Statement Made At The Public Hearing On The FY97 Chicago Park District Budget By Lance Pressl, Ph.D., President.

The Civic Federation would like to thank the President and members of the Board of Commissioners for this opportunity to comment on the proposed FY97 budget. We would also like to congratulate the staff of the Chicago Park District Finance Department on the outstanding documents detailing the proposed budget and thank them for their help in explaining the contents therein.

As a government and finance watchdog group, the Civic Federation has closely monitored and commented on the fiscal health of local area governments for over 100 years. In our budget testimony this year, we wish to expand on our regular analysis of the annual budget to include a discussion of the general financial condition of the Chicago Park District.

I. 1997 BUDGET

A. Taxes & Spending

FY97 represents the fourth year in a row that Chicago Park District budget does not include a property tax increase. In addition, the budget continues the trend initiated by this administration of shifting resources from administration to recreation. We are also encouraged by the additional $9.6 million being made available for open space and landscape improvements.

B. Fees

A reason why the District is able to hold the line on taxes is its increased reliance on non-tax revenue, specifically fees. Although this year's budget does not include substantial fee increases, we once again ask that the District closely monitor its programs, classes, and leagues to determine if the fee schedules are deterring Chicago residents from taking full advantage of the recreational opportunities available in the City's parks.

In addition, we once again ask that the Chicago Park District more strongly communicate the differentiation in fees paid by residents and non-residents. Although this differential is evident in the "General Fee Guideline" pamphlet, it needs to be clearly articulated in the budget document itself.

C. Aquarium & Museum Funds

In March 1995, the Chicago Park District came under the Property Tax Extension Limitation Act. Under this statute, the Chicago Park District is restricted as to its ability to raise taxes and issue debt. At the present time, over 15% of the Chicago Park District's tax levy goes for aquarium and museum purposes. We do not question the value of having these institutions supported with public funds. However, as we have stated numerous times in the past, visitors to these institutions come from a region-wide area. We, therefore, think it is unfair to limit taxes for these institutions to only Chicago property taxpayers.

D. Budget Presentation

As with last year's budget, we continue to support the path being taken by the current administration in terms of the efficiencies being created and the expansion of programming and opportunities for the public to recreate and enjoy open spaces. However, we would like to reiterate our recommendations from last year. A place where the Park District can improve is how it communicates its budgetary policies and plans to the public. We offer the following suggestions on budget presentation:

- **Expand Funding Tables**: Although the "Summary of Operating Revenues and Expenditures" table presents budgeted to actual comparisons in the *1997 Budget* document, the *Budget Detail* document only presents the revised estimates for the current fiscal year and the proposed budget for next year. A third column should be included showing the budget estimate for the current year. This additional column would enable the public to gauge whether budgetary expectations are being realized and the funds that had been budgeted for in the past are actually spent.

- **Include Performance Indicators**: One of the priorities of this administration is to increase the use of parks by the public and improve the environmental condition of the parks. In order for the public to have a better understanding of the improvements in both of these areas, we recommend that a performance indicator section be included in the budget document. The section would expand on special initiatives presented in this year's budget, such as the number of ballfields that have been renovated. It could include statistics on trends in the number and type of recreation programs, attendance, and capital improvements. We recommend that the first set of indicators be reported by region.

- **Synthesize Information by Policy Area**: As evidenced by testimonies in past public hearings, the public is interested in how money is being appropriated to the Chicago Park District's primary objectives: landscape, recreation, land acquisition, etc. We recommend that the budget include a section that groups appropriations by program area. For example, the budget would list those departments within the Park District that are responsible for landscape and how the money is being allocated for that program area.

II. General Financial Condition

During the Fall of 1995, the Civic Federation began a project to develop a tool for measuring the financial health of governments over time. This tool looks at the audited statements produced by a government and evaluates its:

- Quality of Reporting;
- Cash Solvency;
- Budgetary Solvency; and
- Tax Leverage and Risk Exposure.

The figures used in these measures are from the Chicago Park District's *Annual Reports* from 1991 to 1994 and its *1995 Financial Statement*.

A. QUALITY OF REPORTING:

The financial reporting of the Chicago Park District received a 1/5 rating, satisfying 1 of the 5 conditions of good financial reporting established by the Civic Federation's Financial Indicators Project, that is using a CAFR format. The remaining four conditions are: 1) Using GAAP for financial statements; 2) Producing a CAFR within six months of the end of the fiscal year; 3) Earning an unqualified audit opinion; 4) Using GAAP for the budget. No entities were excluded from reporting in any of the years analyzed.

B. CASH SOLVENCY

Cash solvency indicators measure a government's ability to generate sufficient cash to pay its bills on a short term basis. In this analysis, we use two measures of cash solvency: liquidity and the current fund balance ratio. Liquidity measures the ready availability of cash, while the current fund balance ratio measures the ability to covert assets into cash over an indefinite period.

1. Liquidity

Liquidity is calculated according to the following formula: Cash & Short-Term Investments Divided By Accounts Payable. In this calculation, General Fund, Special Revenue Funds and Proprietary Funds are grouped together for analysis because all three funds are reasonable options for internal borrowing. If a government has sufficient cash to pay its bills as they come due, the liquidity ratio should be at least one.

The liquidity ratio for the Chicago Park District was well above one for each of the years examined except for FY94, when it stood at 1.06. Thus, the CPD has consistently maintained adequate funds for the past five to pay its bills as they come due.

2. Current Fund Balance Ratios

General and Special Revenue Funds:

Cash solvency for the General and Special Revenue Funds is calculated by the Net Unreserved Fund Balance divided by Operating Expenditures, where Net Unreserved Fund Balance are fund assets less liabilities of the fund plus that portion of reserved amounts earmarked for encumbrances. The calculations do not include expenditures for capital projects and debt service.

The current fund balance ratio for both the **General and Special Revenue Funds** has averaged 28.5% for the last five years. The current fund balance ratio averaged 22.6% for the general funds and 77.2% for the special revenue funds between FY90 and FY95. During the same period, the total fund balance as a percentage of general operating expenditures, or current fund balance ratio, was 46.6%. As the average fund balance fell between the range of 25% and 50%, this earned the General and Special Revenue Funds a rating of **"substantial."**

3. Current Fund Balance Ratio: Proprietary Fund Group

For the Proprietary Fund Group, cash solvency is measured by the current ratio, which is calculated by dividing all current liabilities into current assets. If the Current Ratio is less than or equal to 1, the government does not have enough current assets to meet its current liabilities, even if all current assets could be liquidated.

The current ratio for the **Proprietary Fund Group** has always exceeded 2.0, thus earning the rating of "Excessive." In 1994, virtually no liabilities were reported, thus greatly skewing the results. The following year, both the assets and the liabilities of these funds were all but eliminated. This shows that the Chicago Park District no longer has fund groups designed specifically for the purpose of selling services to the public. The two major sources of revenue for the Proprietary Fund used to be the parking and harbor fees. These funds have now been earmarked for the General Fund. This allows revenues from these sources to be used to carryout the overall mission of the Chicago Park District. As a result of privatization of these functions, the Chicago Park District now receives payment for the revenues generated by these activities. These payments are now accounted for in the General Fund.

C. BUDGETARY SOLVENCY

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures and to prevent deficits. We have measured budgetary solvency by means of a "stress test," which measures elasticity of fund balance with respect to operating expenditures.

Calculating the stress test involves taking the average annual percentage change in Fund Balance divided by the average annual percentage change in Operating Expenditures. If the Stress Test is less than 1.0, the government is "Stressed" because it is consuming its assets. If the Stress Test is greater than 1.0, the government is "Resilient" because revenues have been sufficient to let it build its assets at a greater rate than its operating expenditures have increased.

According to the stress test ratio, the Chicago Park District's budgetary solvency ratio equals 371% for 1991 through 1995 for the period. This is far in excess of 1%. This extremely high positive ratio indicates that the Chicago Park District is in an excellent budgetary situation and can be classified as **resilient**. Revenues have been more than sufficient to allow the District to build up its assets.

D. RISK FACTORS

1. Tax Leverage

Tax leverage is the percent by which government will have to increase property taxes to cover a 1% increase in its budget. To calculate tax leverage, General and Special Revenue Funds Total Operating Revenues are divided by General and Special Revenue Tax Revenues. From 1991 to 1995, the Chicago Park District's tax leverage ratio averaged 1.35, which means that a 1% increase in the Chicago Park District budget would have required a 1.35% increase in taxes.

2. Risky Funds Exposure Factor

The Risky Funds Exposure Factor is the percent increase in property taxes required to cover a 1% shortfall in risky sources of financial support if services are to be maintained at current levels. The sources of revenue considered "risky" include: Investment Income, Intergovernmental Revenue, and Transfers In.

The Chicago Park District has significantly lessened its exposure to risk over time. The District has lowered its risky funds exposure ratio over time, from 0.093 in FY91 to only 0.015 in FY95 as a result of eliminating intergovernmental revenues and transfers in FY94 and FY95.

E. LONG-TERM INDICATORS

The following section examines two long-term indicators of financial health: long-term debt per capita and unfunded pension liabilities. Increases in either category bear watching as potential signs of increasing financial risk.

1. Long-Term Debt Per Capita

Long-term debt here refers to bonds payable, capital leases payable, compensated absences payable, claims and judgments payable and worker's compensation. Long term debt per capita rose from $131 to $175 between FY91 and FY95. This growth may be curtailed with the imposition of tax caps in 1995, which limit the ability of non home-rule governments to levy property taxes and to borrow.

2. Unfunded Pension Liabilities

The funded ratio of the Park Employee's & Retirement Board Employees' Annuity and Benefit Fund is relatively strong compared to other local pension funds monitored by the Civic Federation. In 1995, the Park District's funded ration was 82.4%, the average funded ratio of the nine funds in Cook County was almost 74%. In 1995, the pension fund had over $417 million in assets available for benefits.

CONCLUSION

In 1993, the Civic Federation evaluated the Chicago Park District in terms of its form and function. We found a dysfunctional organization that had strayed from its core mission. In the relatively short period of time since that study, the Chicago Park District has gone through a remarkable metamorphosis. Proof of this change is evident in the overall financial condition highlighted in this testimony. The majority of revenues and expenses realized by the Chicago Park District now are connected to the achievement of its core mission. Although a solid financial structure and decentralized administration now seem to be in place, we still believe that a stronger case needs to be made by the Chicago Park District with regard to the strides it is making in service delivery. Figures on the number of patrons showing up to specific events are not substitutes for long term performance indicators. Future budgets should show patron usage across all the activities of the Chicago Park District, not just a select few.

Respectfully Submitted,

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