The Civic Federation

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CITY OF CHICAGO FY2010 PROPOSED BUDGET:

Analysis and Recommendations

November 18, 2009

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

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the FY2010 City of Chicago budget of $6.14 billion because it is unsustainable and relies too heavily on one-time reserve funds to close a $520.0 million budget deficit. The proposed drastic draw down of long-term reserves allows for increased spending in FY2010 but does not properly plan for the future. The City must consider FY2011 and FY2012 when crafting its FY2010 budget as the City's revenues are not likely to rebound enough in the next 12 months to replace the reserves.

The Civic Federation offers the following **key findings** on the City of Chicago FY2010 budget:

- The City proposes a total FY2010 budget of $6.14 billion for all funds; this is a 2.9% or $172.5 million increase over the FY2009 proposed budget appropriation of $5.97 billion;
- The Corporate Fund budget proposal is $3.21 billion, a 0.8% or $25.2 million increase over the FY2009 proposed budget appropriation of nearly $3.18 billion;
- The City of Chicago's total resources are projected to increase by 2.9% in FY2010, from $6.3 billion to approximately $6.5 billion; this represents a $185.7 million increase;
- Corporate Fund personal service appropriations are projected to remain nearly flat over FY2009 proposed appropriations, and will total $2.6 billion in FY2010;
- The property tax levy for City purposes will be held flat in FY2010; and
- The $520.0 million FY2010 budget deficit was closed by the City by using $270 million in long-term reserves from the lease of the parking meters, $100 million from the mid-term parking meter reserve fund, $118 million from extending and refinancing existing city debt service payments, along with additional personnel and non-personnel cost reductions.

The Civic Federation **supports** the following elements of the City of Chicago's FY2010 budget:

- Reducing expenses in FY2010, include savings realized from the elimination of vacant positions, the elimination of cost-of-living salary increases and reductions in contractual expense costs;
- Holding the City's property tax levy flat in FY2010; and
- Utilizing its robust performance measurement system and publishing the results of this system in its annual budget documents.

The Civic Federation has **concerns** about the following elements of the City of Chicago's FY2010 budget:

- Balancing 93.8% of its projected budget deficit of $520 million with $370 million in reserve funds and $118 million in debt service restructuring savings;
- Maintaining funded ratios far below levels considered financially healthy for the City's Fire and Police pension funds;
- Carrying relatively high debt burden levels according to three commonly used indicators including amount of net direct debt, percentage of debt service appropriations to total appropriations and total overlapping debt from other governments;
- Drawing down its Corporate Fund reserves from $10.2 million to zero; and

- Increasing future debt service to obtain savings in FY2010 and extending the life of the debt beyond the usable life of the asset that it was originally borrowed to support.

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

- Eliminate the use $250 million in long-term reserve funds and $118 million in debt restructuring savings from the budget deficit elimination plan and replace with a more measured, balanced approach to eliminating the budget deficit, including the use of $93.1 million from the City's mid-term parking meter reserve funds, $56.5 million in FY2010 appropriations from its parking meter human infrastructure fund, $114.0 million in already-proposed cuts, $52.7 million from the cancelation of pay-as-you-go capital programs and a balance of spending reductions;
- Establish a formal reserve fund balance withdrawal policy that protects the proceeds earned from the long-term leases of city assets;
- Pursue additional partnerships with private companies by having companies offset city expenses associated with their operations;
- Establish reasonable Corporate Fund reserves that meet the minimum standard proposed by the Government Finance Officers Association of 5% of General Fund appropriations once revenues return;
- Develop and implement a formal long-term financial planning process that is both reviewed publicly and endorsed by the City Council and other key policy stakeholders;
- Enhance the public reporting on for Tax Increment Financing districts in the City of Chicago, including expenses, revenues, fund balance and debt information for all TIFs in the City's annual budget; and
- Increase the transparency of the budget document by reporting all fund revenues by source and total property tax revenues for all purposes.

CIVIC FEDERATION POSITION

The Civic Federation **<u>opposes</u>** the City of Chicago's FY2010 budget. The Civic Federation recognizes that the City is the midst of one of the worst financial downturns in decades and agrees that because of these extraordinary times a portion of the City's long-term reserve funds should be used to help the City navigate these difficult financial times.

However, the Civic Federation cannot support a plan that proposes to draw down such a significant portion of the City's reserves. The proposed drastic draw down of long-term reserves does not properly plan for the future. The City must consider FY2011 and FY2012 when crafting its FY2010 budget as the City's revenues are not likely to rebound in the next 12 months. It must prioritize its spending to help itself, along with the residents of Chicago, navigate these difficult years.

Economic Recession

The City of Chicago, along with the entire United States, has experienced one of the worst economic recessions in seventy years. December 2007 marked the beginning of the current economic recession. Although markets have begun to recover, the National Bureau of Economic Research has not yet made an official statement regarding whether the recession has ended.

The predictions of slow or declining tax revenue growth come after an already steep decline in economically-sensitive Corporate Fund revenues during the past year. As stated in its FY2010 proposed budget, the City's year-end estimates for FY2009 Corporate Fund Real Estate Transfer Tax revenues total $59.4 million. For FY2010 Real Estate Transfer Tax revenue is projected to total $57.0 million, resulting in a $2.4 million decrease over last year's projected collections. Furthermore, the FY2010 Real Estate Transfer Tax collections are projected to be less than half of the FY2008 collections.

Corporate Fund Sales tax revenue will drop by $24.9 million, from FY2009 year-end projection of $485.3 million to $460.4 million in projected FY2010 revenues. Corporate Fund State income tax/personal property replacement tax collections are projected to drop from FY2009 year-end projections of $277.1 million to $210.3 million in FY2010. This is a $66.9 million decrease and is primarily a result of the personal property replacement tax revenue FY2010 projection decreasing by 26.6% and also because an increased proportion of the revenue must be used to fund pension obligations in FY2010. These three taxes account for a revenue drop of $94.1 million.[1]

Finally, public utility taxes and fees are projected to drop by $12.1 million, primarily due to natural gas use revenues declining by 14.6%.

Clearly, Chicago is experiencing difficult economic times.

As such, this is not the time for the City to raise taxes. The citizens of Chicago are already bearing the burden of higher property tax bills and the highest sales tax rate in the nation. The City is wise not to turn to new or increased taxes to close this budget deficit. However, it has also not reduced its spending to match its available income.

The Civic Federation does not oppose using reserves to replace revenues from economically-sensitive tax bases given the dire economic times. We do oppose, however, the substantial use of long-term reserve funds to pay for new programs, increase spending and bridge the $520 million deficit for FY2010. Using nearly $370 million in reserve funds only shifts the problem from this year to next.[2]

Echoing the comments Chicago Mayor Richard Daley made on October 15, 2004, the Federation believes that if the City squanders the asset reserves now it will face serious problems in the future.[3] To that end, we recommend that the City publicly define a policy for when long-term

[1] This figure reflects the estimated decrease in Corporate Fund revenues as stated in the City's FY2010 proposed budget released in October of 2009. In the FY2010 Preliminary Budget Estimates released in July of 2009, the City estimated that these Corporate Fund revenues would decline by $89.9 million between FY2009 year-end estimates and FY2010 projections.
[2] $20 million of the reserve funds will be used to replace interest earnings for FY2010.
[3] Editorial, "Daley and 'long term', *Chicago Tribune*, November 3, 2009.

asset lease reserves can be drawn down and how much can be withdrawn to prop up annual operating expenses.

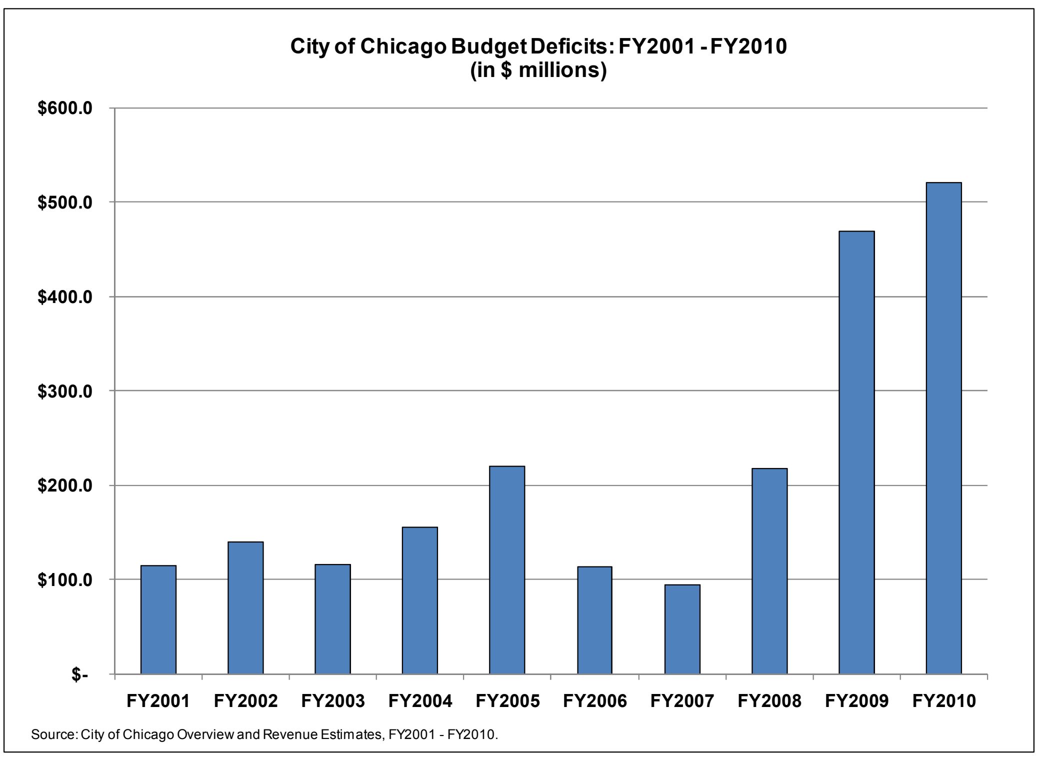
Structural Deficit Indicators

The origins of the City's ongoing fiscal problems are not limited to this economic recession; they are merely highlighted by it. The City of Chicago is operating under a long-term structural deficit, which is defined as when a unit of government's expense growth consistently outpaces its revenue growth. The following four subsections detail four common structural deficit indicators.

Budget Deficits

The City began FY2010 with a budget deficit of nearly $520 million, which is 8.5% of the total budget for the City across all funds. While it is not unusual for a unit of government to project a deficit at the beginning of a budget process, the City of Chicago has had significant deficits to close during the past ten fiscal years.

In FY2009 the City began with a $469.6 million budget gap. In FY2008 the budget deficit totaled $217.6 million, and in FY2007 the deficit totaled $94.8 million. In FY2006 the City faced a $114.0 million budget gap. Five years prior the City was also working to close a budget gap that totaled $115.3 million. The presence and growth of substantial budget deficits are leading indicators that the City's expenses are outpacing its revenues.



Debt Ratio and Pension Liabilities

Another indication of the City's structural deficit is the amount of debt the City has on its books. According to Fitch bond rating service, the City has above average debt levels, low pension funding ratios and significant other post employment benefits (OPEB) liabilities.[4]

It is no secret that the City of Chicago's pension funds are woefully underfunded. The funded ratios of all four City pension funds decreased in FY2008. The Fire Fund in FY2008 reported a funded ratio of 39.8%, while the Police Fund's funded ratio fell to 47.3% in FY2008. The funded ratio for the Municipal Fund totaled 62.9% in FY2008. The Laborers Funds funded ratio totaled 86.8% in FY2008.[5] The Fire and Police Pension Funds continue to be a serious cause for concern as they are well below levels considered financially sustainable.

The decrease in the funded ratios across all city pension funds was expected in light of the recent stock market decline and accompanying recession. However, the asset losses and gains are smoothed over five years, thereby reducing the impact of the recession on the actuarial value funded ratio. Under Government Accounting Standards Board (GASB) Statement No. 25, assets of public pension plans may be reported based on their smoothed market value, which mitigates the effects of short-term market volatility by recognizing deviations from expected returns over a period of three to five years.[6] The City's smoothing technique recognizes 20% of the difference between the expected (based on the assumed rate of return) and actual investment returns for each of the previous five years.

Use of Proceeds from Leases for Operating Expenses

In 2005 the City leased the Skyway toll road to a private operator for 99 years, and in 2009 the City completed a similar deal that leased its parking meters to a private operator for the same duration. A portion of these proceeds were set aside in long-term reserve accounts, but an even greater portion have been, and will be, used for operating expenses. Using asset lease proceeds to create new programs results in a built-in budget deficit since once these proceeds are gone, the City will need to find other revenue sources.

<u>Skyway Lease</u>

In 2005 the City leased the Chicago Skyway for $1.83 billion to a private operator for 99 years. The City deposited $500.0 million of the proceeds into a long-term reserve account and the remaining $855 million was used to retire debt associated with the Skyway itself, along with

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[4] Fitch Ratings Press Release "Fitch Rates Chicago, Illinois $207MM GOS Series 2002B & Band Bonds 'AA'" April 2009.

[5] Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2008.

[6] In November 1994, the Government Accounting Standards Board (GASB) issued Statement No. 25 that established new standards for the reporting of a pension fund's assets. The requirement became effective June 15, 1996. Up until that statement, most pension funds used two measurements for determining the net worth of assets, book value (recognizing investments at initial cost or amortized cost) and market value (recognizing investments at current value). In Statement No. 25, GASB recommends a "smoothed" market value, also referred to as the actuarial value of assets, in calculations for reporting pension costs and actuarial liabilities. The smoothed market value or actuarial value of assets accounts for assets at market values by recognizing unexpected gains or losses over a period of 3 to 5 years.

other debt accrued by the City. $475.0 million was set aside for operating expenses, including $100.0 for a Human Infrastructure Fund.

Chicago Skyway Long-Term Lease Proceeds: (in $ millions)	
Lease Transaction Proceeds	**$1,830.0**
Long-Term Reserves	
Long-Term Reserve Fund	$ 500.0
Retired Debt	
Skyway Associated Debt Retired	$ 463.0
Other Debt Retired	$ 392.0
Operating Expenses	
Mid-Term Reserve Fund	$ 375.0
Human Infrastructure Fund	$ 100.0
Total	**$1,830.0**

$375.0 million was set-aside in a mid-term reserve fund, of which $50 million was distributed to the City's Corporate Fund for operating expenses in 2004 and $100 million was distributed in 2005. In 2006 the City distributed $50.0 million to the corporate fund, $75.0 million in 2007, $50.0 million in 2008 and $25 million in 2009. The balance of $123.1 million, as of September 30, 2009, is subject to future appropriation by City Council according to City ordinance.[7]

Budgeted Use of Skyway Mid-Term Reserves: FY2004 - FY2009 (in $ millions)		
FY2004	$	50.0
FY2005	$	100.0
FY2006	$	50.0
FY2007	$	75.0
FY2008	$	50.0
FY2009	$	25.0
Total	**$**	**350.0**

In addition to the mid-term funds that were designated for operating expenses, the City also established a Human Infrastructure Fund with $100.0 million from the Skyway asset lease. Including accrued interest, the City spent $104.0 million over five years for neighborhood and social service programs from this fund. Human Infrastructure is a catch-all category that contains many social service and neighborhood programs.

In FY2005 $15 million of Skyway proceeds were budgeted for numerous operating expenses out of the Skyway Human Infrastructure Fund, including a backlog of payments owed to homeowners as part of the condo rebate program.[8] Through FY2009 the City funded other

[7] This figure includes the remaining mid-term reserve funds along with interest earnings.
[8] City of Chicago FY2005 Budget Overview and Revenue Estimates, p. 15. The City's condo rebate program reimbursed condominium associations, cooperative apartment building and townhouses who are not eligible to

operating expenses with Skyway funds, including Chicago's Plan to End Homelessness, upgrades to the Chicago Public Library system and low-income home energy assistance, to name a few.

Parking Meter Lease

In 2009 the City leased its parking meters for $1.15 billion to a private operator for 99 years. The City deposited $400.0 million of the parking meter proceeds into a long-term reserve account and set aside the remaining $751.4 million for operating expenses. As part of the $751.4 million set aside of operating expenses, in February of 2009 the City established a Parking Meter Human Infrastructure Fund with $100 million from the proceeds.

Chicago Parking Meter Long-Term Lease Proceeds: (in $ millions)	
Lease Transaction Proceeds	**$1,150.0**
Long-Term Reserves	
Long-Term Reserve Fund	$ 400.0
Operating Expenses	
Mid-Term Reserve Fund	$ 325.0
Human Infrastructure Fund	$ 100.0
Budget Stabilization Fund	$ 326.4
Subtotal Operating Expenses	**$ 751.4**
Total	**$1,151.4**

As shown above, $325.0 million was set aside in a mid-term reserve account. Assuming an additional $25 million in interest proceeds on the mid-term reserves, the City proposed the following initial distribution schedule to be used for City operating expenses through FY2012. The City used $100.0 million to cover operating liabilities carried forward from 2008. The City then proposed to use $50 million for operating expenses in FY2009, FY2010 and FY2011. The City proposed distributing $100.0 million in FY2012. However, in its most recent budget the City is proposing to advance all of its FY2012 mid-term reserves to FY2010 to help close its $520.0 million operating budget deficit.[9]

Parking Meter Mid-Term Reserve Funds: FY2008 - FY2012 (in $ millions)	
FY2008	$ 100.0
FY2009	$ 50.0
FY2010	$ 50.0
FY2011	$ 50.0
FY2012	$ 100.0
Total	**$ 350.0**

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receive City refuse collection services for their garbage collection expenses. *See* http://www.committeeonfinance.org/condo/index.asp (last visited on November 12, 2009).

[9] City of Chicago FY2010 Overview and Revenue Estimates, p. 4.

FY2010 City of Chicago Budget Growth

Despite ten years of ongoing budget deficits and growing pension liabilities, the City is still increasing its spending this year. The City's FY2010 budget is increasing by 6.4%, or $369.9 million, over FY2009 year-end estimates for appropriations across all funds. Appropriations for the Corporate Fund are projected to increase by 4.4% over FY2009 Year-End Corporate Fund appropriations. The number of budgeted positions will decrease in FY2010 by 1.4% over FY2009 final appropriation personnel positions.

Corporate Fund revenues will increase by 4.4% or $134.1 million, but this figure includes a portion of the proposed transfer from the asset sale proceeds.[10]

City of Chicago FY2009 Year-End Estimates to FY2010 Proposed Budget: (in $ millions)

	FY2009 Estimates	FY2010 Proposed	$ Change	% Change
Appropriations				
Corporate Fund	$ 3,079.1	$ 3,213.2	$ 134.1	4.4%
All Funds	$ 5,769.7	$ 6,139.6	$ 369.9	6.4%
Revenues				
Corporate Fund	$ 3,079.1	$ 3,213.2	$ 134.1	4.4%
All Funds	$ 6,147.5	$ 6,525.6	$ 378.1	6.2%
Budgeted Positions*				
Corporate Fund	27,471	27,096	(375)	-1.4%
All Funds	33,621	33,154	(467)	-1.4%

*Budgeted Positions are compared by FY2009 actual appropriations and FY2010 proposed appropriated staffing levels.

Source: City of Chicago FY2010 Overview and Revenue Estimates, pp. 7, 43, 110.

In the Director's Discussion of the FY2010 budget, the City notes how personnel costs grow each year regardless of economic performance. The City also notes that despite wage reductions for non-sworn employees and the elimination of positions, it will still spend more for salaries and benefits.[11]

Evidence that the City does not require its current staffing levels to continue operations is apparent in its own furlough plans. Both union and non-union employees will take up to 24 furlough days in FY2010, resulting in every employee working for nearly one month less this upcoming year. The fact that service delivery levels are not projected to decline during this period reflects the possibility that the City does not need 36,900 full-time equivalent employees to maintain the same level of service.

As much as the Civic Federation understands the dire times, we believe the current budget problems are exacerbated by an ongoing structural budget deficit. Fitch Ratings estimates the

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[10] Email communication between the Civic Federation and City of Chicago Office of Budget and Management, November 17, 2009.

[11] City of Chicago FY2010 Overview and Revenue Estimates, p. 2.

City's structural imbalance between revenues and expenditures is $350 million.[12] Dipping into the reserves to fill the cracks created by the structural problems only postpones the difficult decisions that the City must make. This is the time to fix the structural deficit by reducing recurring operating expenses. The City can not, and should not, reasonably hope for meaningful assistance from the State of Illinois, a unit of government that is facing its own solvency challenges. Although Chicago citizens cannot bear yet another tax increase, the proposed drawdown of long-term reserves will only push even more difficult decisions to next year. The only reasonable option left for the City is to dramatically cut spending.

Budget Reduction Proposals from Other U.S. Cities

The City of Chicago is not alone is this situation as the impact of the recession has affected the budgets of major cities across the United States. The Civic Federation compared the City of Chicago's FY2010 proposed budget with those of eight other major U.S. cities.[13] Like the City of Chicago, four other cities' budgets proposed using reserve funds or surplus funds carried over from previous fiscal years, including Atlanta, Boston, New York and Seattle. Seattle, for example, is transferring $30.6 million from the city's Revenue Stabilization Account into the General Fund.

Seven cities are reducing personnel costs employing one or a combination of the following methods: layoffs, hiring freezes, eliminating vacant positions or leaving vacancies unfilled, including include Atlanta, Boston, Houston, New York, Philadelphia, Seattle and Washington D.C.

Three cities are employing furlough days or wage delays for union and non-union employees, including Boston, New Orleans and Seattle. Boston is utilizing wage delays for union and non-union employees and wage cuts for City's senior staff for a reduction of $8.7 million.

Alternative Budget Deficit Reduction Proposal

The Civic Federation, with limited access to City of Chicago data, makes the following recommendations for cutting the FY2010 budget. We begin with the premise that today's problems should not be shifted to tomorrow; they must be faced today. The City must not eliminate its budget deficit primarily with one-time revenues, including reserve funds and a proposal to restructure debt financing.

Instead, we suggest a balanced approach to the City's massive budget deficit that is based on a series of cuts to the City's budget in order to address its structural deficit.

If the City does not agree with the level of cuts necessary to balance its budget and continues to draw down its asset sale reserves, the Federation sees an inevitable and enormous property tax increase in the City's near future.

[12] Fitch Ratings Credit Summary, October 12, 2009.
[13] For greater detail on the reductions made by other cities, please refer to the Supplemental Research section of this report.

Alternate Budget Deficit Reduction Proposal

Instead of closing the majority of the budget deficit by using long-term reserve funds, we recommend combining the City's already-proposed budget proposed cuts, totaling $114.0 million, with the following measures:

1) Draw down $93.1 million from the City's mid-term parking meter fund to replace economically-sensitive Corporate Fund revenues;
2) Use $56.5 million from the Parking Meter Human Infrastructure Fund for operating expenses; and
3) Implement additional operating budget cuts, totaling $201.3 million, by:
    a. Cutting proposed FY2010 corporate fund expenditures by 10%, with exceptions for the Department of Elections, Ethics and the Office of the Inspector General that will be held harmless for the coming year; and
    b. Reducing Police, Fire and Emergency Management and Communications by 3.5%.
4) Cancel pay-as-you-go capital programs for a savings of $52.7 million; and
5) Reduce non-personnel expenditures by an additional $2.4 million.

City of Chicago FY2010 Budget Alternate Gap Closing Proposal: (in $ millions)		
FY2010 Budget Deficit	**$**	**520.0**
Mayor's Proposed FY2010 Reductions:		
Elimination of 220 vacant positions	$	18.0
Elimination of non-union COLAs	$	6.0
Non-personnel reductions	$	20.0
Full year of union and non-union payroll savings	$	70.0
Subtotal Mayor's Proposed Reductions	**$**	**114.0**
Use of FY2012 Mid-Term Reserves for Revenue Replacement	**$**	**93.1**
Eliminate Funding for Parking Meter FY2010 Human Infrastructure Progams	**$**	**56.5**
Additional Operating Budget Cuts - 10% & 3.5%	**$**	**201.3**
Cancel Pay-As-You-Go Capital Programs	**$**	**52.7**
Additional Non-Personnel Spending Reductions	**$**	**2.4**
Total Proposed Savings	**$**	**520.0**

The Mayor's office has already proposed significant cost savings for FY2010 totaling $114.0 million. These proposals include $24.0 million in savings from personnel cost reductions, $70 million in union and non-union payroll savings, $20.0 million in non-personnel reductions and $8.0 million from the closing of certain TIF funds.[14] The Civic Federation supports these cost reductions.

[14] Email communication between the Civic Federation and the City of Chicago Office of Budget and Management, November 12, 2009.

Our recommendation is to use parking meter 2012 mid-term reserves only as a means of replacing lost economically-sensitive Corporate Fund revenues, which the Civic Federation estimates will total $93.1 million, resulting from a decrease in economically-sensitive taxes and fees.[15]

We also recommend that the City use the $56.5 million in FY2010 appropriations from its parking meter human infrastructure fund to close its budget deficit. This will result in the elimination of funding for the human infrastructure programs including the new Property Tax Relief program, which is projected to cost $35 million in FY2010. The City cannot afford to make expenditures of this kind.

To close the remaining $255.4 million budget gap, the Civic Federation recommends additional cuts from the City's operating expenses. Using the operating and personnel expense data provided in City's FY2010 budget, which has significant limitations, the Civic Federation estimates the City could save approximately $201.3 million if it implements the following spending reductions:[16]

- 10% across-the-board operating expense reduction for all departments for a total savings of $126.7 million, with the exception of the Office of the Inspector General, Department of Ethics and Department of Elections that would be held harmless for the coming year; and

- 3.5% across-the-board operating expense reduction for Police, Fire and Emergency Management and Communications for $74.6 million in savings.

A smaller reduction for Police, Fire and Emergency Management and Communications is recommended to mitigate the need to reduce sworn personnel. This figure includes associated percentage reductions for personnel expenses listed in the City's Corporate Fund Finance General fund. This fund includes personnel benefit expenses that are aggregated across all of the City's departments.[17]

Major cities, such as Houston, Pittsburgh and Boston, have reduced public safety expenditures when faced with budget deficits. Since 2000, Detroit, Houston, and Pittsburgh have experienced a reduction in law enforcement personnel. Pittsburgh has reduced officers by nearly three per 10,000 people. Detroit leads the three in reductions, with nearly ten fewer officers per 10,000 people while Houston has reduced officers by more than five per 10,000 people. Research has

[15] To achieve this number, the Civic Federation calculated the decline between the FY2009 year-end estimates and FY2010 proposed economically sensitive Corporate Fund revenues, including sales, income, PPRT, hotel, amusement and RETT taxes. *See* City of Chicago FY2010 Overview and Revenue Estimates, pp. 111-112.

[16] This calculation was done by reducing proposed FY2010 appropriations for Police, Fire and Emergency Management Communications by 3.5% while holding harmless FY2010 appropriations for the Office of Inspector General, Department of Ethics and the Department of Elections. These departments were held harmless because the City must hold elections, and some ethics and Inspector General departments actions are required by court order. All other City departments had proposed FY2010 appropriations reduced by 10.0%.

[17] The Civic Federation was unable to obtain personnel benefit costs for each department to make corresponding appropriation reductions. As a result, we estimated the reductions necessary in the Finance General Personnel appropriations section for the Corporate Fund. We calculated the proportion of personnel Finance General expenses for each department based upon the Department's share of total corporate fund appropriations. This is a rough estimate generated as a result of access to imperfect data.

not shown a strong correlation between a reduction in public safety expenses and an increase in crime.[18]

The Civic Federation also recommends that the City cancel its pay-as-you-go capital programs in FY2010 for a savings of $52.7 million. The approved City of Chicago FY2008-FY2012 Capital Program totaled $6.7 billion to be spent on capital infrastructure of which 3.9% or $263.7 million is funded by general revenue funds of the City over the next five years.[19]

During the current fiscal crisis, it is reasonable to scale back pay-as-you-go funding for the capital plan and rely on other funding sources for capital projects. Currently, proceeds from Tax Increment Financing Districts make up only 1.6% or $110.6 million of the approved capital plan appropriations. The City should identify additional TIF funds to pay for necessary capital projects or delay spending general revenue funds on capital projects that are not critical to public safety during its current fiscal emergency. Scaling back City Funded pay-as-you-go projects could increase available general funds up to $52.7 million annually.

Finally, the Civic Federation calls for an additional $2.4 million in operating cuts to close the entirety of the City's FY2010 budget deficit.

The Civic Federation does not make these recommendations lightly and we have imperfect data given our limited access to City information sources. Across the board cuts are not the best option for solving the City's budget deficit. A better approach to solving this problem would be to prioritize the programs and services funded by the City. Using multiple data sources, including performance measurement data, the City can make targeted, strategic cuts. With this general roadmap in hand, it is now up to City Council and the Mayor to make the difficult, and often undesirable, decisions to limit the City's expenses, just as households across the City are doing in this difficult economic climate.

Long-Term Asset Sale Reserves Withdrawal Policy

In addition to the aforementioned alternative budget proposals, the Civic Federation urges the City of Chicago to adopt a formal fund balance withdrawal policy. The City has set aside $900.0 million in long-term reserve accounts using proceeds from both the Skyway and Parking Meter leases. The City set aside an additional $1,226.4 million of asset lease proceeds from the Skyway and Parking Meter leases to fund operating expenses between FY2005 and FY2012.

The Civic Federation believes that this short-term appropriation is an improper use of long-term asset proceeds. Asset lease proceeds should not be used for operating expenses. Instead, they should be primarily dedicated to retiring debt or long-term liabilities, making long-term capital investments and creating substantial long-term reserve accounts. Operating expenses should be paid out of the interest earned on the long-term reserves as a replacement for the revenues that were originally generated by the assets before they were taken off of the City's books.

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[18] For further research on this topic, please see the "Supplemental Research" section at the end of this report.
[19] Given our access to imperfect data, the Civic Federation estimates the City's FY2010 savings from eliminating pay-as-you-go capital funding at $52.7 million by dividing the five year total of $263.7 million by five. City of Chicago Capital Program FY2008-FY2012, p.1.

However, for most rules there are exceptions. Understanding that emergencies arise, the Civic Federation recommends that the City create a policy to dictate when it may decrease the principal of asset lease reserve funds. The policy should articulate both the situations under which the reserves may be drawn down and how much can be withdrawn from the reserve fund.

The Civic Federation recommends that the City Council adopt and adhere to the following proposed policy when looking to use the principal of asset lease reserve funds:

1) The City shall be authorized to use principal from long-term reserve funds for operating expenses if the following three elements exist:
    a. A combined decrease in sales, income, real estate transfer, hotel, amusement and personal property replacement tax revenues, set aside for corporate fund use, that exceeds 5.0% between prior-year-end estimates and upcoming fiscal year revenue forecasts in the City's Preliminary Budget Estimates;[20]
    b. A budget deficit that exceeds 10.0% of the projected Corporate Fund appropriations in the City's annual preliminary budget estimates; and
    c. A declaration of a nationwide economic recession by the National Bureau of Economic Research within the previous nine months from July 31.

2) If City Council approves by a simple majority vote a submission by the Mayor of Chicago that all three elements exist, then:
    a. The City may use long-term asset lease proceeds to reduce only the amount of corporate fund revenue projected to decline between annual preliminary year-end estimates and proposed budget forecasts for the upcoming fiscal year.

In its FY2010 Preliminary Budget Estimates, the City projected that FY2010 projected sales, income, real estate transfer, hotel, amusement and personal property replacement tax revenues would fall by 9.4% over FY2009 year-end estimates.[21] In the FY2010 Preliminary Budget Estimates, the City predicted that its budget deficit would total 15.7% of its projected FY2010 corporate fund expenditures. Finally, according to the National Bureau of Economic Research which announced its finding in December of 2008, the current recession began in December of 2007.[22]

Given the above policy statement, the Federation supports the City's use of a portion of the long-term reserves to help bridge its FY2010 budget deficit, but we do not support the degree to which the City is drawing down the revenues.

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[20] Sales, Income, Real Estate Transfer and Personal Property Replacement taxes are economically sensitive or "elastic" revenues. Elastic revenues will rise as the economic base expands or inflation rises. Conversely, elastic revenues will contract when the economic base shrinks or inflation declines. The City of Chicago and other local governments that rely in part on elastic revenues such as sales and income taxes are currently experiencing serious reductions in these revenues because of the current recession. See John L. Mikesell. *Fiscal Administration: Analysis and Administration for the Public Sector* (Belmont, CA: Thomson Wadsworth, 2003), p. 300. Hotel and amusement taxes are also defined as economically sensitive by the City of Chicago.
[21] City of Chicago FY2010 Preliminary Budget Estimates, p. 13.
[22] National Bureau of Economic Research website at http://www.nber.org/ (last visited on November 12, 2009).

The City is proposing to use $370 million of the proceeds from the parking meter lease in FY2010, including $20 million required to offset 2009-2010 interest earning shortfalls, to close its $520 million deficit. The Civic Federation recommends that the City, using the most recent estimates available to ensure proper revenue replacements, use $93.1 million in long-term lease assets, which is the economically-sensitive corporate fund revenue decrease the City forecasted in its FY2010 budget.[23] Using $370 million is not sound fiscal policy as the City is taking a large portion of reserve funds that are supposed to last over the life of parking meter lease, or 99 years.

ISSUES THE CIVIC FEDERATIONS SUPPORTS

The Civic Federation supports the following issues related to the FY2010 City of Chicago budget.

Implementing Cost-Cutting Measures in FY2009 and FY2010

The City of Chicago is proposing $114 million in expense reductions for FY2010. While some reductions are extensions of cost-cutting measures implemented in FY2009, which include unpaid holidays, reduced work weeks and compensatory time for overtime as opposed to pay, there are additional personnel cuts proposed for FY2010. These cuts include $18 million in savings resulting from the elimination of 220 vacant positions and $6 million by eliminating cost-of-living increases for all non-union employees.

In addition to personnel expense reductions the City is also proposing a number of other management initiatives to help defray operating costs in FY2010. The City budget includes an additional $20 million in savings from reducing contractual expenses, as well as reducing costs for materials, supplies, rental equipment, property rent, fuel and electricity.

The Civic Federation supports the City's efforts to reduce operating expenses. The City is wisely looking to reduce personnel expenses, which comprise 80% of the City's corporate fund budget, as without reductions to payroll expenses the City will not be able to meet its financial obligations.

Holding the Property Tax Levy Flat

The City of Chicago proposed 2010 property tax levy for City government purposes is $796.8 million and held flat over the FY2009 levy.

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008, the levy was increased 11.7% or $83.4 million to $796.8 million. The 2008 levy increase will be paid by taxpayers in the fall of 2009, which is reflected in Chicago mailboxes now as there is a two-year lag between the City Council's approval of a levy and the time it is collected. This will contribute to an increase in many Chicago property tax bills this fall.

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[23] The City of Chicago defines economically sensitive revenues as sales, income, personal property replacement, real estate transfer, hotel and amusement taxes. $93.1 million is the combined projected decline of these revenue sources. *See* City of Chicago FY2010 Overview and Revenue Estimates, pp. 111-112.

Too often local governments reflexively increase their annual property tax levy to the amount allowed under Illinois' property tax cap legislation to close budget deficits. While facing a mounting budget deficit, the Civic Federation does not believe the answer to this problem is turning to the tax weary citizens of Chicago. The City should be commended for holding the line on its levy and we encourage the City to complement this action by considering cost-saving measures.

Maintaining a Robust Performance Measurement System

The City of Chicago has built a robust performance measurement system and makes the results of this system available to the public in its annual budget documents. In the *Program and Budget Summary* budget document, the reader has access to performance data for each City Department that is tailored specifically to measure the outputs of the department. Service delivery targets and goals for the upcoming year are provided along side historical achievement and target data for immediate years preceding. The data affords the reader an opportunity to assess the work done by the City.

As the Civic Federation has noted in previous budget analyses, not only has the City been a model for establishing a performance measurement system, it has also made improvements in making information gathered during this process available to the public. We urge the City to continue utilizing this process and making this information available to the public. In addition to assessing efficiency of departments, this data may also be used to avoid across-the-board cuts by targeting cost-cutting measures to under-utilized or inefficient services.

CIVIC FEDERATION CONCERNS

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

Closing Majority of Budget Deficit with One-Time Revenues

The City of Chicago's projected budget deficit for FY2010 totals $520 million. The Mayor is proposing to eliminate a majority of the budget gap by using $370 million in reserve funds taken from the 2009 long-term lease of Chicago's parking meters and proposing $118 million in debt service refinancing savings. These two actions total $488 million and constitute 93.8% of the City's FY2010 deficit. The remaining 6.2% of the budget deficit will be closed via cost efficiencies.

The Civic Federation cautions that the currently proposed draw down, which includes a substantial portion of the long-term reserves established via the sale of the parking meters, is too large and will only do further damage to the City of Chicago.

The Civic Federation believes that this approach is short-sighted because it fails to prepare for FY2011 and does not address the City's structural deficit. This action neglects to take into account that revenues are not expected to rebound in FY2011 and that the City may have an ongoing structural deficit.

Fire and Police Pension Funds in a State of Fiscal Crisis

The funded ratios of all four City pension funds decreased in FY2008. The Fire Fund in FY2008 reported a funded ratio of 39.8%, while the Police Fund's funded ratio fell to 47.3% in FY2008. The funded ratio for the Municipal Fund totaled 62.9% in FY2008. The Laborers Funds funded ratio totaled 86.8% in FY2008.[24]

The funded ratios of the Fire Fund, 39.8%, and the Police Fund, 47.3%, are **far below levels considered financially healthy**.

The decrease in the funded ratios across all city pension funds was expected in light of the recent stock market decline and accompanying recession. However, the asset looses and gains are smoothed over five years, thereby reducing the impact of the recession on the actuarial value funded ratio. Under Government Accounting Standards Board (GASB) Statement No. 25, assets of public pension plans may be reported based on their smoothed market value, which mitigates the effects of short-term market volatility by recognizing deviations from expected returns over a period of three to five years.[25] The City's smoothing technique recognizes 20% of the difference between the expected (based on the assumed rate of return) and actual investment returns for each of the previous five years.

The City of Chicago has convened a blue ribbon commission composed of representatives from government, business, labor and civic groups to consider ways to reform the pension funding structure. The Commission's report is forthcoming and the Civic Federation is a member of that body.

The Civic Federation believes that the City simply cannot afford further increases in employee benefit levels that would continue to exacerbate liabilities, nor can it afford to continue its practice of making employer contributions that are below the actuarially required contribution levels. The City must control benefit costs for new employees in order to reduce their long-term liabilities and costs. The City must also increase its employer contributions in the future to bring them in line with actuarially required contribution levels.

City Maintains a High Debt Burden

The City of Chicago continues to have a relatively high debt burden according to three key commonly-used indicators. Between FY1999 and FY2008 Chicago net direct debt rose by 138.2% or $3.6 billion. This represents an increase from over $2.6 billion to approximately $6.1 billion.

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[24] Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2008.

[25] In November 1994, the Government Accounting Standards Board (GASB) issued Statement No. 25 that established new standards for the reporting of a pension fund's assets. The requirement became effective June 15, 1996. Up until that statement, most pension funds used two measurements for determining the net worth of assets, book value (recognizing investments at initial cost or amortized cost) and market value (recognizing investments at current value). In Statement No. 25, GASB recommends a "smoothed" market value, also referred to as the actuarial value of assets, in calculations for reporting pension costs and actuarial liabilities. The smoothed market value or actuarial value of assets accounts for assets at market values by recognizing unexpected gains or losses over a period of 3 to 5 years.

During the five-year period between FY2004 and FY2008, net direct debt rose by 19.8% or $1.0 billion. Debt service appropriations in FY2010 are projected to be 20.2% of total appropriations, or $1.2 billion out of $6.1 billion. Rating agencies consider a debt burden high if this ratio is between 15% and 20%. Finally, between FY1999 and FY2008, overlapping debt from other governments combined increased by 37.4% at the same time as the City of Chicago's debt rose by approximately 138.3%. Total debt from all eight major governments rose by 69.6%.

The rate of increase for the City of Chicago's debt service is much greater than the rate of increase for other governments in the region. This is of great concern to the Civic Federation as the City is proposing to dramatically decrease its reserves, which may contribute to higher borrowing costs when coupled with the City's already outstanding debt load.

Complete Draw Down of Corporate Fund Reserves

In FY2010 the City of Chicago is proposing to draw down its corporate reserve fund to zero. Between FY1998 and FY2008, City of Chicago Corporate Fund unreserved fund balance dropped from $177.2 million to just $226,000. The fund balance ratio plummeted from 8.1% to 0.01%. In FY2009 corporate fund reserves totaled $1.5 million, which was just 0.05% of the Corporate Fund appropriations for that year. The minuscule size of the reserves has negatively impacted the City's ability to deal with the current economic downturn. The decision to completely draw down the corporate fund reserves will leave City without the ability to tap this revenue source in FY2011.

It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a Corporate or General Fund balance ratio of 5% to 15% of operating expenditures or revenues. For the City of Chicago, this would require a reserve of at least $160.7 million in FY2010.

While recognizing that the City will maintain its $500 million reserves from the lease of the Skyway and $130 million from its lease of the parking meters after the proposed draw down, the City still needs a Corporate Fund contingency reserve to deal with the pressures of year-to-year spending and revenue challenges. The City of Chicago's Corporate Fund balance is at a level far below an amount that is fiscally prudent for a government of its size. The Civic Federation urges the City to move forward on the establishment of a reasonable contingency fund that meets the minimum GFOA standard.

Increasing Annual Debt Service to Obtain Savings in FY2010

The City has included $118 million of savings from debt restructuring and refinancing in its deficit closing revenues. While the deal has not yet been finalized, the City continues to analyze the refunding candidates available but it is unable to articulate the exact extension of the debt and the present value savings that may result from this transaction.

The City does explain, however, that taking savings up front requires extending the final maturity of the refunded debt and/or increasing the annual debt service payments. The City further explains that refunding savings will be determined based on market conditions at the time of pricing. The City also noted that the upcoming general obligation bonds will include $325 million of new money to fund the 2009 Capital program.[26]

The Civic Federation has concerns about the City's debt restructuring plan and projected savings. The City should not extend the life of the debt beyond the usable life of the resource that it was originally borrowed to support nor should it increase its annual debt service to obtain savings in FY2010 as it would increase the strain on future City budgets. The City of Chicago's annual debt service allocation already amounts to 20.2% of the total operating revenues.

CIVIC FEDERATION RECOMMENDATIONS

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

Implement Greater Budget Cuts

To close the majority of its $520 million budget deficit, the City of Chicago is proposing to use $370 million in long-term and mid-term reserve funds resulting from the 2009 lease of the City's parking meter system. It is also proposing $118 million in debt service restricting savings, resulting in 93.8% of the budget deficit being closed by one-time revenues.

The Civic Federation recommends that instead of relying primarily on long-term reserves to close its deficit this year, that the City take a more measured, balanced approach to eliminating its budget deficit in order to better prepare for FY2011 and FY2012. Our recommendation is to use long-term reserves only as a means of replacing lost revenues resulting from a decrease in economically-sensitive taxes and fees.

To close the remaining budget gap, the Civic Federation recommends additional cuts from the City's operating expenses. Using the operating and personnel expense data provided in City's FY2010 budget, which has significant limitations, the Civic Federation recommends the following budget balancing plan:[27]

1) Draw down $93.1 million from the City's mid-term parking meter fund to replace economically-sensitive corporate fund revenues;[28]
2) Use $56.5 million from the parking meter human infrastructure fund for operating expenses; and
3) Implement additional operating budget cuts, totaling $201.3 million by:

[26] Email communication between the Civic Federation and the City of Chicago Office of Budget and Management, November 12, 2009.

[27] This calculation was done by reducing proposed FY2010 appropriations for Police, Fire and Emergency Management Communications by 2% while holding harmless FY2010 appropriations for the Office of Inspector General, Department of Ethics and the Department of Elections. All other City departments had proposed FY2010 appropriations reduced by 7%.

[28] The City of Chicago defines economically sensitive revenues as sales, income, personal property replacement, real estate transfer, hotel and amusement taxes. $93.1 million is the combined projected decline of these revenue sources over FY2009 year-end estimates. *See* City of Chicago FY2010 Overview and Revenue Estimates, pp. 111-112.

    a. Cutting proposed FY2010 corporate fund expenditures by 10.0%, with exceptions for the Department of Elections, Ethics and the Office of the Inspector General that will be held harmless for the coming year; and
    b. Reducing Police, Fire and Emergency Management and Communications by 3.5%.
4) Cancel Non-Essential Pay-As-You-Go capital programs for a savings of $52.7 million; and
5) Reduce non-personnel expenditures by an additional $2.4 million.

Create a Formal Long-Term Asset Sale Reserves Withdrawal Policy

The Civic Federation urges the City of Chicago to adopt a formal long-term asset sale reserves withdrawal policy. The City has set aside $900.0 million in long-term reserve accounts using proceeds from both the Skyway and parking meter leases. The City set aside an additional $1,226.4 million of asset lease proceeds from the Skyway and Parking Meter leases to fund operating expenses between FY2005 and FY2012.

The Civic Federation believes that this short-term appropriation is an improper use of long-term asset proceeds. *These funds should not be used for operating expenses.* Instead, they should be primarily dedicated to retiring debt, making long-term capital investments and creating substantial long-term reserve accounts. Operating expenses should be paid out of the interest earned on the long-term reserves as a replacement for the revenues that were originally generated by the assets before they were taken off of the City's books.

However, understanding that emergencies arise, the Civic Federation recommends that the City create a policy to dictate when it may decrease the principal of asset lease reserve funds. The policy should articulate both the situations under which the reserves should be drawn down and how much can be withdrawn from the reserve fund.

The Civic Federation recommends that the City Council adopt and adhere to the following proposed policy when looking to decrease the principal of asset lease reserve funds:

1) The City shall be authorized to use principal from long-term reserve funds for operating expenses if the following three elements exist:
    a. A combined decrease in sales, use, income, real estate transfer, hotel, amusement and personal property replacement tax revenues, set aside for corporate fund use, that exceeds 5.0% between prior-year-end estimates and the City's annual preliminary budget revenue forecasts;[29]
    b. A budget deficit that exceeds 10.0% of the projected Corporate Fund appropriations in the City's annual preliminary budget estimates; and
    c. A declaration of a nationwide economic recession by the National Bureau of Economic Research within the previous nine months from July 31.

[29] Income, personal property replacement, real estate transfer and sales taxes are economically sensitive or "elastic" revenues. Elastic revenues will rise as the economic base expands or inflation rises. Conversely, elastic revenues will contract when the economic base shrinks or inflation declines. The City of Chicago and other local governments that rely in part on elastic revenues such as sales and income taxes are currently experiencing serious reductions in these revenues because of the current recession. See John L. Mikesell. *Fiscal Administration: Analysis and Administration for the Public Sector* (Belmont, CA: Thomson Wadsworth, 2003), p. 300. The City of Chicago includes hotel and amusement taxes as part of its definition of economically sensitive revenues.

2) If City Council approves by a simple majority vote a submission by the Mayor of Chicago that all three elements exist, then:
    a. The City may use long-term asset lease proceeds to reduce only the amount of corporate fund revenue projected to decline between year-end estimates and proposed budget forecasts for the upcoming fiscal year.

In its FY2010 Preliminary Budget Estimates, the City projected that FY2010 projected sales, income, real estate transfer and personal property replacement tax revenues would fall by 9.4% over FY2009 year-end estimates.[30] In the FY2010 Preliminary Budget Estimates, the City predicted that its budget deficit would total 15.7% of its projected FY2010 corporate fund expenditures. Finally, according to the National Bureau of Economic Research which announced its finding in December of 2008, the current recession began in December of 2007.[31]

Given the above policy statement, the Federation supports the City's use of a portion of the long-term reserves to help bridge its FY2010 budget deficit, but we do not support the degree to which the City is drawing down on the revenues.

Pursue Public/Private Partnerships to Defray Operating Expenses

The City of Chicago currently partners with private companies by having companies offset city expenses associated with their operations, such as having Wrigley Field operators pay for the additional traffic personnel necessary for home games.

The Civic Federation urges the City to pursue similar relationships with other private companies that rely on city services but do not pay for such additional benefits.

Implement Pension Benefit Reform

City of Chicago's pension funds are woefully underfunded. When facing mounting unfunded ratios, policy makers should take into consideration intergenerational equity. Intergenerational, or interperiod, equity is defined as ensuring that current-year taxpayers provide adequate resources to pay for the cost of current-year services.[32] By not making its employer actuarially required contributions and agreeing to fund benefits it may not be able to afford, the City has pushed current personnel costs onto future generations.

The City's pension funds are facing a fiscal crisis. Significant unfunded ratios must be overcome by placing additional revenues into the system, combined with meaningful benefit reform. Continued reductions of the City's workforce will help solve a portion of the City's unfunded pension problem, but that will not entirely solve the problem. The Civic Federation offers the following recommendations to help remedy the City's pension crisis.

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[30] City of Chicago FY2010 Preliminary Budget Estimates, p. 13.
[31] National Bureau of Economic Research website at http://www.nber.org/ (last visited on November 12, 2009).
[32] "Interperiod Equity and What It Means to You, " Governmental Accounting Standards Board June 2009 Newsletter at http://www.gasb.org/newsletter/inter-period_equity_june2009.html (last visited on November 11, 2009).

Establish a Two-Tiered Pension System

Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the City should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3.0% or CPI

Currently, annuitants receive 3.0% compounded annual cost of living increases; this rate can and does exceed the rate of inflation in some years. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3.0% simple interest, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

Require Employer Contributions to Relate to Funding Levels

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

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

Substantially Increase Corporate Fund Reserves When Revenues Return

The Civic Federation urges the City to move forward on the establishment of reasonable Corporate Fund reserves that meet the minimum standard proposed by the Government Finance Officers Association once the recession ends and revenues return to previous levels. In FY2010, this amount would total $160.7 million.

The Civic Federation recommends that the City build up its Corporate Fund reserves once revenues return. These reserves must be built using fiscal discipline of not spending all anticipated revenues. Other units of governments have Corporate Fund reserve policies that outlines how much money the government should have on hand, including the Chicago Park District and the Forest Preserve District of Cook County.

Implement a Formal Long-Term Financial Planning Process

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

Improve Transparency in City of Chicago Tax Increment Financing (TIF) Reporting

Recently, the City of Chicago has taken steps to address the issue of TIF transparency by enhancing the city's Department of Community Development (DCD) website and the information it provides about TIF. The City's recent efforts stem from an amendment passed by the Chicago City Council to the Municipal Code of Chicago, which delegated new responsibilities for online reporting of TIF information to DCD. The ordinance, which was introduced by Aldermen Scott Waguespack and Manny Flores, addressed a few goals which included consolidating information about TIFs already posted on several city departments' web pages and providing the public with better information about TIF in a more accessible manner.

The new TIF section of the DCD website organizes TIF information into sub-sections containing district overviews, annual reports, Community Development Commission reports, district redevelopment plans, maps and narratives and frequently asked questions and success stories. However, it does not provide an overall picture of the uses of property tax revenue flowing to the City's 160 TIFs, and does not aggregate TIF data in a machine-readable format.

The Civic Federation strongly supports enhancing the public reporting requirements for TIF throughout the State of Illinois in general and for the City of Chicago in particular. We believe that maximum transparency is always the best policy regarding public financial matters as we believe taxpayers deserve no less.[33] The Civic Federation makes the following recommendations to further increased transparency in TIF reporting.

1. Full financial information about TIF districts, including expenses, revenues, fund balance and debt, should be included in annual municipal budgets, including the City of Chicago budget. Taxpayers are entitled to full and complete information about the financial activities and obligations of government. The current practice of excluding TIF data from budgets is inconsistent with providing full disclosure of a municipality's financial information.

2. Each TIF district should be required to undertake a status report ten years after its inception. The report would be presented and discussed at a public hearing and made publicly available. It would include information on the status of redevelopment projects within the TIF, a review of redevelopment plan goals and objectives, an accounting of TIF revenues and expenditures to date, and relevant evaluation or performance data such as return on investment reports for

[33] See The Civic Federation. *Tax Increment Financing (TIF): A Civic Federation Position Statement.* November 12, 2007.

projects. This would be an opportunity for municipalities to present information about TIF results and for stakeholders to better understand the uses of TIF funds.

3. The State of Illinois should require information about TIF districts and TIF projects be made readily available electronically online. The information should be provided in the same electronic format that is required for local governments under the State of Illinois Fiscal Responsibility Report Card Act. Currently, reports required by the Office of the State Comptroller are only available in printed form. In an age characterized by low cost electronic dissemination of information, there is no reason why TIF reports should not be provided on the internet.

4. Information about TIF should be included on property tax bills. The fact that TIF does not appear on property tax bills is problematic because property taxpayers do not see the millions of dollars collected by TIF districts represented on their bills. As explained in the Civic Federation's 2007 position paper and issue brief on TIF, property taxpayers both within and outside of TIF districts ultimately pay for TIF. [34] However, the nature of TIF revenue calculation makes presenting accurate information about TIF on individual property tax bills extraordinarily difficult if not impossible. The Civic Federation at this time recommends that all tax bills include a statement that says, "By agreement among the taxing bodies, a portion of taxes paid are allocated to TIF districts." This would acknowledge that some revenues are in fact allocated to TIF and that all taxpayers, both within and outside of TIF districts, do pay for TIF. We have also recommended that the bill include a link to a page on the County Clerk's Web site that explains how TIF impacts taxpayers regardless of where they live. A link to the Clerk's TIF web site is now printed on the back of tax bills.[35]

Budget Format Improvements

The Civic Federation offers two recommendations to increase the transparency of City's budget documents.

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

The City's Office of Budget and Management has made important and substantive improvements to the format of the Budget documents in recent years. We urge the Budget Office to go one step further and improve the presentation of revenue information. Information is currently provided for revenues by fund and for Corporate Fund revenues by source. It would be useful to follow the practice employed by many other governments and also present revenue information by source for All Funds in the narrative section contained the Revenue Estimates portion of the budget book. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.

[34] Civic Federation, "Tax Increment Financing (TIF): A Civic Federation Position Statement," November 12, 2007, http://www.civicfed.org/articles/civicfed_261.pdf and "Tax Increment Financing (TIF): A Civic Federation Issue Brief," November 12, 2007, http://www.civicfed.org/articles/civicfed_260.pdf .
[35] See Cook County Clerk David Orr's 2007 TIF report Executive Summary, page 3 at http://www.cookctyclerk.com/pdf/2007%20Executive%20Summary.pdf .

Report all Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and the Chicago Public Schools. These levies are perfectly legal. However, the transactions are not transparent. The City provides no narrative information about the levies in its budget.

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

ACKNOWLEDGMENTS

The Civic Federation is grateful to Chief Financial Officer Gene Saffold, Office of Budget and Management (OBM) Director Eugene Munin, First Deputy Budget Director Andrea Gibson, Projects Administrator Ann McNabb, Chief Revenue Analyst Juliet Azimi and the entire OBM Department staff for their hard work in producing the City of Chicago's FY2010 budget. We also appreciate their willingness to provide us with a budget briefing, as well as answers to our budget questions.

FY2010 BUDGET HIGHLIGHTS

The City proposes a total FY2010 budget of nearly $6.14 billion. This is a 6.4% **increase** from the FY2009 year-end estimate appropriations of $5.77 billion across all funds. The Corporate Fund budget proposal is $3.21 billion in FY2010, a 4.4% increase over the FY2009 year-end estimate appropriations of $3.08 billion.

City of Chicago FY2009 Year-End Estimates to FY2010 Proposed Budget: (in $ millions)

	FY2009 Estimates	FY2010 Proposed	$ Change	% Change
Appropriations				
Corporate Fund	$ 3,079.1	$ 3,213.2	$ 134.1	4.4%
All Funds	$ 5,769.7	$ 6,139.6	$ 369.9	6.4%
Revenues				
Corporate Fund	$ 3,079.1	$ 3,213.2	$ 134.1	4.4%
All Funds	$ 6,147.5	$ 6,873.4	$ 725.9	11.8%
Budgeted Positions*				
Corporate Fund	27,471	27,096	(375)	-1.4%
All Funds	33,621	33,154	(467)	-1.4%

*Budgeted Positions are compared by FY2009 actual appropriations and FY2010 proposed appropriated staffing levels.

Source: City of Chicago FY2010 Overview and Revenue Estimates, pp. 7, 43, 110.

FY2010 Budget Deficit & Gap Closing Measures

The City is projecting that revenues for the Corporate Fund will decrease by 3.3% or $94.1 million from FY2009 year-end estimates. The FY2010 $520.0 million budget deficit will be closed by implementing spending reductions and using long-term and mid-term reserve funds earned from the 2009 long-term lease of the City's parking meters.[36]

During FY2009 the City made significant expenditure reductions to offset the expected year-end shortfall, including:

- Layoffs of 430 City employees, six governmental shut-down days and the elimination of five departments for a savings of $168.0 million; and
- Additional layoffs totaling 431 positions, union agreements, non-union payroll savings and non-personnel spending cuts, saving the City $59.0 million.

In FY2010 the City will eliminate 220 vacant positions for a total savings of $18.0 million. It will eliminate cost-of-living increases for non-union employees for a savings of $6.0 million.

The City will also reduce non-personnel expenditures, utilizing contractual savings ($8.9 million), fuel cost savings ($8.7 million), equipment rental savings ($1.8 million) and real estate lease renegotiations savings ($1.3 million) to close its FY2010 budget gap.

The City is proposing to close TIF districts in FY2010 for $8.0 million in additional revenue. The City will also restructure debt financing for a savings of $118.0 million in FY2010.

In addition to reducing personnel and non-personnel expenditures, the City will also tap into its long-term and mid-term parking meter reserve funds in FY2010. The City proposed to withdraw $250 million from its long-term reserve fund that was established in 2009 after the lease of the City's parking meters to a private operator.

The City is also proposing to advance $100.0 million from the FY2012 mid-term parking meter reserve fund to cover operating expenses in FY2010.

[36] An additional $20.0 million will be withdrawn from the long-term reserve fund to offset 2009-2010 interest earning shortfalls.

City of Chicago Budget Deficit Elimination Proposal: FY2010 (in $ millions)	
FY2010 Budget Deficit	**$ 520.0**
Gap Closing Measure	**$ Amount**
Efficiency & Cost Cutting Measures	
Personnel Reductions	$ 24.0
Non-Personnel Reductions	$ 20.0
Closure of TIF Districts	$ 8.0
Subtotal Efficiency & Cost Cutting Measures	**$ 52.0**
Reserve Funds	
Parking Meter Long-Term Reserve Funds	$ 250.0
Parking Meter Mid-Term Annuity Advance Funds	$ 100.0
Subtotal Reserve Funds	**$ 350.0**
Debt Service Restructuring Savings	**$ 118.0**
Total	**$ 520.0**

Source: City of Chicago FY2010 Overview and Revenue Estimates, p. 6.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2010 as compared to FY2009 and FY2006 proposed appropriations. Appropriations are compared by object, fund and program across all funds.

Two- and Five-Year Appropriation Trends by Object

The FY2010 City of Chicago budget proposes a net appropriation of approximately $6.14 billion. This is an increase of 2.9% or approximately $172.5 million more than the FY2009 proposed appropriation of $5.97 billion. Personnel Services appropriations are projected to remain flat over the two-year period.

City of Chicago Appropriations by Object All Funds: FY2009 & FY2010 (in $ millions)				
Object	**FY2009**	**FY2010**	**$ Change**	**% Change**
Personnel Services	$ 3,187.7	$ 3,187.5	$ (0.2)	0.0%
Contractual Services	$ 755.4	$ 760.3	$ 4.9	0.6%
Travel	$ 3.1	$ 3.0	$ (0.1)	-3.2%
Commodities	$ 162.7	$ 149.4	$ (13.3)	-8.2%
Equipment	$ 12.8	$ 15.8	$ 3.0	23.4%
Permanent Improvements	$ 2.9	$ 2.9	$ -	0.0%
Specific Items/Contingencies	$ 2,215.2	$ 2,406.7	$ 191.5	8.6%
Subtotal	**$ 6,339.8**	**$ 6,525.6**	**$ 185.8**	**2.9%**
Less Internal Transfers	$ 302.2	$ 315.5	$ 13.3	4.4%
Less Proceeds of Debt	$ 70.4	$ 70.4	$ -	0.0%
Total	**$ 5,967.2**	**$ 6,139.7**	**$ 172.5**	**2.9%**

Source: City of Chicago FY2009 Budget Recommendations, p. 10; and FY2010 Budget Recommendations, p. 11.

Over the five-year period from FY2006 to FY2010, net appropriations have risen by 17.2%, or approximately $901.4 million. Personnel Services appropriations will increase by 7.9%, or $234.2 million, over the five-year span from FY2006 to FY2010. Commodities appropriations will increase by 32.7%, from $112.6 million in FY2006 to $149.4 million in FY2010.

City of Chicago Appropriations by Object All Funds: FY2006 & FY2010 (in $ millions)				
Object	**FY2006**	**FY2010**	**$ Change**	**% Change**
Personnel Services	$ 2,953.3	$ 3,187.5	$ 234.2	7.9%
Contractual Services	$ 673.6	$ 760.3	$ 86.7	12.9%
Travel	$ 4.2	$ 3.0	$ (1.2)	-28.6%
Commodities	$ 112.6	$ 149.4	$ 36.8	32.7%
Equipment	$ 8.8	$ 15.8	$ 7.0	79.5%
Permanent Improvements	$ 2.0	$ 2.9	$ 0.9	45.0%
Specific Items/Contingencies	$ 1,797.1	$ 2,406.7	$ 609.6	33.9%
Subtotal	**$ 5,551.6**	**$ 6,525.6**	**$ 974.0**	**17.5%**
Less Internal Transfers	$ 268.2	$ 315.5	$ 47.3	17.6%
Less Proceeds of Debt	$ 45.1	$ 70.4	$ 25.3	56.1%
Total	**$ 5,238.3**	**$ 6,139.7**	**$ 901.4**	**17.2%**

Source: City of Chicago FY2006 Budget Recommendations, Summary D, and FY2010 Budget Recommendations, p. 11.

Two- and Five-Year Appropriation Trends by Fund

The FY2010 budget projects that appropriations for all funds will increase by 2.9% from FY2009 proposed budget appropriations, except for the Special Revenue Fund which will decrease by 9.9%. Appropriations for the City's Corporate Fund will increase slightly, rising from $3,188.0 million in FY2009 to $3,213.2 million in FY2010.

The Special Revenue Fund, which includes appropriations for operations of specific activities that require special accounting procedures, decreased by 9.9% over FY2009. Appropriations for the Debt Service Fund will increase by 11.0% pr $59.3 million. Pension Fund appropriations will also increase, rising by $4.0 million or 0.9%. Enterprise Fund appropriations, which are for operations that are typically self-supporting and include appropriations for the two airports, water and sewer operations, are increasing by 8.9% over FY2009.

City of Chicago Appropriations by Fund: FY2009 & FY2010 (in $ millions)				
	FY2009	FY2010	$ Change	% Change
Corporate Fund	$ 3,188.0	$ 3,213.2	$ 25.2	0.8%
Special Revenue Fund	$ 506.7	$ 456.3	$ (50.4)	-9.9%
Pension Funds	$ 454.9	$ 458.9	$ 4.0	0.9%
Debt Service Fund	$ 537.4	$ 596.7	$ 59.3	11.0%
Enterprise Fund	$ 1,652.9	$ 1,800.5	$ 147.6	8.9%
Total Resources	**$ 6,339.9**	**$ 6,525.6**	**$ 185.7**	**2.9%**
Less Proceeds of Debt	$ 70.4	$ 70.4	$ -	0.0%
Less Internal Transfer	$ 302.2	$ 315.5	$ 13.3	4.4%
Net Appropriation	**$ 5,967.3**	**$ 6,139.7**	**$ 172.4**	**2.9%**

Source: City of Chicago FY2009 Budget Overview and Revenue Estimates p. 44; and FY2010 Overview & Revenue Estimates, p. 43.

Net appropriations are projected to rise by approximately 17.2% in the five-year period since FY2006. The largest percentage increase, 35.1%, is projected to be in appropriations for the City's Debt Service Fund. Corporate Fund expenditures are expected to rise by 8.9%, from nearly $3.0 billion to $3.2 billion. Appropriations for the Enterprise Fund are also expected to increase, by 31.8% or $434.0 million.

City of Chicago Appropriations by Fund: FY2006 & FY2010 (in $ millions)				
	FY2006	FY2010	$ Change	% Change
Corporate Fund	$ 2,950.0	$ 3,213.2	$ 263.2	8.9%
Special Revenue Fund	$ 395.5	$ 456.3	$ 60.8	15.4%
Pension Funds	$ 398.0	$ 458.9	$ 60.9	15.3%
Debt Service Fund	$ 441.6	$ 596.7	$ 155.1	35.1%
Enterprise Fund	$ 1,366.5	$ 1,800.5	$ 434.0	31.8%
Total Resources	**$ 5,551.6**	**$ 6,525.6**	**$ 974.0**	**17.5%**
Less Proceeds of Debt	$ 45.1	$ 70.4	$ 25.3	56.1%
Less Internal Transfer	$ 268.2	$ 315.5	$ 47.3	17.6%
Net Appropriation	**$ 5,238.3**	**$ 6,139.7**	**$ 901.4**	**17.2%**

Source: City of Chicago FY2006 Budget Overview & Revenue Estimates, p. 37; and FY2010 Budget Overview & Revenue Estimates, p. 43.

Two- and Five-Year Appropriation Trends by Program Area

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

- **Finance and Administration** departments manage the City's finances, personnel, legal functions, and day-to-day operations. Such departments include the Office of the Mayor and the Departments of Finance, Revenue, Law, and General Services.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections, and administer appropriations for the City Council and its various committees.

- **City Development** departments, including the City's Department of Planning and Development, handle community, economic, cultural, and infrastructure development in the City.
- **Community Services** departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs, and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and includes the Department of Buildings, the Department of Construction and Permits, and the Office of the Inspector General.
- **Infrastructure Services**, formerly called the Department of Transportation, is responsible for the reconstruction of streets, sidewalks, and bridges, as well as the issuance of permits. Since FY2009, Streets and Sanitation is now listed under this umbrella program group.[37]
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, manages O'Hare and Midway Airports.
- **General Financing Requirements** departments includes pension contributions, long term debt payments, and other cross-departmental expenses.

Appropriations by program between the proposed FY2009 budget and the FY2010 proposed budget for all funds will increase by 2.9%. Grant fund appropriations will rise dramatically from $1,595.4 million in FY2009 to $2,365.5 million in FY2010. Finance and Administration appropriations will increase by $120.0 million or 23.5% over FY2009 proposed appropriations, which is attributable to expected federal American Recovery and Reinvestment Act grant revenue. The Department of Innovation and Technology (DOIT) estimates receiving $105.6 million for broadband, high speed internet and fiber connection initiatives. The Department of General Services (DGS) will receive $10.1 million in ARRA funding for energy efficient upgrades and lighting retrofits.[38]

City Development appropriations will increase by $114.4 million or 40.4% over FY2009 proposed appropriations. The $114 million dollar increase in the City Development programs is due to an anticipated grant for the Department of Community Development (DCD) of $98 million for the Neighborhood Stabilization Program II (NSP II). DCD also expects to receive a $10.1 million Community Development Block Grant – Recovery (CDBG-R) for additional foreclosure prevention assistance and trouble building initiative distressed condominium program.[39]

Appropriations for Infrastructure Services programs will increase by $343 million or 49.3% over FY2009 proposed appropriations. Infrastructure Services grant funding is increasing by $360.1 million over the 2009 appropriation. The major increases are attributable to the following reasons:[40]

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[37] City of Chicago FY2009 Program and Budget Summary, p. 217.
[38] Email communication between the Civic Federation and the City of Chicago Office of Budget and Management, November 12, 2009.
[39] Ibid.
[40] Ibid.

- $41.4 million in ARRA funds for highway infrastructure programs;
- $14.0 million in Energy Efficiency Conservation Block Grant funds;
- $157.0 million for Surface Transportation programs to resurface, reconstruct and rehabilitate the Federal-Aid Highway system; and
- $147.7 million in Illinois Department of Transportation (IDOT) grants to resurface arterial streets throughout the City.

City of Chicago Appropriations by Program Area: FY2009 & FY2010 (in $ millions)

	FY2009	FY2010	$ Change	% Change
Finance and Administration	$ 510.4	$ 630.4	$ 120.0	23.5%
Legislative and Elections	$ 37.2	$ 38.8	$ 1.6	4.3%
City Development	$ 282.9	$ 397.3	$ 114.4	40.4%
Community Services	$ 618.1	$ 746.0	$ 127.9	20.7%
Public Safety	$ 2,107.4	$ 2,186.5	$ 79.1	3.8%
Regulatory	$ 135.2	$ 124.1	$ (11.1)	-8.2%
Infrastructure Services	$ 695.9	$ 1,038.9	$ 343.0	49.3%
Public Services Enterprises	$ 848.3	$ 814.5	$ (33.8)	-4.0%
General Financing Requirements	$ 2,699.9	$ 2,914.6	$ 214.7	8.0%
Subtotal	**$ 7,935.3**	**$ 8,891.1**	**$ 955.8**	**12.0%**
Less Proceeds and Reimbusements	$ 372.6	$ 386.0	$ 13.4	3.6%
Less Grant Funds	$ 1,595.4	$ 2,365.5	$ 770.1	48.3%
Total	**$ 5,967.3**	**$ 6,139.6**	**$ 172.3**	**2.9%**

Source: City of Chicago FY2009 Program & Budget Summary, p. 3, and FY2010 Program & Budget Summary, p. 3.

Appropriations by major program area between FY2006 and FY2010 are presented in the next exhibit. The two largest increases by percentage occurred in Infrastructure Services and City Development, with increases of 134.8% and 74.6% respectively.

City of Chicago Appropriations by Program Area: FY2006 & FY2010 (in $ millions)

	FY2006	FY2010	$ Change	% Change
Finance and Administration	$ 458.6	$ 630.4	$ 171.8	37.5%
Legislative and Elections	$ 36.0	$ 38.8	$ 2.8	7.8%
City Development	$ 227.6	$ 397.3	$ 169.7	74.6%
Community Services	$ 583.1	$ 746.0	$ 162.9	27.9%
Public Safety	$ 1,908.0	$ 2,186.5	$ 278.5	14.6%
Regulatory	$ 97.4	$ 124.1	$ 26.7	27.4%
Streets and Sanitation	$ 357.2	$ -	$ (357.2)	-100.0%
Infrastructure Services/Transportation	$ 442.5	$ 1,038.9	$ 596.4	134.8%
Public Services Enterprises	$ 657.1	$ 814.5	$ 157.4	24.0%
General Financing Requirements	$ 2,090.4	$ 2,914.6	$ 824.2	39.4%
Subtotal	**$ 6,857.9**	**$ 8,891.1**	**$ 2,033.2**	**29.6%**
Less Proceeds and Reimbusements	$ 313.3	$ 386.0	$ 72.7	23.2%
Less Grant Funds	$ 1,306.4	$ 2,365.5	$ 1,059.1	81.1%
Total	**$ 5,238.2**	**$ 6,139.6**	**$ 901.4**	**17.2%**

Source: City of Chicago FY2006 Program & Budget Summary, p. 1, and FY2010 Program & Budget Summary, p. 3.

Parking Meter Human Infrastructure Fund Appropriations for FY2010

In FY2009 the remainder of the proceeds from the Skyway Human Infrastructure Fund were distributed. In FY2010, the City is proposing to use $56.5 million from the newly-created Parking Meter Human Infrastructure Fund to continue supporting some of the programs funded by the Skyway fund, in addition to funding eight new programs not previously funded via the Skyway fund.

Parking Meter Human Infrastructure Fund Appropriations FY2010 (in $ millions)	
New Programs	**Amount**
Property Tax Relief Program	$ 35.0
Chicago Tech Corps Program	$ 8.4
Substantial Youth Jobs Program	$ 1.0
Poverty reduction programs	$ 0.5
Additional Food Boxes	$ 0.3
Case Management for Domestic Violence Victims	$ 0.2
Homeless Shelter Beds	$ 0.7
Small Business Funds	$ 0.6
Subtotal New Programs	**$ 46.7**
Program Increases	
Home Delivered Meals for Seniors	$ 2.0
After School Programs	$ 1.5
Low-Income Housing Trust Fund	$ 1.3
Job Training for Ex-Offenders	$ 1.0
Share the Warmth	$ 0.8
Subtotal Program Increases	**$ 6.6**
Program Maintenance	
Emergency Home Repairs	$ 0.6
Home Modifications for Individuals with Disabilities	$ 0.4
Plan to End Homelessness	$ 0.7
Multi-Family Affordable Housing Loans	$ 1.6
Subtotal Program Maintenance	**$ 3.3**
Total	**$ 56.5**

Source: City of Chicago FY2010 Overview and Revenue Estimates, p. 5.

REVENUES

This section of the analysis provides an overview of City of Chicago All Fund and Corporate Fund revenue trends and property tax levy trends.

All Fund Revenue Trends: FY2009 Budget to FY2010 Budget Comparisons

The City of Chicago's budgeted total resources are projected to increase by 2.9% in FY2010, from nearly $6.3 billion in FY2009 proposed revenues to approximately $6.5 billion in FY2010; this represents a $185.7 million increase. The exhibit that follows compares the City of Chicago's total resources in the FY2009 proposed budget and the FY2010 proposed budget. Some of the resource highlights include:

- Aviation revenues for O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase by $75.2 million or 7.4%.
- There will be no property tax increase, so property tax receipts will remain at $796.9 million.
- Proceeds and Transfers In will rise by 292.9%, from $183.8 million to $722.2 million. Of the $722.2 million, $597.4 million is from interest earnings or proceeds of the City's Skyway and Parking Meter long-term lease transactions.
- Sales tax revenues will fall by 15.2% or $87.5 million, reflecting the ongoing economic downturn.
- Income tax receipts, including revenues from a corporate income tax called the Personal Property Replacement Tax (PPRT), will decrease by $43.6 million or 12.0% to $318.4 million.
- The City is projecting no unreserved fund balance in FY2010.
- Transaction tax receipts, which include the City's real estate transfer tax, will fall by 33.1% or $85.1 million, dropping from $257.3 million to $172.2 million.

The top five City of Chicago revenues account for 55.3% of all resources or $3.8 billion. They are:

1. Aviations Fees and taxes: nearly $1.1 billion or 15.8% of total resources;
2. Property Taxes: $796.9 million or 11.6% of all resources;
3. Proceeds & Transfers In: $722.2 million or 10.5% of all resources;
4. Sewer & Water Fees and Taxes: $711.4 million or 10.4% of the total; and
5. Sales Taxes: $486.3 million or 7.1% of total resources.

City of Chicago Resources All Funds: Budget-to-Budget Basis FY2009 & FY2010 (in $ million)				
Revenue	**FY2009**	**FY2010**	**$ Change**	**% Change**
Aviation	$ 1,013.8	$ 1,089.0	$ 75.2	7.4%
Property Taxes	$ 796.9	$ 796.9	$ -	0.0%
Proceeds & Transfers In	$ 183.8	$ 722.2	$ 538.4	292.9%
Sewer & Water	$ 639.7	$ 711.4	$ 71.7	11.2%
Sales Taxes	$ 573.8	$ 486.3	$ (87.5)	-15.2%
Utility Taxes & Fees	$ 523.3	$ 479.8	$ (43.5)	-8.3%
Vehicle, Transportation & Motor Fuel Taxes	$ 417.2	$ 390.9	$ (26.3)	-6.3%
Income Taxes/PPRT	$ 362.0	$ 318.4	$ (43.6)	-12.0%
Internal Service Earnings	$ 315.5	$ 287.8	$ (27.7)	-8.8%
Fines, Forfeitures & Penalties	$ 293.5	$ 262.9	$ (30.6)	-10.4%
Other Resources*	$ 333.7	$ 248.9	$ (84.8)	-25.4%
Transaction Taxes	$ 257.3	$ 172.2	$ (85.1)	-33.1%
Recreation Taxes	$ 162.6	$ 154.8	$ (7.8)	-4.8%
Licenses & Permits	$ 125.3	$ 105.7	$ (19.6)	-15.6%
Emergency Communications Surcharge	$ 97.7	$ 97.3	$ (0.4)	-0.4%
Business Taxes	$ 94.0	$ 78.1	$ (15.9)	-16.9%
Charges for Services	$ 93.7	$ 77.8	$ (15.9)	-17.0%
Special Events	$ 24.6	$ 19.8	$ (4.8)	-19.5%
Lease, Rentals & Sales	$ 24.1	$ 19.4	$ (4.7)	-19.5%
Municipal Utilities (Parking)	$ 5.9	$ 6.0	$ 0.1	1.7%
Revenue Subtotal	**$ 6,338.4**	**$ 6,525.6**	**$ 187.2**	**3.0%**
Prior Year Unreserved Corporate Fund Balance	**$ 1.5**	**$ -**	**$ (1.5)**	**-100.0%**
Total	**$ 6,339.9**	**$ 6,525.6**	**$ 185.7**	**2.9%**

Sources: City of Chicago FY2009 Budget Overview and Revenue Estimates, pp. 44-74; and FY2010 Budget Overview and Revenue Estimates, pp. 110-118.
*Other = Hotel Operator's Tax, CTA Real Estate Transfer Taxes, Library Funds,Intergovermnental Fund Reimbursements, Interest Income, Other Revenue (Corporate Fund)

Over the five-year period between FY2006 and FY2010, all fund resources are projected to increase by 18.0%.

- Aviation fees and taxes are expected to increase by 29.4%, rising from $841.9 million to nearly $1.1 billion;
- Property taxes will increase by 11.7%, from $713.5 million to $796.9 million;
- Proceeds and Transfers In will grow by 370.5%, rising from $153.5 million to $722.2 million;
- Sewer and water revenues will rise by 35.6% from $524.7 million to $711.4 million;
- Sales tax revenues will decrease by $28.8 million of 5.6%, falling from $515.1 million to $486.3 million; and
- Utility taxes and fees will generate an additional $236.8 million over the five-year period.

City of Chicago Resources All Funds: Budget-to-Budget Basis FY2006 & FY2010 (in $ millions)				
Revenue	**FY2006**	**FY2010**	**$ Change**	**% Change**
Aviation	$ 841.9	$ 1,089.0	$ 247.1	29.4%
Property Taxes	$ 713.5	$ 796.9	$ 83.4	11.7%
Proceeds & Transfers In	$ 153.5	$ 722.2	$ 568.7	370.5%
Sewer & Water	$ 524.7	$ 711.4	$ 186.7	35.6%
Sales Taxes	$ 515.1	$ 486.3	$ (28.8)	-5.6%
Utility Taxes & Fees	$ 243.0	$ 479.8	$ 236.8	97.4%
Vehicle, Transportation & Motor Fuel Taxes	$ 386.0	$ 390.9	$ 4.9	1.3%
Income Taxes/PPRT	$ 374.5	$ 318.4	$ (56.1)	-15.0%
Internal Service Earnings	$ 270.7	$ 287.8	$ 17.1	6.3%
Fines, Forfeitures & Penalties	$ 210.1	$ 262.9	$ 52.8	25.1%
Other Resources*	$ 397.8	$ 248.9	$ (148.9)	-37.4%
Transaction Taxes	$ 315.5	$ 172.2	$ (143.3)	-45.4%
Recreation Taxes	$ 125.7	$ 154.8	$ 29.1	23.2%
Licenses & Permits	$ 112.4	$ 105.7	$ (6.7)	-6.0%
Emergency Communications Surcharge	$ 45.8	$ 97.3	$ 51.5	112.4%
Business Taxes	$ 74.4	$ 78.1	$ 3.7	5.0%
Charges for Services	$ 85.7	$ 77.8	$ (7.9)	-9.2%
Special Events	$ 20.3	$ 19.8	$ (0.5)	-2.5%
Lease, Rentals & Sales	$ 36.1	$ 19.4	$ (16.7)	-46.3%
Municipal Utilities (Parking)	$ 23.2	$ 6.0	$ (17.2)	-74.1%
Revenue Subtotal	**$ 5,469.9**	$ 6,525.6	**$ 1,055.7**	**19.3%**
Prior Year Unreserved Corporate Fund Balance	**$ 62.6**	$ -	**$ (62.6)**	**-100.0%**
Total	**$ 5,532.5**	**$ 6,525.6**	**$ 993.1**	**18.0%**

Sources: City of Chicago FY2006 Budget Overview and Revenue Estimates, pp. 109-115; and FY2010 Budget Overview and Revenue Estimates, pp. 110-118.

Corporate Fund Revenue Trends: FY2009 Budget to FY2010 Budget Comparison

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 0.8% or $25.1 million increase in Corporate Fund revenues in FY2010 from the previous fiscal year budget.

The Corporate Fund's tax revenues are projected to decrease by 18.8% in FY2010, down from $2.1 billion in FY2009 to $1.7 billion in FY2010. Sales and Use Tax revenue, which includes both the City's own home rule sales tax and its share of sales taxes collected by the State, is expected to decrease by 15.9% or $87.2 million. Income tax receipts, which include the personal property replacement tax levied on corporations and utilities, are projected to fall by 41.9% to $210.2 million from $362.0 million in FY2010. Utility taxes and franchise fees will decrease by 8.3%, falling from $523.3 million to $479.8 million.

Non-tax Corporate Fund revenues will decrease by 12.9%, falling from $890.7 million to $776.2 million. License and permit revenues will decrease by 15.6% in FY2010 due to the continuing decline of the real estate market. Leases, rentals and sales will also decline in FY2010 due to a lagging real estate market, falling from $24.1 million to $19.4 million, a 19.5% decline over FY2009 budgeted figures.

The category of Proceeds and Transfers In will increase by 292.9% in FY2010, rising from $183.8 million to $722.2 million in FY2010. This category includes tax revenue from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes $597.4 million in revenue derived from transfers of nonrecurring revenue sources such as the City's Skyway and Parking Meter long-term lease transactions.

City of Chicago Corporate Fund Revenues: FY2009 & FY2010 (in $ millions)				
Tax Revenue	**FY2009**	**FY2010**	**$ Change**	**% Change**
Sales & Use Taxes	$ 547.5	$ 460.3	$ (87.2)	-15.9%
Utility Tax & Franchise Fees	$ 523.3	$ 479.8	$ (43.5)	-8.3%
Income Taxes (Incl. PPRT)	$ 362.0	$ 210.2	$ (151.8)	-41.9%
Transaction Taxes	$ 257.3	$ 172.7	$ (84.6)	-32.9%
Transportation Taxes	$ 161.6	$ 155.7	$ (5.9)	-3.7%
Recreation Taxes	$ 162.6	$ 154.8	$ (7.8)	-4.8%
Business Taxes	$ 94.0	$ 78.1	$ (15.9)	-16.9%
Municipal Auto Rental Tax	$ 3.8	$ 3.2	$ (0.6)	-15.8%
Total Tax Revenue	**$ 2,112.1**	**$ 1,714.8**	**$ (397.3)**	**-18.8%**
Non-Tax Revenue				
Fines & Forfeitures	$ 293.5	$ 262.9	$ (30.6)	-10.4%
Licenses & Permits	$ 125.3	$ 105.7	$ (19.6)	-15.6%
Charges for Services	$ 93.7	$ 77.8	$ (15.9)	-17.0%
Leases, Rentals & Sales	$ 24.1	$ 19.4	$ (4.7)	-19.5%
Municipal Utilities (Parking)	$ 5.9	$ 6.0	$ 0.1	1.7%
Reimbursement,Interest,Other	$ 348.2	$ 304.4	$ (43.8)	-12.6%
Total Non-Tax Revenue	**$ 890.7**	**$ 776.2**	**$ (114.5)**	**-12.9%**
Prior Year Unreserved Fund Balance	**$ 1.5**	**$ -**	**$ (1.5)**	**-100.0%**
Proceeds & Transfers In	**$ 183.8**	**$ 722.2**	**$ 538.4**	**292.9%**
Total Corporate Revenue	**$ 3,188.1**	**$ 3,213.2**	**$ 25.1**	**0.8%**

Source: City of Chicago FY2009 Budget Overview and Revenue Estimates, p. 47 & FY2010 Budget Overview and Revenue Estimates, p. 111-112.

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2006 and FY2010, Corporate Fund revenues will increase by 8.9%, a $263.2 million increase that will push Corporate Fund revenues from nearly $3.0 billion up to $3.2 billion. During this period, Corporate Fund tax revenues will decrease by 12.9% and non-tax revenues will increase by 1.5%.

Economically sensitive revenues will decrease over the five-year period of this analysis, reflecting the serious economic downturn in FY2009 and FY2010.

- Income tax receipts, which include personal property replacement tax revenues, will decrease dramatically by 34.1%, falling from $318.8 million to $210.2 million;
- Sales tax revenues will drop by $35.4 million or 7.1%;
- Transaction taxes, which include the real estate transfer tax, will fall by 45.3%, a $142.8 million decrease.

City of Chicago Corporate Fund Revenues: FY2006 & FY2010 (in $ millions)				
Tax Revenue	**FY2006**	**FY2010**	**$ Change**	**% Change**
Sales & Use Taxes	$ 495.7	$ 460.3	$ (35.4)	-7.1%
Utility Tax & Franchise Fees	$ 487.0	$ 479.8	$ (7.2)	-1.5%
Income Taxes (Incl. PPRT)	$ 318.8	$ 210.2	$ (108.6)	-34.1%
Transaction Taxes	$ 315.5	$ 172.7	$ (142.8)	-45.3%
Transportation Taxes	$ 148.3	$ 155.7	$ 7.4	5.0%
Recreation Taxes	$ 125.7	$ 154.8	$ 29.1	23.2%
Business Taxes	$ 74.4	$ 78.1	$ 3.7	5.0%
Municipal Auto Rental	$ 3.4	$ 3.2	$ (0.2)	-5.9%
Total Tax Revenue	**$ 1,968.8**	**$ 1,714.8**	**$ (254.0)**	**-12.9%**
Non-Tax Revenue				
Fines & Forfeitures	$ 210.1	$ 262.9	$ 52.8	25.1%
Licenses & Permits	$ 112.4	$ 105.7	$ (6.7)	-6.0%
Charges for Services	$ 85.7	$ 77.8	$ (7.9)	-9.2%
Leases, Rentals & Sales	$ 36.1	$ 19.4	$ (16.7)	-46.3%
Municipal Utilities (Parking)	$ 23.2	$ 6.0	$ (17.2)	-74.1%
Reimbursement,Interest,Other	$ 297.6	$ 304.4	$ 6.8	2.3%
Total Non-Tax Revenue	**$ 765.1**	**$ 776.2**	**$ 11.1**	**1.5%**
Prior Year Unreserved Fund Balance	**$ 62.6**	**$ -**	**$ (62.6)**	**0.0%**
Proceeds & Transfers In	**$ 153.5**	**$ 722.2**	**$ 568.7**	**370.5%**
Total Corporate Revenue	**$ 2,950.0**	**$ 3,213.2**	**$ 263.2**	**8.9%**

Source: City of Chicago FY2006 Budget Overview and Revenue Estimates, pp. 109-110 & FY2010 Budget Overview and Revenue Estimates, p. 111-112.

Year-End Estimate FY2009 to FY2010 Budget Comparisons

Comparisons of resources for two different budget years show the originally proposed amounts reported for individual line items. However, the amount of revenue actually collected in a fiscal year may differ significantly from the original proposal. A new budget is based on the amount of revenue a government expects to actually collect in the prior fiscal year, or the year-end estimate. In addition, the differences between the year-end estimate of the prior fiscal year and the budget proposal for the new fiscal year are widely cited in government and media reports. The next two exhibits present information for City of Chicago All Fund resources and Corporate Fund resources on a FY2009 year-end estimate to a FY2010 proposed budget basis.

Comparing the FY2009 year-end estimates with the proposed FY2010 budget reveals that the City's All Fund resources are expected to increase by 6.2% in FY2010. In addition:

- Sales tax revenues will drop by 4.6%, from $509.8 million to $486.3 million;
- Income tax and PPRT receipts will fall by $62.3 million, or $16.4%;
- Utility taxes and fees will fall by 2.5% or $12.1 million;
- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase by $92.1 million or 9.2%;
- Proceeds and Transfers In will rise by 50.3%, from $480.4 million to $722.2 million. Of the $722.2 million, $597.4 million is from interest earnings or proceeds of the City's Skyway and Parking Meter long-term lease transactions; and

- Transaction tax receipts, which include the City's real estate transfer tax, will fall by 1.7% or $2.9 million, dropping from $175.1 million to $172.2 million.

City of Chicago Resources All Funds: Year-End Estimates to Budget FY2009 & FY2010 (in $ millions)				
Revenue	**FY2009 Year End Est.**	**FY2010 Prop. Budget**	**$ Change**	**% Change**
Aviation	$ 996.9	$ 1,089.0	$ 92.1	9.2%
Property Taxes	$ 796.9	$ 796.9	$ -	0.0%
Proceeds & Transfers In	$ 480.4	$ 722.2	$ 241.8	50.3%
Sewer & Water	$ 636.0	$ 711.4	$ 75.4	11.9%
Sales Taxes	$ 509.8	$ 486.3	$ (23.5)	-4.6%
Utility Taxes & Fees	$ 491.9	$ 479.8	$ (12.1)	-2.5%
Vehicle, Transportation & Motor Fuel Taxes	$ 363.1	$ 390.9	$ 27.8	7.7%
Income Taxes/PPRT	$ 380.7	$ 318.4	$ (62.3)	-16.4%
Internal Service Earnings	$ 291.8	$ 287.8	$ (4.0)	-1.4%
Fines, Forfeitures & Penalties	$ 253.1	$ 262.9	$ 9.8	3.9%
Other Resources	$ 208.8	$ 248.9	$ 40.1	19.2%
Transaction Taxes	$ 175.1	$ 172.2	$ (2.9)	-1.7%
Recreation Taxes	$ 156.1	$ 154.8	$ (1.3)	-0.8%
Licenses & Permits	$ 105.5	$ 105.7	$ 0.2	0.2%
Emergency Communications Surcharge	$ 98.3	$ 97.3	$ (1.0)	-1.0%
Business Taxes	$ 78.3	$ 78.1	$ (0.2)	-0.3%
Charges for Services	$ 84.5	$ 77.8	$ (6.7)	-7.9%
Special Events	$ 18.8	$ 19.8	$ 1.0	5.3%
Lease, Rentals & Sales	$ 10.9	$ 19.4	$ 8.5	78.0%
Municipal Utilities (Parking)	$ 9.1	$ 6.0	$ (3.1)	-34.1%
Revenue Subtotal	**$ 6,146.0**	**$ 6,525.6**	**$ 379.6**	**6.2%**
Prior Year Unreserved Corporate Fund Balance	**$ 1.5**	**$ -**	**$ (1.5)**	**-100.0%**
Total	**$ 6,147.5**	**$ 6,525.6**	**$ 378.1**	**6.2%**

Sources: FY09 Budget Overview and Revenue Estimates, pp. 44-74 and FY10 Budget Overview and Revenue Estimates, pp. 110-118.

On a year-end FY2009 estimate to FY2010 budget basis, the City projects a 4.4% or $134.1 million increase in Corporate Fund revenues. However, much of the increase is due to the $241.8 million infusion of funds from proceeds and transfers in, including long-term asset lease proceeds. Tax revenues will decline by 6.0% or $108.5 million. This includes a 5.2% or $25.0 million decrease in sales tax revenues, a $66.9 million decrease in income tax and PPRT revenues and a $12.1 million drop in utility taxes and fees. Non-tax revenues will increase by 0.3%, rising from $773.9 million to $776.2 million.

City of Chicago Corporate Fund Revenues: Year-End Estimates to Budget FY2009 & FY2010 (in $ millions)				
Tax Revenue	**FY2009 Year End Est.**	**FY2010 Prop. Budget**	**$ Change**	**% Change**
Sales & Use Taxes	$ 485.3	$ 460.3	$ (25.0)	-5.2%
Utility Tax & Franchise Fees	$ 491.9	$ 479.8	$ (12.1)	-2.5%
Income Taxes (Incl. PPRT)	$ 277.1	$ 210.2	$ (66.9)	-24.1%
Transaction Taxes	$ 175.1	$ 172.7	$ (2.4)	-1.4%
Transportation Taxes	$ 155.7	$ 155.7	$ -	0.0%
Recreation Taxes	$ 156.1	$ 154.8	$ (1.3)	-0.8%
Business Taxes	$ 78.3	$ 78.1	$ (0.2)	-0.3%
Municipal Auto Rental Tax	$ 3.8	$ 3.2	$ (0.6)	-15.8%
Total Tax Revenue	**$ 1,823.3**	**$ 1,714.8**	**$ (108.5)**	**-6.0%**
Non-Tax Revenue				
Fines & Forfeitures	$ 253.1	$ 262.9	$ 9.8	3.9%
Licenses & Permits	$ 105.5	$ 105.7	$ 0.2	0.2%
Charges for Services	$ 84.5	$ 77.8	$ (6.7)	-7.9%
Leases, Rentals & Sales	$ 10.9	$ 19.4	$ 8.5	78.0%
Municipal Utilities (Parking)	$ 5.9	$ 6.0	$ 0.1	1.7%
Reimbursement,Interest,Other	$ 314.0	$ 304.4	$ (9.6)	-3.1%
Total Non-Tax Revenue	**$ 773.9**	**$ 776.2**	**$ 2.3**	**0.3%**
Prior Year Unreserved Fund Balance	**$ 1.5**	**$ -**	**$ (1.5)**	**-100.0%**
Proceeds & Transfers In	**$ 480.4**	**$ 722.2**	**$ 241.8**	**50.3%**
Total Corporate Revenue	**$ 3,079.1**	**$ 3,213.2**	**$ 134.1**	**4.4%**

Source: City of Chicago FY2009 Budget Overview and Revenue Estimates, p. 47 & FY2010 Budget Overview and Revenue Estimates, p. 111-112.

Property Tax Revenues

The City of Chicago's proposed 2010 property tax levy for City government purposes is $796.9 million and is held flat over last year's levy.

The proposed 2010 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[41] A portion of the Library levy funds debt service on bonds issued for the Library's capital program, but some of the levy pays for short-term borrowing to fund Library operating expenses. The City issues short-term debt (tax anticipation notes) for the Library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes. Taxes levied for FY2010 will not begin to be collected until the autumn of 2011.

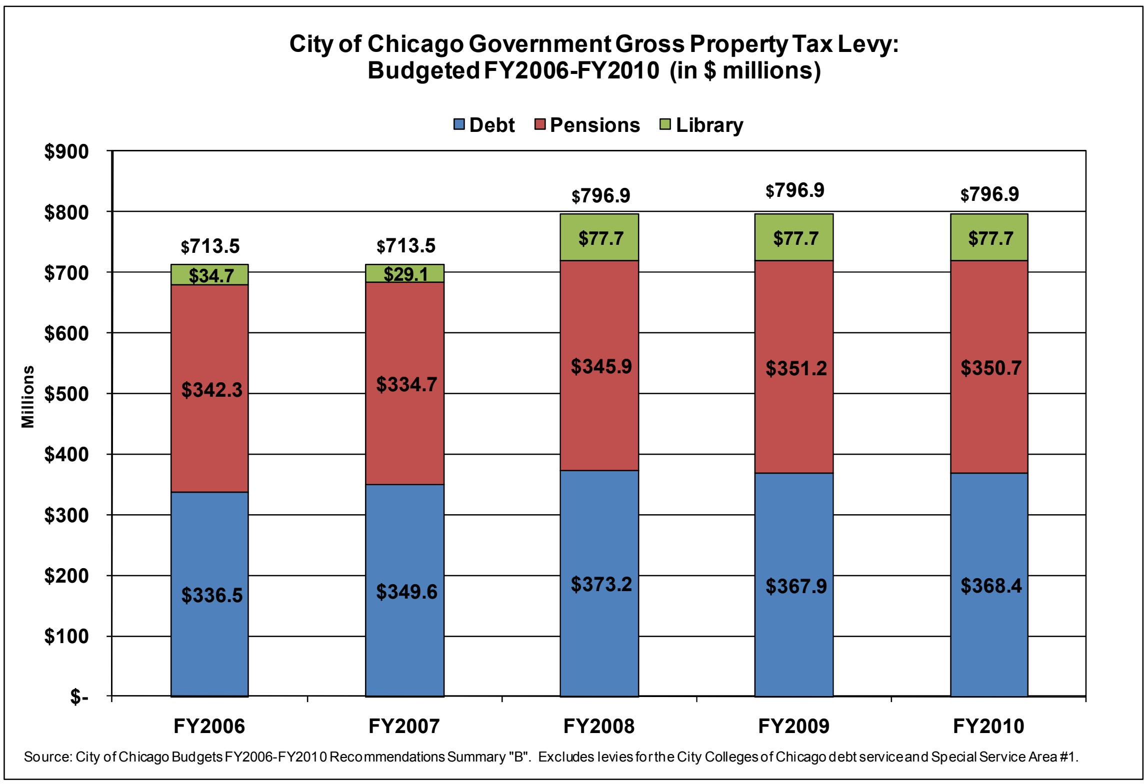
The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Property taxes levied for pensions are a direct result of payroll increases, including retroactive increases, since the City's employer contributions to pensions are set in state statute as a multiple of employee contributions made two years prior. Employee contributions are a percentage of pay. Property taxes levied for debt service reflect the City's

[41] Since 1996, the Library has been listed as a separate line item on Chicago property tax bills.

borrowing activities and bond payment schedule. None of the property tax levy is used for Corporate Fund operating purposes.[42]

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008, the levy was increased 11.7% or $83.4 million to $796.8 million.[43] The 2008 levy increase will be paid by taxpayers in the fall of 2009, as there is a one-year lag in Cook County between the approval of a levy and the time it is collected. This will contribute to an increase in many Chicago property tax bills.

The 2008 levy increase exceeded the City's self-imposed limit on property tax increases. As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[44] If the City had adhered to the self-imposed limitation, the levy could only have been increased 2.5% (the applicable inflation rate), or $17.8 million, to $731.3 million in 2008.



[42] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[43] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[44] The City ordinance is municipal code chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the Library levy from the definition of "aggregate extension".

ADDITIONAL PROPERTY TAX REVENUES

As discussed in the previous section, the City of Chicago's proposed 2010 property tax levy for City government purposes, including the library, is $796.8 million. This is the same as the 2009 levy. However, this figure does not represent the full amount of property tax revenues collected by the City of Chicago.

There are at least three significant additional uses of property tax revenue by the City that are not discussed in the budget book: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools, and Tax Increment Financing (TIF) district revenue. The City Colleges and Chicago Public Schools are separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

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

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[45]

The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC). Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995;[46] at that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O & M) levy. When these obligations were fulfilled, the O & M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[47] This arrangement results in no net increase for property tax payers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and $36.6 million in FY2008.[48] It has remained at $36.6 million for FY2009 and FY2010.

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[45] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php

[46] Property Tax Extension Limitation Law, 35 ILCS 200/18.

[47] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.

[48] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, page B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is absent from the narrative where the City's property tax levy is described.[49]

Chicago Public Schools

There is an intergovernmental agreement between the City of Chicago and the Chicago Public Schools through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was entered into on October 1, 1997 and has been used to fund and refund several bond issuances.[50] The City is taking on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority, which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and will end operations once all outstanding debt is discharged in 2009.[51]

According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds will increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million through 2018.[52]

The intergovernmental agreement is not mentioned anywhere in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates. The City's financial statements refer to it only in the property tax statistics, from which the property taxes for the "School Building and Improvement Fund" are explicitly excluded.[53] The City also issued over $356 million in new bonds to finance its "Modern Schools Across Chicago" school construction program in 2007.[54]

The pie chart below illustrates the distribution of the City's total proposed property tax levy for 2010 (taxes payable in 2011). Approximately 4.4% of the City's proposed FY2010 property tax levy is for City Colleges bonds, and 9.3% is for the Library. Roughly 42.1% is dedicated to pension payments and 44.2% of the levy is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the Chicago Public Schools are included in this latter amount but are not itemized. The total City levy is $833.5 million.

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[49] The City Colleges levy appears in the City's FY2010 Budget Recommendations book (page 31) but is absent from the property tax discussion on page 44 of the Overview and Revenue Estimates book.

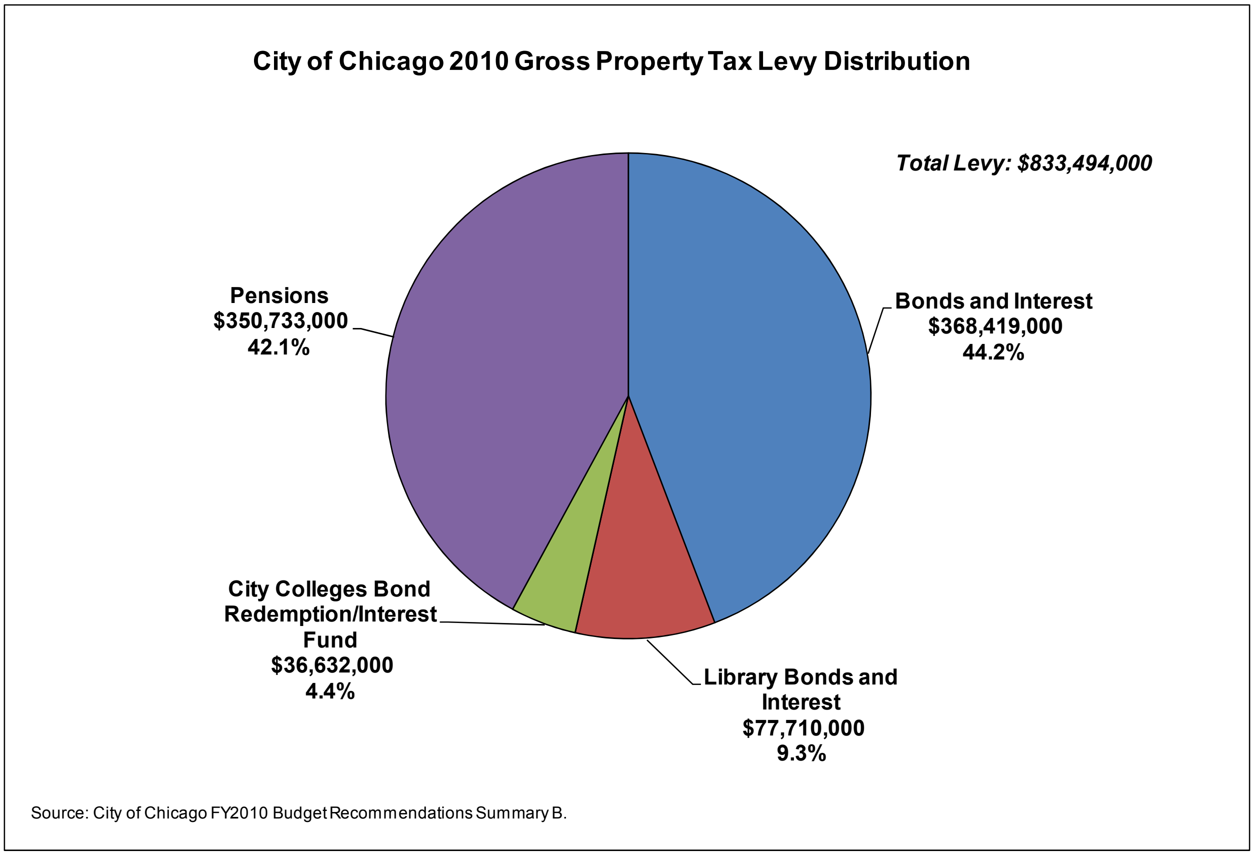
[50] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, page 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf . See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pages 57, 58, 155.

[51] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pages 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf.

[52] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, page 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf .

[53] City of Chicago Comprehensive Annual Financial Report for the Year Ended December 31, 2008, page 136.

[54] City of Chicago Comprehensive Annual Financial Report for the Year Ended December 31, 2007, page 26.



Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for Tax Increment Financing districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are currently 160 TIFs in Chicago according to the City's Department of Community Development web site.[55]

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[56] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2008 rates, payable in the autumn of 2009.[57] For tax year 2008, Chicago TIFs generated $495.6 million, up from $386.5 million in 2005 but a decline from 2007 due to the expiration of the Central Loop TIF.[58]

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[55] City of Chicago Department of Community Development web site, TIF District FAQ's, navigate from www.cityofchicago.org, visited October 23, 2009.
[56] See *Tax Increment Financing (TIF): A Civic Federation Issue Brief*, http://www.civicfed.org/articles/civicfed_260.pdf
[57] At the time of publication, the Cook County Clerk had not yet released the data on 2008 TIF values.
[58] Cook County Clerk 2006 and 2007 TIF Reports. See http://www.cookctyclerk.com/sub/TIF.asp

This revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[59]

When TIF revenue is added to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs), the City's 2008 property tax revenues totaled over $1.3 billion. This was an increase of $223.4 million over FY2005.

City of Chicago FY2005 - FY2008 Gross Property Tax Levy and TIF Revenue

Fund #	Fund Name	FY2005	FY2006	FY2007	FY2008
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 713,452,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fund	$ 5,729,000	$ 5,729,000	$ 33,509,000	$ 36,632,000
	TIF Property Tax Revenues	$ 386,502,771	$ 500,369,348	$ 555,310,568	$ 495,590,381
	GRAND TOTAL*	**$1,105,683,771**	**$ 1,219,550,348**	**$ 1,302,271,568**	**$ 1,329,084,381**

Source: City of Chicago Budgets FY2005-FY2007 Recommendations Summary "B", City of Chicago FY2008 Appropriations Ordinance Summary "B", Cook County Clerk Tax Agency Reports 2005-2008, and Clerk TIF reports 2006-2008

Transparency and Accountability Issues

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

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes a pie chart showing the distribution of the City of Chicago tax bill among the different governments,[60] and the City of Chicago reprints that pie chart in its own Overview and Revenue Estimates section of the annual budget. The 2008 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 21.4% of a typical City property tax bill is for the City of Chicago, including the Library, and 53.8% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments.

There is also a discrepancy between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The two tables below show the City's 2005-2008 levies as reported by City Budget Appropriation Ordinances and by the Cook County Clerk. The roughly $9 million to $20 million differences each year in the total levy may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports.

[59] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[60] Cook County Clerk 2008 Tax Rate Report, page v. http://www.cookcountyclerk.com/upload/news_235.PDF

City of Chicago Gross Property Tax Levy: Tax Year 2005-2008 As Reported in the City of Chicago Appropriation Ordinances					
Fund #	**Fund Name**	**2005**	**2006**	**2007**	**2008**
509	Note Redemption and Interest Fund	$ 11,441,000	$ 12,378,000	$ -	$ -
510	Bond Redemption and Interest Fund	$ 307,220,000	$ 311,366,000	$ 345,782,000	$ 373,216,000
512	Note Redemption and Interest Fund	$ 16,208,000	$ 12,715,000	$ 3,867,000	$ -
516	Library Bond Redemption Fund	$ 1,111,000	$ -	$ -	$ 4,347,000
521	Library Note Redemption and Interest Fund	$ 53,404,000	$ 34,737,000	$ 29,103,000	$ 73,363,000
681	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000	$ 131,344,000
682	Laborers' Pension	$ -	$ -	$ -	$ 9,526,000
683	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000	$ 139,640,000
684	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000	$ 65,426,000
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 713,452,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fund	$ 5,729,000	$ 5,729,000	$ 33,509,000	$ 36,632,000
	GRAND TOTAL	**$ 719,181,000**	**$ 719,181,000**	**$ 746,961,000**	**$ 833,494,000**

Source: City of Chicago Appropriations FY2005-FY2009. The levy for Special Service Area #1 is excluded.

City of Chicago Gross Property Tax Levy: Tax Year 2005-2008 As Reported in the Cook County Clerk Agency Tax Rate Reports					
Fund #	**Fund Name**	**2005**	**2006**	**2007**	**2008**
3	Bonds & Interest	$ 331,938,289	$ 335,910,594	$ 400,728,571	$ 411,108,080
120	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000	$ 139,640,000
121	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000	$ 65,426,000
122	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000	$ 125,644,000
125	Laborers Pension	$ -	$ -	$ -	$ 9,526,000
289	Note Redemption & Interest Fund	$ 16,208,000	$ 12,715,000	$ 3,867,000	$ -
319	1998 Equipment Notes	$ 11,441,052	$ 12,377,894	$ -	$ -
	Subtotal City	**$ 683,655,341**	**$ 703,259,488**	**$ 739,295,571**	**$ 751,344,080**
3	Bonds & Interest	$ -	$ -	$ -	$ 3,049,661
128	Library Municipal Pension	$ -	$ -	$ -	$ 5,700,000
259	Library Note Redemption	$ 53,404,000	$ 34,737,000	$ 29,103,000	$ 73,363,000
	Subtotal Library	**$ 53,404,000**	**$ 34,737,000**	**$ 29,103,000**	**$ 82,112,661**
	GRAND TOTAL City + Library	**$ 737,059,341**	**$ 737,996,488**	**$ 768,398,571**	**$ 833,456,741**

Note: Funds for which there were no levies in these years are excluded.
Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund

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

The fact that TIF does not appear on property tax bills is also problematic because property taxpayers do not see the millions of dollars collected by TIF districts represented on their bills. As explained in the Civic Federation's 2007 position paper and issue brief on TIF, property taxpayers both within and outside of TIF districts ultimately pay for TIF.[61] The nature of TIF revenue calculation makes presenting accurate information about TIF on individual property tax bills extraordinarily difficult if not impossible. Nonetheless, it is critical that taxpayers be provided with more information about TIF on their tax bills. The Civic Federation at this time recommends that all tax bills include a statement that says, "By agreement among the taxing bodies, a portion of taxes paid are allocated to TIF districts." This would acknowledge that some revenues are in fact allocated to TIF and that all taxpayers, both within and outside of TIF

[61] Civic Federation, "Tax Increment Financing (TIF): A Civic Federation Position Statement," November 12, 2007, http://www.civicfed.org/articles/civicfed_261.pdf and "Tax Increment Financing (TIF): A Civic Federation Issue Brief," November 12, 2007, http://www.civicfed.org/articles/civicfed_260.pdf .

districts, do pay for TIF. We have also recommended that the bill include a link to a page on the County Clerk's Web site that explains how TIF impacts taxpayers regardless of where they live. A link to the Clerk's TIF web site is now printed on the back of tax bills.[62]

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

Corporate Fund personal service appropriations are projected to increase by $0.6 million in FY2010, a 0.02% increase over the FY2009 budget amount.

City of Chicago Corporate Fund Appropriations For Personal and Non-Personal Services: FY2009 & FY2010				
	FY2009	FY2010	$ Change	% Change
Personal Services	$ 2,626,158,687	$ 2,625,556,984	$ (601,703)	0.0%
Non-Personal Services	$ 561,813,313	$ 587,688,016	$ 25,874,703	4.6%
Total	**$ 3,187,972,000**	**$ 3,213,245,000**	**$ 25,273,000**	**0.8%**

Source: City of Chicago FY2009 Budget Recommendations, p. 5; FY2010 Budget Recommendations, p. 5.

Between FY2006 and FY2010 personal service appropriations in the Corporate Fund will increase by 8.4%, from approximately $2.4 billion to $2.6 billion. This represents a $203.1 million rise. The percentage of Corporate Fund appropriations earmarked for personal services declined by 0.4% over the five-year period.

City of Chicago Corporate Fund Appropriations For Personal Services: FY2006 & FY2010				
	FY2006	FY2010	$ Change	% Change
Personal Services	$ 2,422,426,484	$ 2,625,556,984	$ 203,130,500	8.4%
% of Corporate Fund	82.1%	81.7%		

Source: City of Chicago FY2006 Budget Recommendations, p. v; FY2010 Budget Recommendations, p. 5.

For FY2010 the City of Chicago recommends funding 36,900 full time equivalent (FTE) positions. This represents a decrease of 1.4% or 532 positions from the number of FTEs in the FY2009 proposed budget. The greatest number of positions reduction will occur in the area of Streets and Sanitation, which will eliminate 530 FTE positions for a decrease of 16.9%. The program area of Public Safety will see a reduction of 15 FTEs, representing a 0.1% decrease. The totals for full-time equivalents were obtained from the *City of Chicago FY2010 Program & Budget Summary* – these totals are larger than those reported in the *FY2010 Budget Overview and Revenue Estimates* because they include positions funded by grants.

[62] See Cook County Clerk David Orr's 2007 TIF report Executive Summary, page 3 at http://www.cookctyclerk.com/pdf/2007%20Executive%20Summary.pdf .

Full-Time Equivalent Positions by Agency: FY2009 & FY2010				
Agency	**FY2009 Recommended**	**FY2010 Recommended**	**# Change**	**% Change**
Finance & Administration	2,857	2,837	(20)	-0.7%
Legislative & Elections	357	357	0	0.0%
City Development	305	245	(60)	-19.7%
Community Services	3,240	3,065	(175)	-5.4%
Public Safety	22,338	22,323	(15)	-0.1%
Regulatory	840	828	(12)	-1.4%
Streets & Sanitation	3,138	2,608	(530)	-16.9%
Transportation	723	1,022	299	41.4%
Public Service Enterprises	3,634	3,615	(19)	-0.5%
Total	**37,432**	**36,900**	**(532)**	**-1.4%**

Source: City of Chicago FY2009 and FY2010 Budget Program and Budget Summary.

During the five-year period from FY2006 to FY2010, there has been an 8.5% reduction in the level of total full-time equivalent positions. This is a reduction of 3,412 FTE positions, from the 40,312 FTE positions budgeted in FY2006 to the 36,900 FTE positions recommended for FY2010.

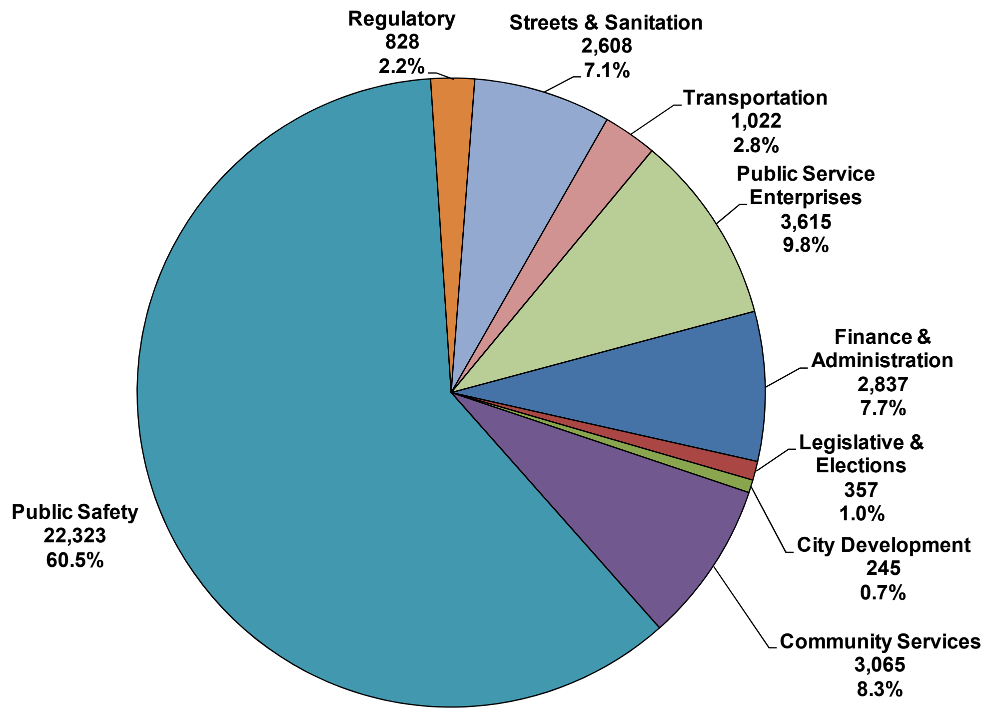
Over this five-year period, there has been a trend of reduction in all nine program areas except for the area of Transportation. The greatest unit decreases occurred in the areas of Community Services, Public Service Enterprises and Streets & Sanitation, which experienced reductions of 870 FTE positions, 500 FTE positions and 969 FTE positions, respectively. Finance and Administration, City Development and Public Safety program areas all experienced reductions greater than 300 FTEs. The program area of Transportation has increased by 160 FTEs since FY2006, rising to 1,022 FTEs in FY2010 from 862 in FY2006. The greatest percentage declines for the years between FY2005 and FY2009 were in the program areas of City Development and Streets and Sanitation, which saw decreases of 59.2% and 27.1%, respectively.

Full-Time Equivalent Positions by Agency: FY2006 & FY2010				
Agency	**FY2006 Recommended**	**FY2010 Recommended**	**# Change**	**% Change**
Finance & Administration	3,197	2,837	(360)	-11.3%
Legislative & Elections	371	357	(14)	-3.8%
City Development	601	245	(356)	-59.2%
Community Services	3,935	3,065	(870)	-22.1%
Public Safety	22,640	22,323	(317)	-1.4%
Regulatory	1,014	828	(186)	-18.3%
Streets & Sanitation	3,577	2,608	(969)	-27.1%
Transportation	862	1,022	160	18.6%
Public Service Enterprises	4,115	3,615	(500)	-12.2%
Total	**40,312**	**36,900**	**(3,412)**	**-8.5%**

Source: FY2006 and FY2009 City of Chicago Program and Budget Summary.

Approximately 60.5% of all budgeted FTE positions in the proposed FY2010 budget are in the area of Public Safety. The next largest percentages are in the categories of Public Service Enterprises and Community Services, at 9.8% and 8.3%, respectively.

City of Chicago Full-Time Equivalent Personnel by Agency: FY2010



Source: City of Chicago FY2010 Program and Budget Summary

PENSION TRENDS

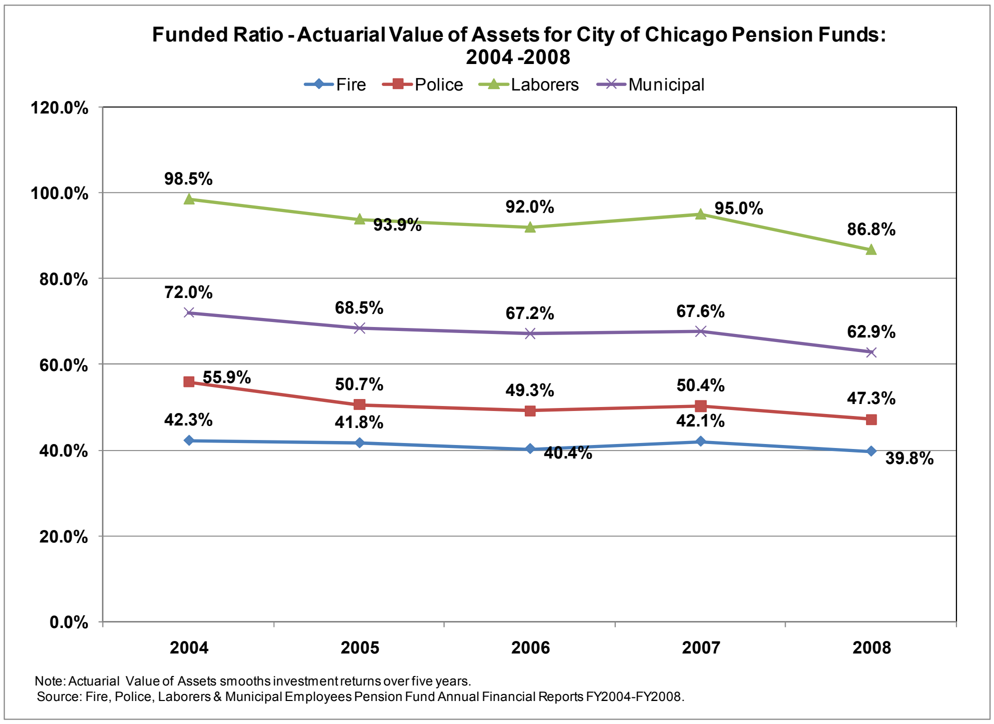
The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborer's Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds' fiscal health: funded ratios, the value of unfunded liabilities, and the investment rate of return.

Funded Ratios – Actuarial Value of Assets

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

The funded ratios of all four City pension funds decreased in FY2008. The Fire Fund in FY2008 reported a funded ratio of 39.8%, while the Police Fund's funded ratio fell to 47.3% in FY2008. The funded ratio for the Municipal Fund totaled 62.9% in FY2008. The Laborers Funds funded ratio totaled 86.8% in FY2008.[63] The Fire and Police Pension Funds continue to be a serious cause for concern as they are well below levels considered financially sustainable.

The decrease in the funded ratios across all city pension funds was expected in light of the recent stock market decline and accompanying recession. However, the data below is smoothed over five years, thereby reducing the impact of the recession on the actuarial value funded ratio. Only 20% of 2008 data is reflected below, thereby not fully reflecting the impact of the recession on the City's pension funds. The Fire and Police Pension Funds continue to be a serious cause for concern as they are well below levels considered financially healthy.

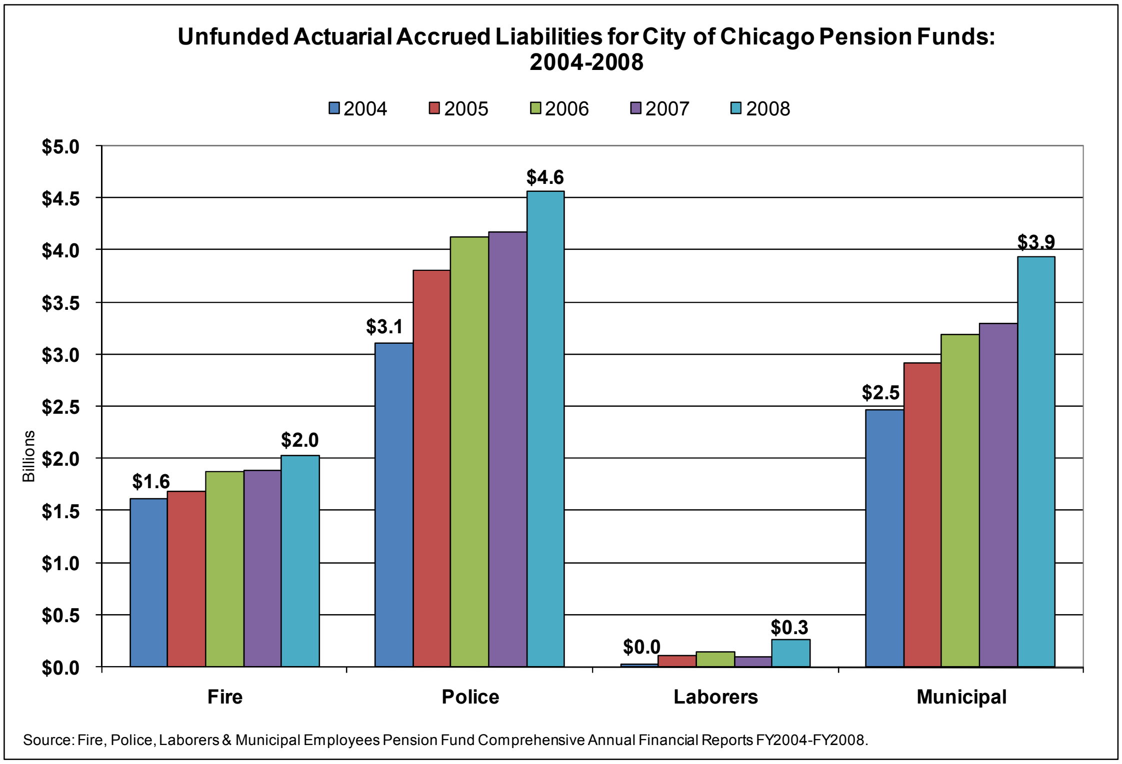


Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2004 and FY2008, actuarial unfunded liabilities for the City's pension funds increased by 49.6% or nearly $3.6 billion, from $7.2 billion to $10.8 billion. A summary of the five-year changes in unfunded liabilities is shown below:

- Fire Pension Fund: 25.0% increase, from $1.6 million to $2.0 billion;
- Police Pension Fund : 48.4% increase, from $3.1 billion to $4.6 billion;
- Laborers Pension Fund: a change from $0.0 million to $0.3 billion,[64] and
- Municipal Pension Fund: 56.0% increase, from $2.5 billion to $3.9 billion.

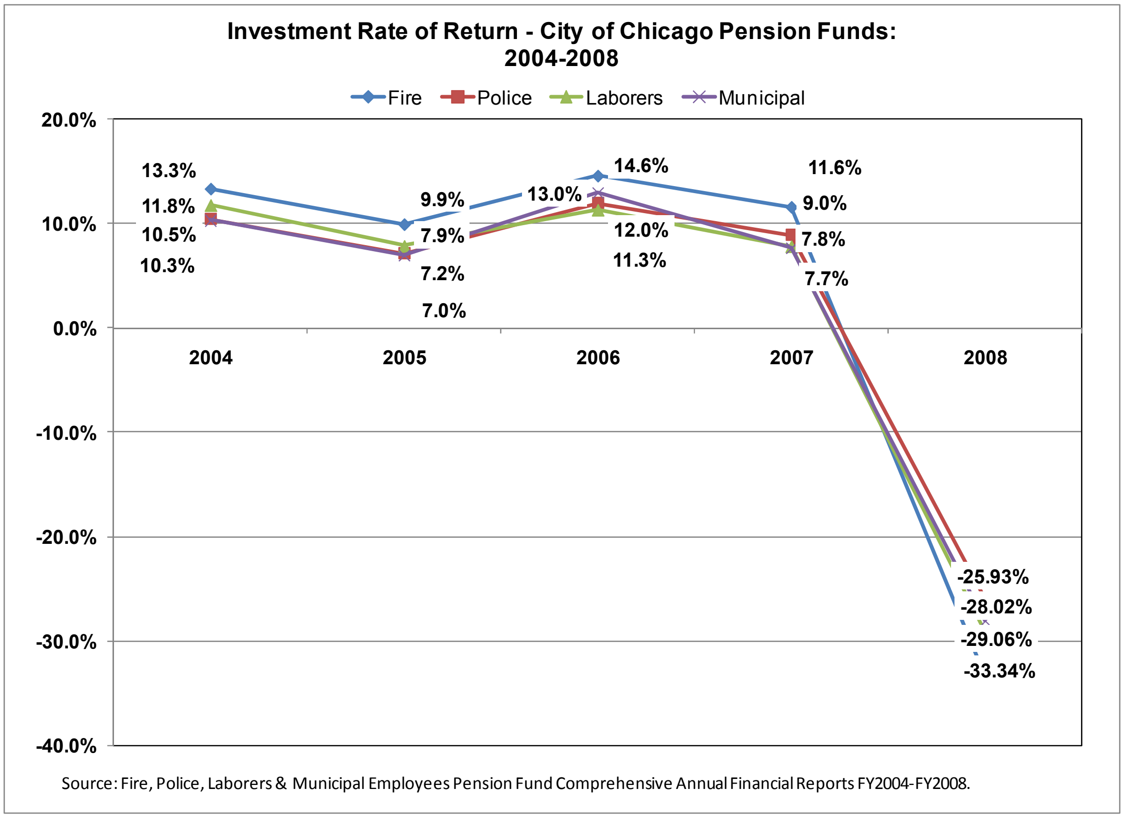
[63] Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2008.
[64] The Laborers Fund had a surplus, or negative unfunded liability, until FY2004.



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

Investment Rates of Return

In FY2008, all four City pension funds reported negative rates of return on investments. The lowest rate of return was reported by the Fire Fund at -33.3%. The Police Fund reported a -25.9% rate of return, the Laborers Fund -29.1% and the Municipal Fund -28.2%.



OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administers a retiree benefit healthcare plan under which it pays a share of the expenses on a pay as you go basis. The City's obligation to pay these costs expires as of June 30, 2013.[65] The four City of Chicago pension funds, Fire, Police, Municipal, and Laborers, all subsidize the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The funds provide $85 per month for non-Medicare eligible annuitants and $55 per month for Medicare eligible annuitants.[66] The City's contribution is roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal, and Laborers' pension funds each contribute roughly 33% of the annuitant contribution, effectively subsidizing 12% of the total premium cost.[67] The terms of the obligation were approved by a court ordered settlement agreement.[68]

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[65] City of Chicago FY2008 Comprehensive Annual Report, p. 85.

[66] These amounts were in effect from July 1, 2003 to June 30, 2008. Between July 1, 2008 and June 30, 2013, the amounts will increase to $95 for non-Medicare eligible and $65 for Medicare-eligible annuitants. See for example, Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report as of December 31, 2007, p. 68.

[67] Specifically, the pension funds provide subsidies of $85 per month for non-Medicare eligible annuitants and $55 per month for Medicare eligible annuitants. See for example the Policemen's Annuity and Benefit Fund of Chicago *Actuarial Valuation Report as of December 31, 2006*, p. 52. Cost allocation estimates provided to The Civic Federation by Sulan Tong, City of Chicago, March 6, 2009.

[68] City of Chicago FY2008 Comprehensive Annual Report, p. 85.

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree health care plan totaled $1.5 billion in FY2008. As described above, the City pays for a portion of the retiree health care premiums, but the pension funds also subsidize part of the employee portion of the premium. The following table shows the unfunded accrued actuarial liability reported for each pension fund, reflecting the obligations of each fund based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, so only the total $1.0 billion City obligation is shown. The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%.

City of Chicago OPEB Unfunded Liabilities: FY2008 (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Unfunded Actuarial Accrued Liability--Pension Funds	$ 222,691	$ 42,064	$169,972	$ 47,309	**$ 482,036**
Unfunded Actuarial Accrued Liability--City					**$ 1,062,864**
TOTAL					**$ 1,544,900**

Source: Chicago FY2008 CAFR, pp. 85, 87.

RESERVE FUNDS

Between FY1998 and FY2008, City of Chicago Corporate Fund unreserved fund balance dropped from $177.2 million to just $226,000. The fund balance ratio plummeted from 8.1% to 0.01%.

The City of Chicago's fund balance figures are far below the amount recommended by the Government Finance Officers Association (GFOA). GFOA recommends that general purpose governments establish a general fund balance of 5 to 15 percent of regular general fund operating revenues or expenditures.[69] A Corporate Fund reserve of 5% of Corporate Fund expenditures would have required approximately $155.3 million in FY2008. This is over $155.1 million more than what the City reported in FY2008.

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

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

Corporate Fund Balance Ratio (FY1998-FY2008)			
	Unreserved, Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY1998	$ 177,254,000	$ 2,167,894,000	8.18%
FY1999	$ 108,107,000	$ 2,288,518,000	4.72%
FY2000	$ 80,653,000	$ 2,380,310,000	3.39%
FY2001	$ 33,241,000	$ 2,440,426,000	1.36%
FY2002	$ 13,014,000	$ 2,442,796,000	0.53%
FY2003	$ 19,458,000	$ 2,661,102,000	0.73%
FY2004	$ 42,246,000	$ 2,567,658,000	1.65%
FY2005	$ 57,648,000	$ 2,739,570,000	2.10%
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY1998-FY2008

SHORT TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago reported very little short-term debt but did include the following short-term liabilities in the report of net assets in its annual Comprehensive Annual Financial Report (CAFR) for FY2008, which is the most recent financial statement released by the City:[70]

- Accounts Payable: monies owed to vendors for goods and services carried over into the new fiscal year;
- Short-Term Debt: loans taken out in anticipation of revenues paid back within 12 months or less;
- Accrued Interest: includes interest due on deposits payable by the City in the next fiscal year;
- Unearned Revenue: revenues not collected from the previous fiscal year;
- Accrued & Other Liabilities: include self insurance funds, unclaimed property and other unspecified liabilities.

In FY2008 the City's short-term liabilities increased by $118.3 million from the previous year or 9.7%. Since 2004, short-term liabilities have increased by $301.7 million or 28.9%. The following chart shows short-term liabilities by category and the percent change between FY2004 and FY2008.

[70] City of Chicago CAFR FY2008, p. 29.

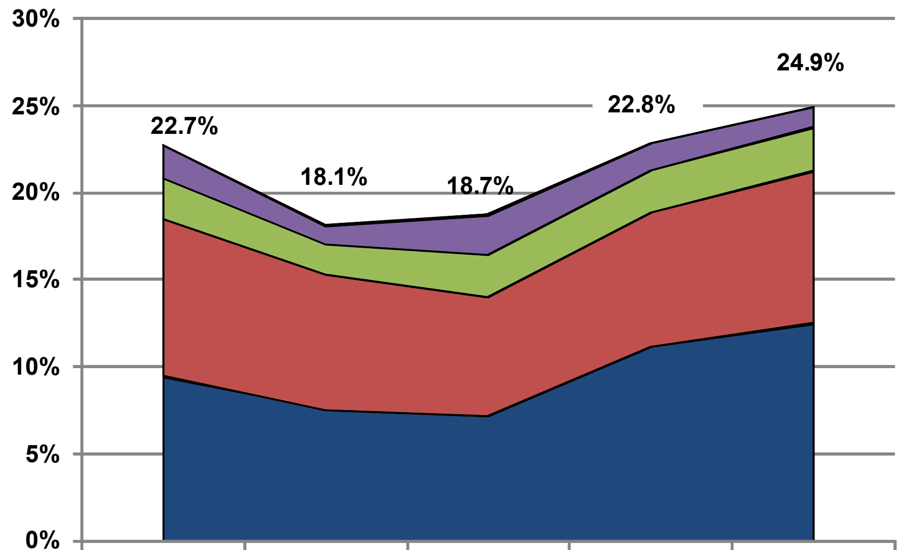
City of Chicago Short-Term Liabilities: FY2004 - FY2008 (in $ thousands)							
Type	FY2004	FY2005	FY2006	FY2007	FY2008	5-Year Change	5-Year % Change
Accounts Payable	$ 412,704	$ 374,814	$ 349,039	$ 413,388	$ 469,214	$ 56,510	13.69%
Short-Term Debt	$ 747	$ 747	$ 747	$ 672	$ 672	$ (75)	-10.04%
Accrued Interest	$ 109,323	$ 87,256	$ 127,796	$ 127,183	$ 135,152	$ 25,829	23.63%
Accrued & Other Liabilities	$ 434,685	$ 367,726	$ 371,682	$ 599,197	$ 674,492	$ 239,807	55.17%
Unearned Revenue	$ 84,911	$ 48,304	$ 114,650	$ 85,326	$ 64,518	$ (20,393)	-24.02%
Total	**$1,042,370**	**$ 878,847**	**$ 963,914**	**$1,225,766**	**$ 1,344,048**	**$ 301,678**	**28.94%**

Source: City of Chicago CAFR, FY2004-FY2008, p. 29.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[71] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The City of Chicago has shown a slight increase in this trend of short-term liabilities compared to total operating revenue between FY2004 and FY2008 from 22.7% to 24.9%. The following graph shows the five-year trend in the City's short-term liabilities by category.

[71] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2004-FY2008



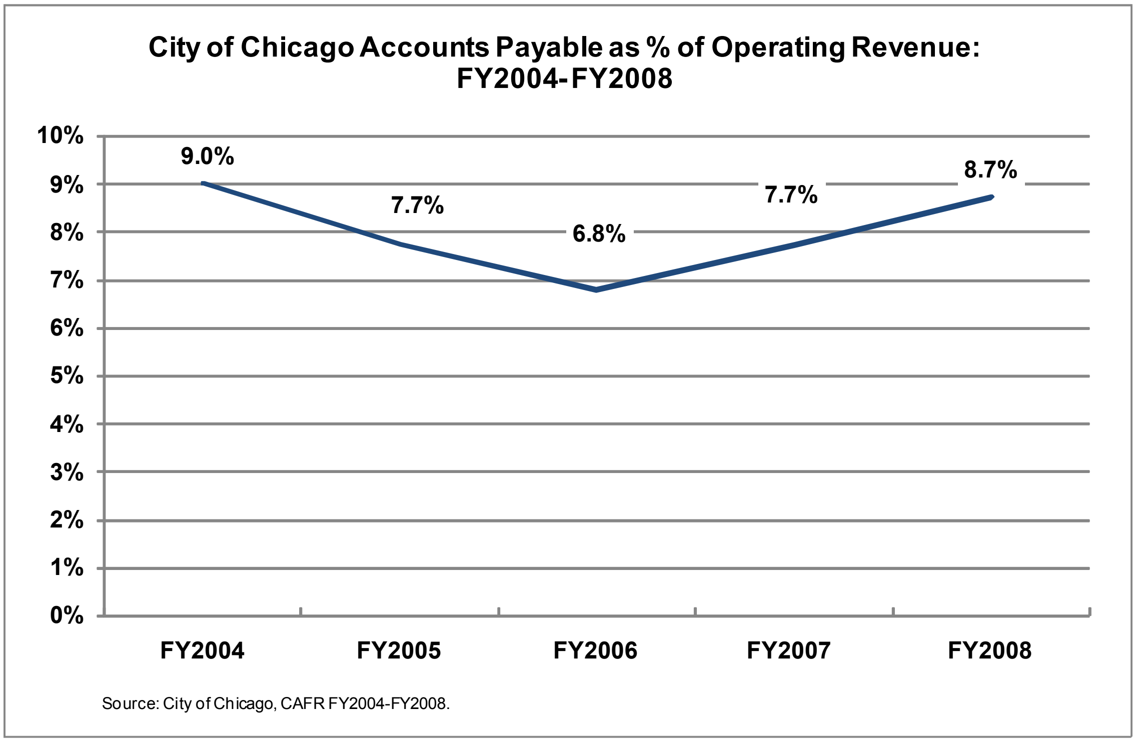
	FY2004	FY2005	FY2006	FY2007	FY2008
Short-Term Debt*	0.02%	0.02%	0.01%	0.01%	0.01%
Unearned Revenue	1.8%	1.0%	2.2%	1.6%	1.2%
Accrued Interest	2.4%	1.8%	2.5%	2.4%	2.5%
Accounts Payable	9.0%	7.7%	6.8%	7.7%	8.7%
Accrued & Other Liabilities	9.5%	7.6%	7.2%	11.2%	12.5%

Source: City of Chicago ,CAFR FY2004-FY2008.
*Short-Term Debt proportion is too small (less than 1/10th of 1%) to be visible on this chart but included in the data table.

Although overall this ratio has only increased by 1.2% between FY2004 to FY2008 the upward trend in recent years, driven primarily by increases in Accrued and Other Liabilities and Accounts Payable, warrants watching.

Accounts Payable

Over time, rising amounts of accounts payable may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The City of Chicago's ratio of accounts payable to operating revenues has remained mostly stable over the past five years and is slightly lower in FY2008 than it was in FY2004, dropping from 9% to 8.7%. The following graph shows the City's ratio of accounts payable to operating revenue over this time frame.



Although the overall decrease in the City's proportion of accounts payable is a positive trend the gradual increase over FY2006, FY2007 and FY2008 should be watched for signs of increase strain on Chicago's revenues compared to expenditures. The average ratio has been 7.8% over the last five years.

LONG-TERM DIRECT DEBT TRENDS

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

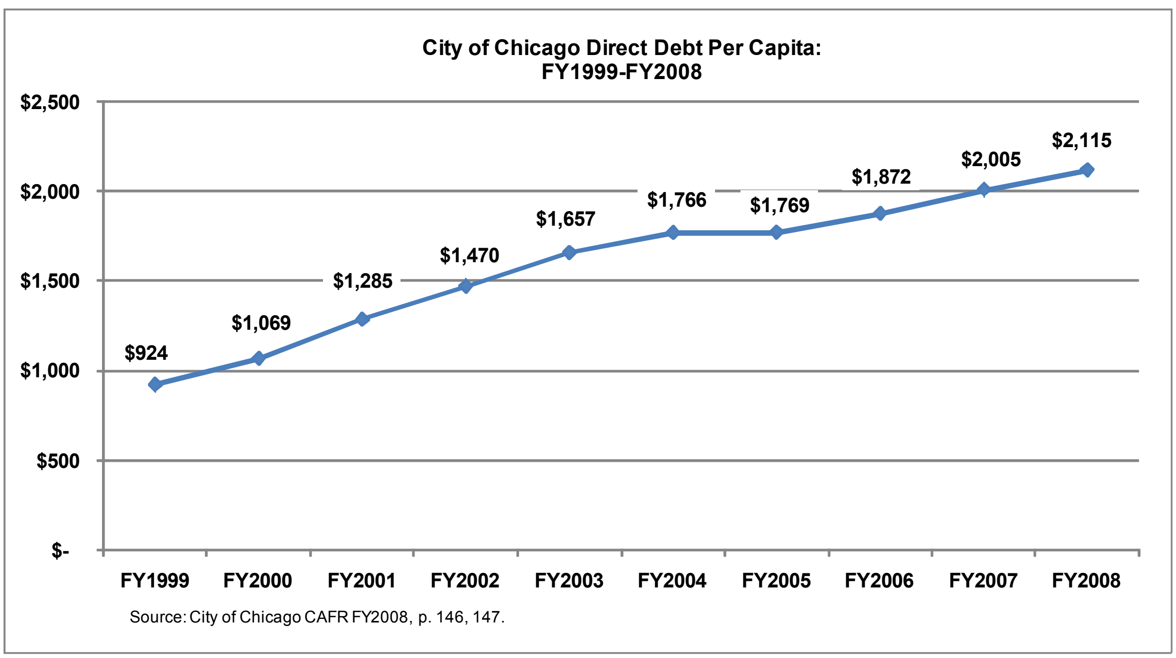
The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 138.2% or $3.6 billion. This represents an increase from $2.6 billion in FY1999 to approximately $6.1 billion in FY2010. During the five-year period between FY2004 and FY2008, net direct debt rose by 19.8% or $1.0 billion.

City of Chicago Direct Debt: FY1999-FY2008		
FY1999	$	2,571,412,000
FY2000	$	3,094,839,000
FY2001	$	3,722,403,000
FY2002	$	4,257,256,000
FY2003	$	4,798,541,000
FY2004	$	5,113,565,000
FY2005	$	5,123,729,000
FY2006	$	5,422,232,000
FY2007	$	5,805,921,000
FY2008	$	6,126,295,000
$ Change	**$**	**3,554,883,000**
% Change		**138.2%**

Source: City of Chicago CAFR FY2008, pp.146-147.

Long-Term Net Direct Debt Per Capita

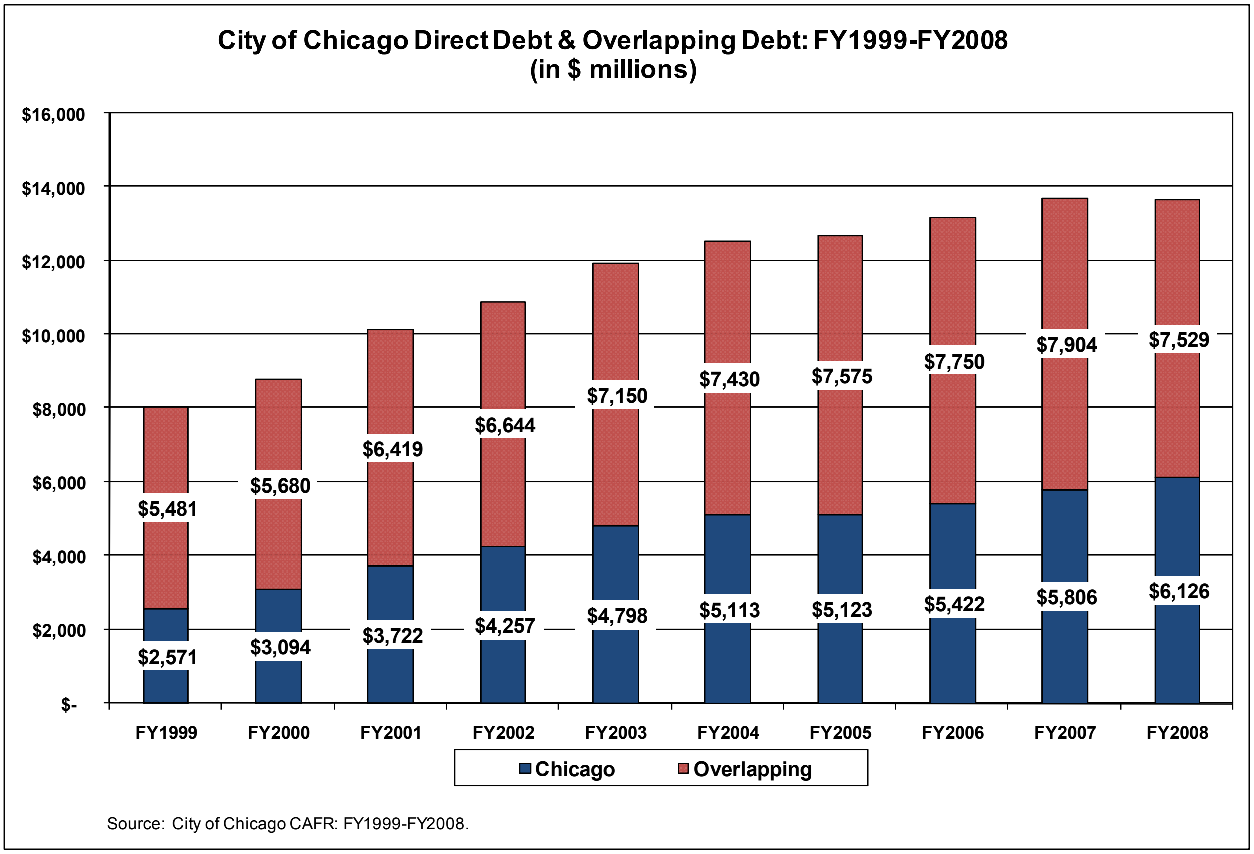
A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the past five years, between FY2004 and FY2008, direct debt per capita rose by 19.8% from $1766 to $2115. This upward trend comes amidst a ten-year increase in the City of Chicago's debt per capita of 181.8%, which totals a $1,365 increase. The following chart shows the trend in the City of Chicago's direct debt per capita over the last decade.



This sharp upward trend in debt per capita over between FY1999 and FY2008 is cause for concern for the City of Chicago, which threatens to reduce its credit rating making borrowing more expensive and could limit available capacity for additional borrowing.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY1999 and FY2008, overlapping debt from other governments combined increased by 37.4% at the same time City of Chicago debt rose by 138.3%. Total debt from all eight major governments rose by 69.6%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other governments in the region.



Debt Service Appropriations

Debt service appropriations in FY2010 are projected to be 20.2% of total appropriations, or $1.2 billion out of expenditures totaling $6.1 billion. This figure is high, as the rating agencies consider a debt burden high if this ratio is between 15% and 20%. The debt service to total appropriation ratio increased in FY2010 to 20.2%, from 18.9% in FY2009.

City of Chicago Debt Service Appropriations: FY2006-FY2010			
	Debt Service	Total Appropriation	Ratio
FY2006	$ 895,752,246	$ 5,247,120,808	17.1%
FY2007	$ 1,105,073,826	$ 5,668,719,000	19.5%
FY2008	$ 1,160,340,262	$ 5,918,287,000	19.6%
FY2009	$ 1,127,795,840	$ 5,967,201,000	18.9%
FY2010	$ 1,241,164,403	$ 6,139,590,000	20.2%

Source: City of Chicago Program and Budget Summaries: FY2006-FY2010, General Financing Requirements (FY2008) p. 275.

Bond Ratings

As of December 31, 2008, the three major rating agencies have awarded various City of Chicago bond issues high credit ratings, reflecting the agencies' confidence in the financial management of the government. Credit ratings, which in some cases were downgraded and others upgraded by the agencies in FY2008, are highlighted in the comprehensive chart below, which includes all of the City's General Obligation and Revenue bonds. The most recent change was the reduction in Motor Fuel Tax rating from A+ to A- by Fitch, a two level drop based on the deterioration of the State of Illinois General Obligation Bond Rating.

City of Chicago Credit Ratings (12/31/08)									
	Moody's	Moody's	Moody's	S&P	S&P	S&P	Fitch	Fitch	Fitch
Rating Agency	**FY2007**	**FY2008**	**FY2009***	**FY2007**	**FY2008**	**FY2009***	**FY2007**	**FY2008**	**FY2009***
General Obligation									
City	Aa3	Aa3	Aa3	AA-	AA-	AA-	AA	AA	AA
Revenue Bonds									
O'Hare Airport									
First Lien	Aa3	Aa3	Aa3	AA	AA	AA	AA+	AA+	AA+
Second Lien	A1	A1	A1	A+	**AA-**	AA-	AA	AA	AA
Third Lien	A1	A1	A1	A-	A-	AA-	A	A	A
First Lien PFC	A1	A1	A1	A	A	A	A+	A+	A+
Midway Airport									
First Lien	A2	A2	A2	A	A	A	A+	A+	A+
Second Lien	A3	A3	A3	A-	A-	A-	A	A	A
Water									
First Lien	Aa3	Aa3	Aa3	AA-	**AA**	AA	AA+	AA+	AA+
Second Lien	A1	A1	A1	A+	**AA-**	AA-	AA	AA	AA
Wastewater									
First Lien	n/a	n/a	n/a	n/a	**AA-**	AA-	n/a	n/a	n/a
Junior Lien	A2	A2	A2	A	**A+**	A+	AA-	AA-	AA-
Sales Tax	Aa3	Aa3	Aa3	AAA	AAA	AAA	AA-	**AA**	AA
Motor Fuel Tax	A2	**A1**	A1	AA+	AA+	AA+	A+	A+	**A-**

Source: *City of Chicago CAFR: FY2007-FY2008*, p. 27.

*City of Chicago Underlying Ratings, October 2009, http://egov.cityofchicago.org/webportal/COCWebPortal/COC_EDITORIAL/Ratings10-14-09.pdf

CAPITAL PROGRAM

The City of Chicago published a comprehensive five-year capital improvement plan (CIP) in FY2008. The City made available a new five-year list of capital projects in the summer of FY2009 totaled $6.8 billion of which $1.7 billion was allocated in FY2009.[72] This is a reduction of $1.1 billion from the capital allocation by the City in FY2008 or a drop of 38.0%. The FY2009 appropriation included in the draft CIP is $226 million more than the originally approved spending for the year in the FY2008-FY2013 CIP.[73] The FY2010 budget does not include an estimate of projects to be allocated in FY2010, which totaled $1.4 billion in the approved CIP.

Chicago's capital funding is 76.7 % debt funded, the remainder is provided by City funds, State funds, Federal funds, Tax Increment Financing proceeds and other sources for pay-as-you-go projects.[74] The City plans to borrow an additional $325 million[75] in general obligation bonds to fund capital expenditures in the coming fiscal year.

City of Chicago Capital Program FY2008-FY2012 Funding Sources (in $ millions)

Source	Total	%
Bond Funds	$ 5,541.2	82.2%
Federal Funds	$ 531.4	7.9%
City Funds	$ 263.7	3.9%
State Funds	$ 245.5	3.6%
TIF Funds	$ 110.6	1.6%
Other Funds	$ 50.6	0.8%
Total	**$ 6,743.6**	**100.0%**

Source: City of Chicago Capital Program FY2008-FY2010, p. 1.

SUPPLEMENTAL RESEARCH

The Civic Federation has composed the following three data sections this year to inform its position on the City of Chicago FY2010 Recommended Budget.

Economic recession

The City of Chicago, along with the entire United States, is in the midst of one of the worst economic recessions in seventy years. December 2007 marked the beginning of the current economic recession. Although markets have begun to recover, the National Bureau of Economic Research has not yet made an official statement regarding whether the recession has ended.

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[72] City of Chicago Draft Capital Improvement Program 2009-2013, p. 156. http://egov.cityofchicago.org/webportal/COCWebPortal/COC_ATTACH/2009CIPdraft.pdf.

[73] City of Chicago Capital Improvement Program 2008-2012, p. 42. http://egov.cityofchicago.org/webportal/COCWebPortal/COC_ATTACH/CIP_2008_2012.PDF.

[74] City of Chicago Capital Improvement Program 2008-2012, p. 15. http://egov.cityofchicago.org/webportal/COCWebPortal/COC_ATTACH/CIP_2008_2012.PDF.

[75] Communication between the Civic Federation and the City of Chicago Office of Budget and Management, November 13, 2009.

The recession affected the City of Chicago with both double-digit unemployment rates and declining government revenues. The unemployment rate for the U.S. was 10.0%, while the State of Illinois' rate was 10.5%. When looking at the five most populated U.S cities, Chicago's unemployment rate of 12.1% in June 2009 was only surpassed by Los Angeles, with its 12.5% unemployment rate. Chicago is experiencing higher rates of unemployment than the nation as a whole.

Other large cities have experienced slightly less unemployment, including Philadelphia (10.4%), New York City (9.3%) and Houston (7.6%). Employment is expected to experience slower growth than financial markets. As a result, income, consumption, as well as tax revenues based on income and consumption, are not projected to grow in the near future.[76]

The predictions of slow tax revenue growth come after an already steep decline in economically-sensitive revenues during the past year. The following estimates are taken from the year-end FY2009 projections found in the City's FY2010 proposed budget. Year-end estimates for FY2009 Real Estate Transfer Tax revenues total $59.4 million. For FY2010 RETT revenue is projected to total $57.0 million, resulting in a $2.4 million decrease over last year's projected collections. Furthermore, the FY2010 RETT collections are projected to be less than half of the FY2008 collections.

Sales tax revenue will drop by $24.9 million, from FY2009 year-end projection of $485.3 million to $460.4 million in projected FY2010 revenues. State income tax/personal property replacement tax collections are projected to drop from FY2009 year-end projections of $277.1 million to $210.3 million in FY2010. This is a $66.9 million decrease and is primarily a result of the personal property replacement tax revenue FY2010 projection decreasing by 26.6% and also because an increased proportion of the revenue must be used to fund pension obligations in FY2010. These three taxes account for a revenue drop of $94.1 million.

Finally, public utility taxes and fees are projected to drop by $12.1 million, primarily due to natural gas use revenues declining by 14.6%.

Budget Reduction Proposals from Other U.S. Cities

The impact of the recession has affected the budgets of major cities across the United States. The Civic Federation compared the City of Chicago's FY2010 proposed budget with those of eight other major U.S. cities.[77]

Like the City of Chicago, four other cities' budgets proposed using reserve funds or surplus funds carried over from precious fiscal years. Seven cities proposed reducing personnel costs by employing one or a combination of the following methods: layoffs, hiring freezes, eliminating vacant positions or leaving vacancies unfilled. Three cities proposed employee furlough days or wage delays for union and non-union employees to reduce personnel costs.

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[76] Pew Center on the States, "Beyond California: States in Fiscal Peril" November 2009, p. 2.

[77] Proposed FY2010 budget information is presented for Seattle, New York, Boston, Washington D.C., Atlanta and New Orleans. Adopted FY2010 budget information is presented for Philadelphia and Houston.

Unlike Chicago’s budget, New York, Boston and Washington D.C.’s budgets proposed new fees. Additionally, New York increased its sales tax and Philadelphia employed temporary sales tax and property tax increases.

FY2010 Deficit Reduction Measures Amongst Selected Major U.S. Cities			
City	**FY2010 Operating Appropriation* (in $ millions)**	**FY2010 Deficit (in $ millions)**	**Deficit Reduction Measures**
Chicago	**$ 6,100.0**	**$ 520.0**	**Using $56 million in parking meter reserve funds; Cut $114 million in spending by cutting 220 vacancies, cutting non-personnel spending for contracts across the Board by 5% and other steps; implementing the agreements reached this year with both union and non-union personnel regarding work hours and furlough days for a saves of $73 million; 24 unpaid and furlough days for non-union employees; closing out two Tax Increment Financing district funds that are inactive or set to expire soon for a savings of $8 million**
Seattle	$ 3,900.0	$ 72.0	Library cutbacks; unpaid staff furloughs for union and non-union employees; transferring $30.6 million from the city's Revenue Stabilization Account into the General Fund; eliminating 300 jobs; salary freezes for city department heads; reductions of the city's vehicle fleet; utilizing most Real Estate Excise Tax (REET) revenues for asset preservation (major maintenance) of the City's capital facilities
New York	$ 59,400.0	$ 6,600.0	Workforce reduction of 13,500 positions; using more than $5 billion in surpluses saved from periods of economic growth; revenue enhancements, including a proposed sales tax increase of 0.5 percentage points and a new tax on consumer plastic bags; of $1.4 billion in combined savings and revenues generated by anticipated actions from the State and organized labor, including pension reform (creating a new Tier 5 pension plan) and health care cost reductions (10% increase in employee contribution)
Philadelphia	$ 3,800.0	$ 428.0	Additional employee overtime reduction: $2 million; Waste minimization efforts in the Streets Department: $2 million; Fleet reductions: $1.5 million; Energy efficiencies city-wide: $1.5 million; Staff reductions city-wide (approximately 250 positions): $11 million; Anticipated savings from pensions, health benefits, and work rule changes: $25 million; Increasing Fire Department EMS fees: $5 million; Enacting fees for commercial trash collection: $7 million; Instituting a utilization review process related to prescription medications: $1.125 million; Reducing demolitions by the Department of Licenses and Inspections: $2.1 million; Freezing civilian police hiring: over $700,000; Temporary 1% sales taxes increase in FY10-FY12: over $340 million from FY10-FY12; Temporary property tax increase of 16 mills in FY10 and 12 mills in FY11: over $270 million from FY10-FY11; and Changes in pension amortization assumptions: over $330 million from FY10-FY14
Boston	$ 2,400.0	$ 140.0	Wage delays for union and non-union employees and wage cuts for City's senior staff for a reduction of $8.7 million; position reductions; utilization of federal funds and reserves
Washington D.C.	$ 8,800.0	$ 913.0	$220 million in spending reductions; elimination of 1,600 positions; revenue enhancements totaling $185 million including: freezing tax deductions and exemptions previously indexed to regional consumer price index, new fees (street light maintenance fee, firm and television production fees, 911 fees, fees from the department of consumer affairs), increased parking meter fees, expanded traffic camera enforcement, and automation of parking tickets
Atlanta	$ 541.0	$ 56.0	Reducing employee headcount from 4,866 to 3,991; continues $10.1 million on non-personnel cuts from FY2009; re-amortization of defined benefit pension plans, reorganization of the jail, use of Restricted Reserve Funds of $27 million
Houston	$ 1,900.0	$ 103.0	Leaving vacancies unfilled; renegotiations with contractors; efficiencies in administrative functions; re-evaluation of appropriations at the middle of the fiscal year
New Orleans	$ 462.1	$ 67.7	10% cuts to city departments; 12-day furloughs for non-police and non-public safety employees; more stringent enforcement of parking and fee collections; continuing a hiring freeze imposed in FY2009; renegotiation of JazzLand Debt; reduction of non-essential services; move towards national averages in healthcare coverage

*Appropriations represent proposed opearting budget recommendations for selected cities except for Philadelphia and Houston. The adopted operating appropriations are presented for Philadelphia and Houston.

Source: For sources please see the following page.

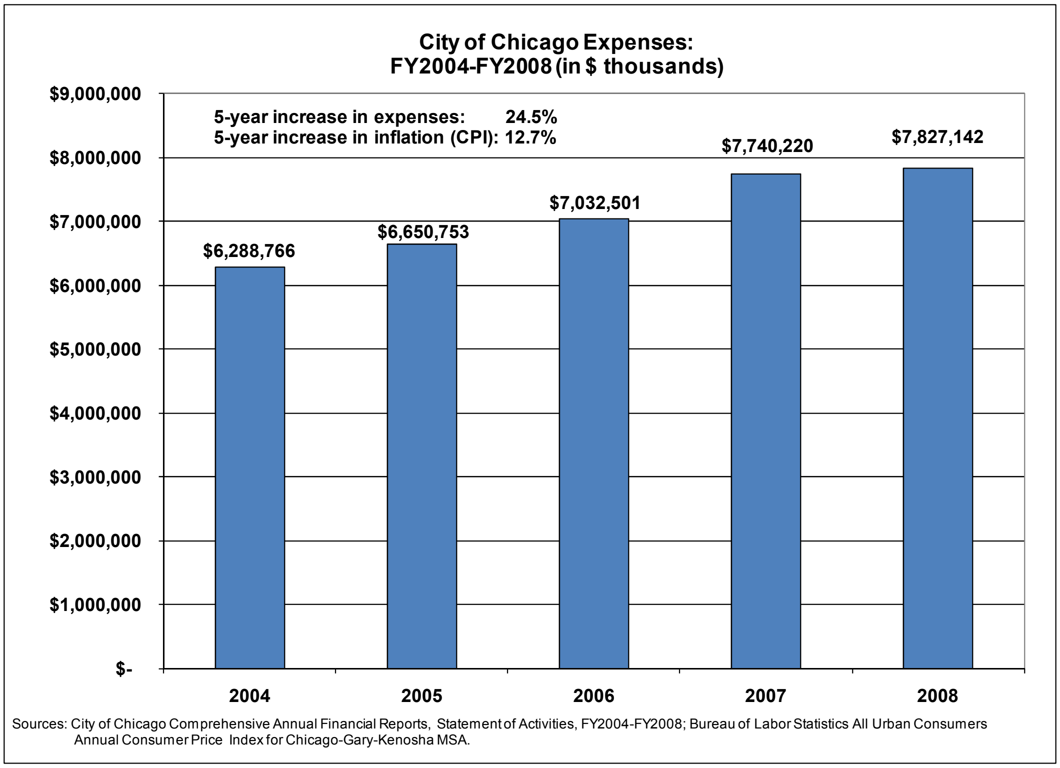
Source: City of Chicago FY2010 Budget Press Release, October 21, 2009; City of Seattle, FY2010 Proposed Budget, pp. 5-7 and p. 17. "Final Hearings on Seattle City budget," KPLU 88.5 AM, October 26, 2009; The City of New York Executive Budget Fiscal Year 2010, p. 2 and Press Release, May 1, 2009; "Addressing the Budget Shortfall: A Snapshot," City of Philadelphia web site, http://www.phila.gov/budgetupdate/budget/FYP/addressingBudgetShortfallSnapshot.html, last viewed November 3, 2009; City of Philadelphia FY2010 Operating Budget As Approved by the Council – May 21, 2009, p. 16; City of Boston FY2010 Recommended Budget, pp. 1-2 and 10; Washington D.C. FY 2010 Proposed Budget and Financial Plan, p. 1-5; Washington City Paper, "2010 D.C. Budget Plan: No Tax Hikes Except for These Tax Hikes," March 20, 2009; DC Fiscal Policy Institute, "DC Took a Balanced Approach to Addressing its Last Major Deficit: The Budget Shortfall in 2002 Was Addressed With Both Budget Savings and Revenue Increases," March 4, 2009; The Philadelphia Research Initiative, "Tough Decisions and Limited Options: Tough Decisions and Limited Options: How Philadelphia and Other Cities are Balancing Budgets in a Time of Recession," May 18, 2009, p. 2; City of Atlanta FY2010 Proposed Budget, Overview and Proposed Budget Summary, p. 2; City of Houston, FY2010 Adopted Budget, General Fund Summary, p. II-3; FY2010 Proposed Budget, pp. 8-9; ABC 13 Houston, "What to do about Houston's budget shortfall," 2009, http://abclocal.go.com/ktrk/story?section=news/local&id=6990826, Last Viewed November 2, 2009; City of New Orleans, FY2010 Budget Presentation; FY2010 Budget, p. 15; Becky Bohrer, Associated Press, "New Orleans mayor wants cuts, fees for budget hole," October 31, 2009.

Financial Indicators Analysis

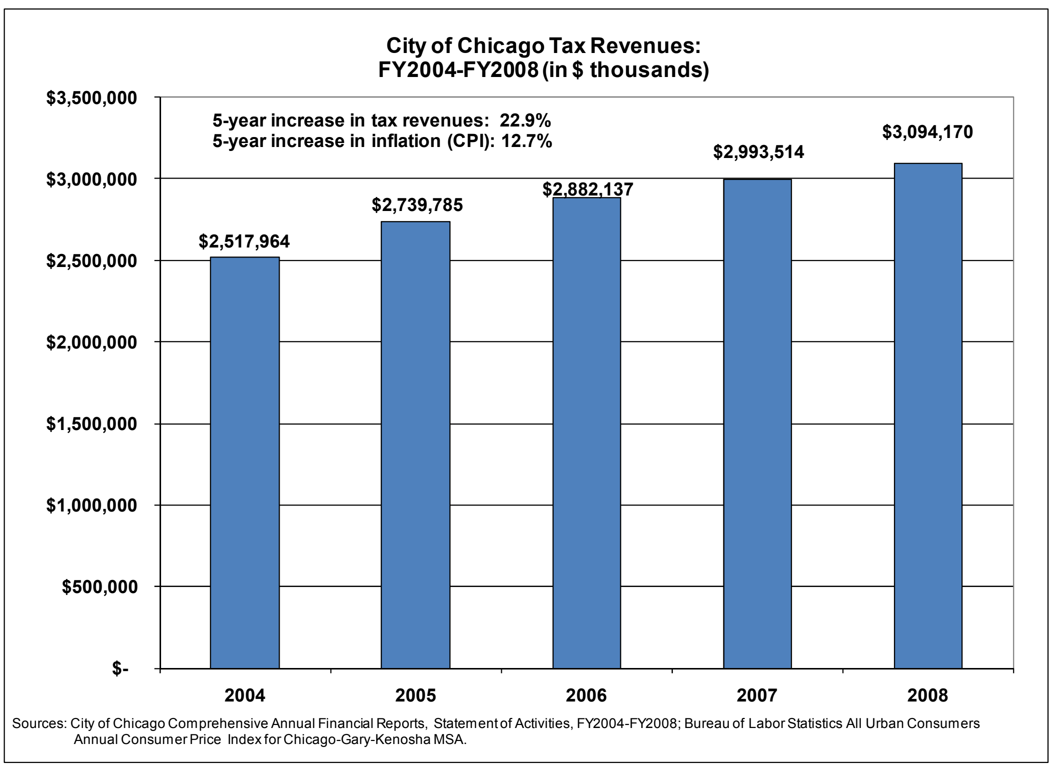
Several figures reported in the City's annual financial reports can be used to provide a broad perspective on the City's fiscal health. In this section, the Civic Federation examines financial indicators based on the audited government-wide financial statements, which are reporting using full accrual accounting methods similar to those used in the private sector. This financial indicators analysis examines the five years from FY2004 to FY2008, the most recent audited figures available. Unless otherwise noted, the figures shown include the City's governmental activities (this includes the Chicago Public Library) and its business-type activities (e.g., airport, water, and sewer funds). Governmental activities are primarily supported by taxes, fees, and intergovernmental revenues while business-type activities are expected to recover all or most of their expenses through user fees and charges.

The following graph illustrates the growth in the City of Chicago's expenses between FY2004 and FY2008. Expenses grew from $6.3 billion in FY2004 to $7.8 billion in FY2008. This 24.5% growth in expenses was nearly twice the 12.7% rate of inflation over the same period.[78]

[78] Rate of inflation is from the U.S. Bureau of Labor Statistics, All Urban Consumers Annual Consumer Price Index for the Chicago-Gary-Kenosha Metropolitan Statistical Area.

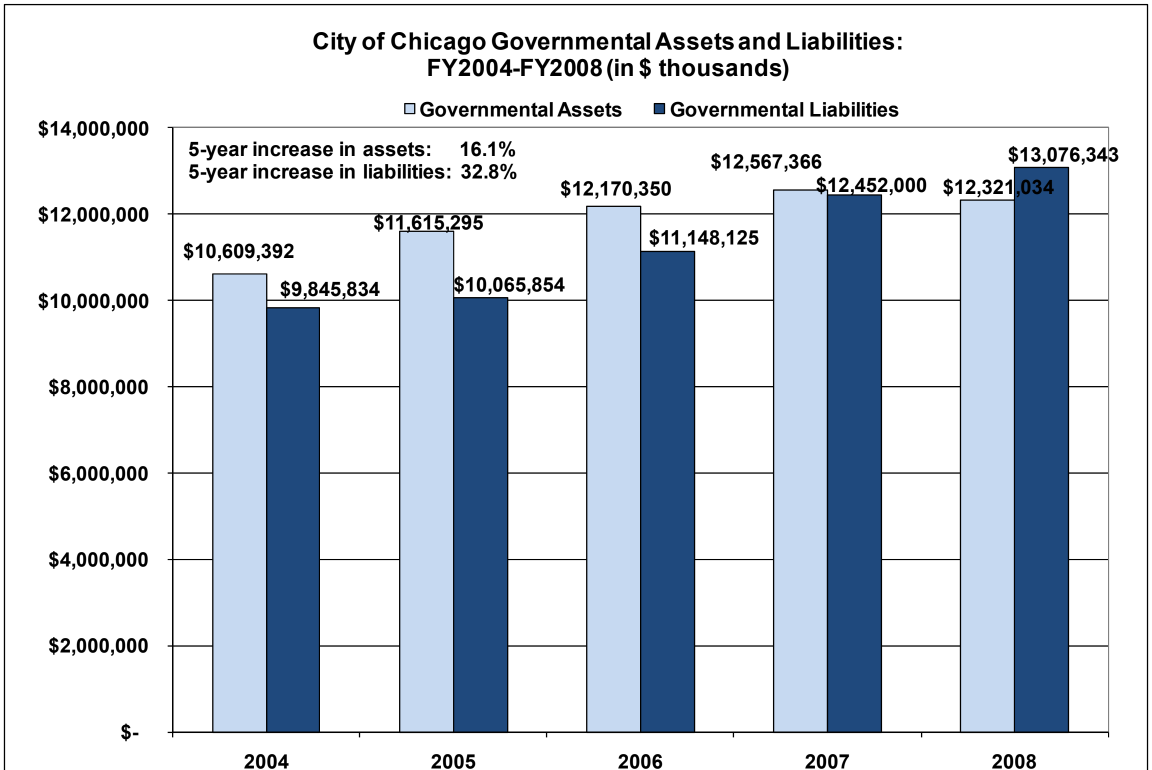


The City's tax revenues grew by $576.2 million over the five-year period, from $2.5 billion to $3.1 billion. This 22.9% growth in expenses was considerably larger than the 12.7% rate of inflation over the same period.



The fact that expenses and revenues have grown notably faster than inflation indicates that either the cost of services or the level of services provided by the City has expanded significantly in recent years.

The City of Chicago's assets for governmental activities (excluding business-type activities) grew 16.1% from $10.6 billion in FY2004 to $12.3 billion in FY2008, although governmental assets declined between FY2007 and FY2008, falling by $246.3 million. During the same time period, governmental liabilities increased 32.8%, over twice the change in governmental assets, and were larger than governmental assets in FY2007 and FY2008.



Source: City of Chicago Comprehensive Annual Financial Reports, Statement of Net Assets, FY2004-FY2008.

Net assets is the difference between assets and liabilities. Change in net assets over time is an indicator of whether a government's financial condition is improving or deteriorating. The City of Chicago's total net assets including governmental and business-type activities has fallen 73.5% from FY2004 to FY2008, from $3.1 billion to $0.8 billion. It is important to note that the City's Skyway and parking garage leases had an effect on net assets. The Skyway and parking garage lease transactions were both recognized immediately as long-term liabilities (the Skyway was categorized as a business-type activity but the garages were categorized as a governmental activity) that are being amortized over the lifespan of the lease. The Skyway payment of $1.83 billion was recognized as a long-term liability starting in 2005 and is being reduced by $18.5 million every year through 2103, while $18.5 million is simultaneously recognized as revenue each year. Similarly, the parking garage payment of $563.0 million was recognized as a long-term liability beginning in 2007 and is being reduced by $5.7 million annually through 2105, while $5.7 million is simultaneously recognized as revenue each year.[79]

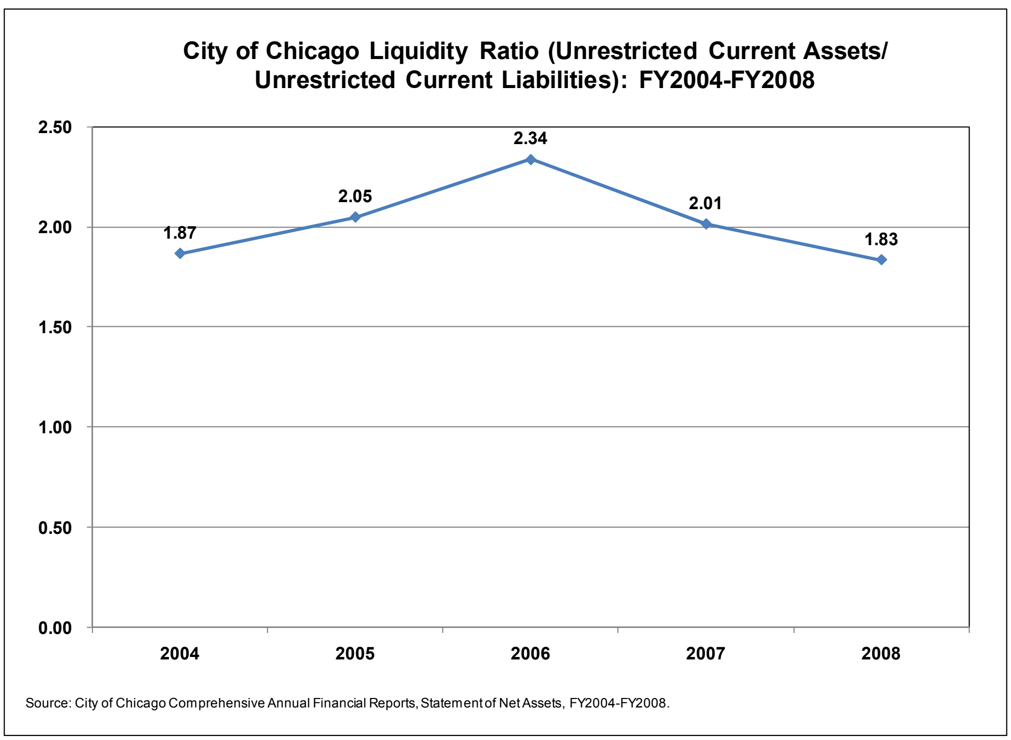
While the long-term lease transactions added substantial liabilities to the City's balance sheet in recent years, the major driver is the City's growing pension obligations. They City's net pension obligation, a cumulative measure of the City's unmet pension obligations, grew to $2.9 billion in FY2008 and is the largest portion of the City's unrestricted governmental net assets. Unrestricted governmental net assets grew 192.9% between FY2004 and FY2008, from -$1.4 billion to -$4.1 billion. This does not mean that the City is unable to pay its bills, but rather that its total accrued long-term liabilities including actually-calculated pension, retiree health care, and insurance claims exceed its currently available resources.

City of Chicago Total Net Assets and Unrestricted Governmental Net Assets: FY2004-FY2008 (in $ thousands)

	2004	2005	2006	2007	2008	$ change	% change
Total Net Assets	$ 3,134,889	$ 2,711,506	$ 2,346,024	$ 1,604,473	$ 830,088	$ (2,304,801)	-73.5%
Unrestricted Governmental Net Assets	$ (1,397,160)	$ (1,597,634)	$ (2,003,328)	$ (3,435,506)	$ (4,092,388)	$ (2,695,228)	192.9%

Source: City of Chicago Comprehensive Annual Financial Reports, Statement of Net Assets, FY2004-FY2008.

A liquidity ratio refers to current unrestricted assets available relative to unrestricted liabilities that are due within 12 months. A ratio over 1.0 indicates that current assets are greater than current liabilities. Declines in liquidity may indicate that a government's expenses are growing faster than available revenues. The City maintained a liquidity ratio over 1.0 between 2004 and 2008.



[79] City of Chicago FY2008 Comprehensive Annual Financial Report, p. 65.

Crime data

Research on the correlation of public safety funding and subsequent crime rates is vast, but conclusions on the relationship between the two factors vary. Most research has focused on whether increasing the number of law enforcement officers correlates with decreased crime rates. Some research has shown that increased police presence has been associated with a reduction in crime.[80,81] However, other research indicates that increased funding for police departments has resulted in a crime rate drop, but the decrease was not a result of additional police officers.[82] Some researchers have credited the strategic use of law enforcement resources, rather than quantity of officers, in reducing crime.[83] Based on the research, it is unclear how the crime rate would respond to a reduction in law enforcement officers. The following examines the impact of a diminished police presence on recent crime rates in cities across the United States.

Due to budget problems, numerous cities have reduced public safety expenditures. Since 2000, Detroit, Houston, and Pittsburgh have experienced a reduction in law enforcement personnel. Detroit leads the three in reductions, with nearly ten fewer officers per 10,000 people. Houston has reduced officers by more than five per 10,000 people and Pittsburgh has reduced officers by nearly three per 10,000 people.

Crime rate data shows a correlation with the number of law enforcement officers for certain offenses, but not others. Aside from burglaries, Detroit's reported crime rate declined since 2000. Most crimes show a weak relationship with offenses committed and the number of police officers, except for reported burglaries which rose by 20.9% as the number of officers has declined by 22.2%.

In Pittsburgh, reported violent crime rates and burglary rates have risen, but other reported property crimes have declined. Aside from robberies increasing by 10.2%, crime in Houston has declined while its sworn police force has been reduced.

There are, however, a number of other factors that impact a relationship between police presence and crime. First, the data does not include unreported crime. Law enforcement presence may have an effect on the number of crimes that go unreported. Also, crime is associated with many other factors besides the number of police officers.

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81 Cloninger, D.O. 1994. Enforcement risk and deterrence: a re-examination. *The Journal of Socio-Economics* 23(3): 273-285.
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