Kansas City, Missouri, Tax Increment Financing Commission, Kansas City Board of Police Commissioners, Economic Development Corporation (EDC), EDC-Charitable Trusts, Land Clearance for Redevelopment Authority (LCRA), Maintenance Reserve Corporation (MRC), Downtown Economic Stimulus Authority of Kansas City, Missouri (DESA), Kansas City International Airport- Community Improvement District (KCICID), Performing Arts Community Improvement District (PACID), American Jazz Museum, Kansas City, Missouri Homesteading Authority and Metropolitan Ambulance Service Trust (MAST).
Los Angeles
Blended Component Units:
- Los Angeles Convention and Exhibition Center Authority, Los Angeles Harbor Improvement Corporation and Municipal Improvement Corporation of Los Angeles.
Joint Ventures:
- Los Angeles Memorial Coliseum Commission
Relation Organization:
- Housing Authority of the City of Los Angeles

New York City
Blended Component Units:
- New York City Transitional Finance Authority, TSASC, Inc., New York City Educational Construction Fund (ECF), New York City School Construction Authority (SCA), Fiscal Year 2005 Securitization Corporation (FSC), Sales Tax Asset Receivable Corporation (STAR), Hudson Yards Development Corporation (HYDC), Hudson Yards Infrastructure Corporation (HYIC), New York City Tax Lien Trusts (NYCTLTs) and NYC Technology Development Corporation (TDC).
Discretely Presented Component Units:
- New York City Health and Hospitals Corporation (HHC), New York City Housing Development Corporation (HDC), New York City Housing Authority (HA), New York City Industrial Development Agency (IDA), New York City Economic Development (EDC), Business Relocation Assistance Corporation (BRAC), Brooklyn Navy Yard Development Corporation (BNYDC), New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority), WTC Captive Insurance Company, Inc., New York City Capital Resource Corporation (CRC), Brooklyn Bridge Park Corporation, Governors Island Corporation, New York City Energy Efficiency Corporation (EEC), Build NYC Resource Corporation and New York City Land Development Corporation.

Philadelphia
Blended Component Units:
- Pennsylvania Intergovernmental Cooperation Authority (PICA) and Philadelphia Municipal Authority (PMA).
Discretely Presented Component Units:
Related Organizations:
- Philadelphia Housing Authority

Phoenix
Blended Component Units:
- City of Phoenix Employees’ Retirement System and City of Phoenix Civic Improvement Corporation.
Discretely Presented Component Units:
- Phoenix Housing Finance Corporations and Downtown Phoenix Hotel Corporation.

Jointly Governed Organizations:
- Valley Metro Regional Public Transportation Authority, Arizona Municipal Water Users Association and Phoenix-Mesa Gateway Airport.

**Pittsburgh**

Blended Component Units:
- City of Pittsburgh Equipment Leasing Authority and City Pension Trust (Municipal, Police and Fire).

Discretely Presented Component Units:
- Pittsburgh Water and Sewer Authority, Stadium Authority of the City of Pittsburgh, Public Parking Authority of Pittsburgh and Urban Redevelopment Authority of Pittsburgh.

Joint Ventures:
- Sports and Exhibition Authority of Pittsburgh and Allegheny County

Related Organizations:
- Housing Authority of the City of Pittsburgh

Jointly Governed Organization:
- Allegheny County Sanitary Authority

**Seattle**

Joint Ventures:
- Seattle-King County Work Force Development Council

Related Organizations:
- Housing Authority of the City of Seattle, City of Seattle Industrial Development Corporation, Burke-Gilman Place Public Development Authority.

**APPENDIX E: ECONOMIC DATA FOR THE 13 U.S. CITIES ANALYZED**

**Change in Population**\(^{76}\)

From 2009 to 2013, Columbus experienced the largest percent growth in population of the 13 cities at 6.9\%, reflecting an increase of 53,221 residents. Detroit experienced the largest population decline both by percent and number, losing 222,220 residents, or 24.4\% of its 2009 population.

\(^{76}\) Population data come from the U.S. Department of Commerce, Bureau of the Census. Population estimates are annual estimates of resident population as of July 1\(^{st}\) of each year for city areas only.
population. Of the 13 cities, Chicago ranked eleventh with a 4.6% loss in population, or approximately 132,486 residents.

Change in Unemployment\textsuperscript{77}

From 2009 to 2013, most of the 13 cities experienced a drop in their unemployment rate. Detroit experienced the largest decrease in unemployment, falling 8.0 percentage points from 24.9% in 2009 to 16.9% in 2013. Philadelphia was the only city to experience an increase in unemployment, with its unemployment rate growing by 0.4 percentage points from 9.6% in 2009.

\textsuperscript{77} Unemployment data for all cities except Pittsburgh comes from the U.S. Department of Labor, Bureau of Labor Statistics. Unemployment data represent the annual average unemployment rates for city areas only.
to 10.0% in 2013. Of the 13 cities, Chicago ranked eleventh with its unemployment rate decreasing by 0.4 percentage points from 10.9% in 2009 to 10.5% in 2013.
Change in Inflation\textsuperscript{78}

From 2009 to 2013, the inflation rate in Phoenix increased by 2.7 percentage points, the largest increase among the 13 cities, from -1.4% in 2009 to 1.3% in 2013. Seattle’s inflation rate increased the least, growing by 0.6 percentage points from 0.6% in 2009 to 1.2% in 2013. Chicago ranked second with its inflation rate increasing 2.3 percentage points from -1.2% in 2009 to 1.1% in 2013. In 2009 all 13 cities experienced \textit{disinflation} from the previous year from between 2.9 percentage points (Detroit) to 5.0 percentage points (Chicago).\textsuperscript{79} Additionally, eight of the 13 cities experienced \textit{deflation} in 2009.\textsuperscript{80}

\textsuperscript{78} Inflation data for all cities come from the U.S. Department of Labor, Bureau of Labor Statistics. The annual average consumer price index (CPI) is not seasonally adjusted, has a 1982-84 reference base and, for all cities except Columbus, represents the city’s metropolitan statistical area (MSA). CPI data for Columbus represents the Midwest Urban region because an MSA is not available. Inflation data produced in this report reflect percent changes in CPI from the previous year.

\textsuperscript{79} Disinflation occurs when the inflation rate, or the growth in the general price level of goods and services, slows.

\textsuperscript{80} Deflation occurs when the general price level of goods and services decline, shown by a negative inflation rate.
Change in Gross Domestic Product (GDP)81

From 2009 to 2013, all 13 cities experienced growth in gross domestic product (GDP). Houston experienced the largest percent growth in GDP at 42.0%. Phoenix’s GDP grew the least, increasing by $21.4 billion, or 11.4%, from $188.2 billion in 2009 to $209.5 billion in 2013. Of the 13 cities, Chicago ranked tenth with 14.2% growth in GDP. Chicago’s GDP increased $73.4 billion from $516.8 billion in 2009 to $590.2 billion in 2013.

81 GDP data come from the U.S. Department of Commerce, Bureau of Economic Analysis. GDP data for each city represents the city’s metropolitan statistical area (MSA).
Complete data on the four economic indicators for each of the 13 cities follows:

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<th>Chicago</th>
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<td></td>
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<td>$139.1</td>
<td>$ 144.8</td>
<td>$148.3</td>
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<td>8.7%</td>
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<td>Unemployment</td>
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<td>Inflation</td>
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<td>0.6%</td>
<td>2.8%</td>
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<td>Unemployment</td>
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<td>GDP (in $ billions)</td>
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<td>$ 115.8</td>
<td>$ 117.8</td>
<td>$ 123.6</td>
<td>$ 131.3</td>
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<td>19.5%</td>
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<tr>
<td><strong>Seattle</strong></td>
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<td><strong>620,778</strong></td>
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<td><strong>652,405</strong></td>
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<td>Unemployment</td>
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</tbody>
</table>

*Midwest urban data used for Columbus CPI, since Columbus Metropolitan Statistical Area is not available.

Note: Population and unemployment rate data account for city areas only; inflation data account for metropolitan areas per the BLS; GDP data account for metropolitan statistical areas per the BEA. Unemployment rates are based on CPI data with base period 1982-84=100 and are not seasonally adjusted. Source: United States Census Bureau; United States Department of Labor, Bureau of Labor Statistics; United States Department of Commerce, Bureau of Economic Analysis.