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For more information, contact Laurence Msall, 312-201-9044

CIVIC FEDERATION: CHICAGO BUDGET RESPONSIBLE
Supports Painful but Necessary FY2009 Payroll Cuts

Given the reality of the City of Chicago's rising expenditures, declining revenues, and growing personnel costs, the Civic Federation **supports** Mayor Daley's painful but necessary reduction of the City's payroll by 2,628 full-time-equivalent positions. The Federation's full 53-page analysis of the proposed FY2009 $5.97 billion spending plan will be released on our website, www.civicfed.org, today.

The Civic Federation supports the Mayor's budget as the most appropriate response to the single biggest driver of City spending: personnel costs that make up over 82% of the operating budget. "Chicago has no responsible choice other than cutting personnel spending to balance this budget," said Laurence Msall, president of the Civic Federation. "An economic downturn is precisely the wrong time to raise broad-based taxes such as property or sales taxes and further burden struggling businesses and residents."

In addition to personnel cuts, the City will consolidate nine of its departments into four departments, saving $7.6 million by reducing payroll, administrative, and human resources expenses. The Civic Federation strongly supports efforts by governments to increase efficiency and reduce costly duplication in their operations. The Federation also supports the City's reduction of non-personnel expenditures by $39.0 million. Selective tax and fee increases and more aggressive cost recovery efforts are also reasonable moves by the City to generate $52.3 million in increased revenue.

In its analysis, the Civic Federation commends Mayor Daley for successfully negotiating a long-term lease of Midway Airport. The Federation has long praised the City of Chicago's leadership in sensible alternative service delivery initiatives. Midway Airport is not a core asset of the City, making it a prime candidate for private management. Furthermore, most of the proceeds from the lease will be used to invest in infrastructure needs around the City and pay down Chicago's punishing pension debt. The Federation is concerned, however, that the City will use $100 million of the lease proceeds over the next five years for recurring operating expenses rather than using some of those monies to reduce liabilities. The City will also use $150 million in proceeds from the anticipated parking meter lease to close its FY2008 and FY2009 budget deficits.

Despite the Federation's overall support of the budget, the organization retains **significant concerns** about the City of Chicago's financial future. The City plans to hold a mere $1.5 million in contingency reserves in its FY2009 budget. This is a miniscule 0.05% of the Corporate Fund balance and is far below the fiscally prudent level of 5-15%. Such low reserves have already negatively impacted the City's ability to deal with the current economic downturn. At least some of the proceeds of the Midway Airport and parking meter leases could have been used to increase reserves.

The City's Fire, Police and Municipal pension funds are in a severe funding crisis. Their already extremely low funded ratios will no doubt fall further when recent losses in the stock market are calculated. The City must implement pension benefit reforms that will stabilize its long-term pension obligations. The Civic Federation recommends that the City reduce benefit levels for new employees and develop a long-term funding plan that would gradually increase assets and reduce liabilities. "The Civic Federation calls on Chicago to work with the General Assembly to rationalize the City's pension funding requirements by tying them to funding levels," said Msall.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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CITY OF CHICAGO
FY2009 PROPOSED BUDGET
Analysis and Recommendations

Prepared By:
The Civic Federation
November 5, 2008

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EXECUTIVE SUMMARY

The Civic Federation **supports** the FY2009 City of Chicago budget of $5.97 billion because it does not rely on raising property taxes and begins the painful yet necessary step of reducing payroll to balance the budget. This is a necessary step in light of continued rising personnel costs and declines in economically sensitive revenues.

The Civic Federation offers the following **key findings** on the City of Chicago FY2009 budget:

- The City proposes a total FY2009 budget of $5.97 billion and is a 0.2% or $14.1 million decrease over the FY2008 final budget appropriation of $5.98 billion.
- The Corporate Fund budget proposal is $3.18 billion, a 0.9% or $30.5 million decrease over the FY2008 final budget appropriation of nearly $3.22 billion.
- The City of Chicago's total resources are projected to slightly decrease by 0.3% in FY2009, from nearly $5.99 billion to approximately $5.97 billion; this represents a $17.9 million decrease.
- Corporate Fund personal service appropriations are projected to increase by $17.0 million in FY2009, a 0.7% increase over the amended FY2008 budget amount.
- The property tax levy for City purposes will be held flat at $796.8 million for FY2009.
- The City will lease Midway Airport to a private consortium for approximately $2.52 billion.
- The $469.0 million FY2009 budget deficit was closed by reducing the FY2008 budget deficit carryover, creating revenue enhancements totaling $163.9 million and implementing $140.1 million of management efficiencies, including the elimination of 929 full-time equivalent positions.

The Civic Federation **supports** the following issues related to the FY2009 City of Chicago budget:

- The FY2009 City of Chicago budget includes a reduction of 2,618 full-time equivalent (FTE) positions; of these positions 929 are layoffs of currently filled positions and the total reductions will save the City approximately $93.5 million.
- The City will consolidate nine existing departments into four new departments to generate efficiency and as a cost saving measure in FY2009. These consolidations are expected to save the city $7.6 million by reducing payroll, administrative and human resources expenses, as well as eliminating 240 FTE positions.
- Using prudent operating cost reductions, the City will save $39.0 million in non-personnel related operating expense reductions in FY2009 and on the revenue side of the ledger, the City proposes to generate $52.3 million in revenue enhancements.
- The revenue enhancements proposed by the City include increasing the top-tier of the parking tax, the amusement tax and various user and permit fees, as well as implementing effective enforcement and cost recovery practices such as installing additional red light cameras and lowering the boot threshold to two tickets older than one year.
- The City is moving toward final approval for the long-term lease of Midway Airport, for which it will receive $2.521 billion for the rights, including all revenues, and obligations related to the operation, management, improvement and development of the airport.

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

- The Fire, Police and Municipal pension funds retirement systems have funded ratios that are far below levels considered financially healthy and require updated financing plans as well as a more economically reasonable matching of benefits for future employees in order to restore proper funding levels.
- The City's unreserved fund balance is dangerously low and projected to total just $1.5 million in FY2009, 0.05% of the total Corporate Fund expenditures. This is far below the prudent level of between 5.0% and 15.0% of the Corporate Fund operating expenditures or revenues. The City of Chicago should establish a minimum reserve of $159.4 million in FY2009.
- We are concerned that millions of dollars in proceeds from long-term asset leases are being used for operating expenses.
- Personnel costs continue to rise and in order to avoid future financial problems the City must take additional steps to manage its personnel costs prudently in this and future years.
- The City of Chicago continues to have a relatively high debt burden according to three key commonly-used indicators, including a large increase in net direct debt, debt service appropriations and overlapping debt from other governments.

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

- Reduce pension costs by implementing pension benefit reforms, including establishment of a two-tiered benefit system for employees not yet hired, limit annuity increases for new hires to the lesser of 3.0% or the increase in CPI, link future benefit increases to contribution increases and require both employee and employer contributions to relate to the normal cost plus interest of the funds.
- Establish reasonable Corporate Fund reserves that meet the minimum standard proposed by the Government Finance Officers Association of 5% of General Fund appropriations.
- Roll back aldermanic pay raises and reduce the recent increases in aldermanic office expenses.
- Whenever possible, some of the proceeds received from asset sales or long-term leases negotiated by the City of Chicago should be used to increase reserve funds or to reduce short or long-term liabilities.
- 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 requirements for Tax Increment Financing districts in the City of Chicago.
- 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 **supports** the City of Chicago's FY2009 budget of $5.97 billion as a reasonable and appropriate short-term plan that continues to provide important services to City residents. Mayor Daley has taken the painful yet necessary step of reducing payroll by 2,618 full-time equivalent (FTE) positions to balance the budget in the wake of rising expenditures and declines in economically sensitive revenues.

Personnel costs will consume over 82% of the City's operating budget next year, or $2.6 billion. Personnel costs are the single biggest driver of City spending. Given that reality, the City has little choice this year but to make $93.5 million in personnel cuts to balance its operating budget. As the City expects its revenue base to be stagnant for many years, it is likely that additional workforce reductions will be necessary in the future. Given budgetary and economic reality, the City has taken a personnel reduction approach that is both prudent and necessary.

The Civic Federation commends Mayor Daley and his financial team for successfully negotiating a long-term lease for the private management of Midway Airport. This transaction satisfies some key criteria for privatization efforts and should allow City resources to be better focused on core municipal functions. Airport management is not an essential responsibility of City government, thereby making Midway a good candidate for privatization. The efforts to privatize were enhanced because there was a competitive pool of experienced airport operators bidding on the lease, thereby ensuring that the new operator would continue to provide proper, efficient service to the travelling public.

However, we do have concerns that $100.0 million of the proceeds from the Midway Airport lease will be used over a five-year period to pay for operating expenses. This is in addition to the $150.0 million in anticipated proceeds from the long-term lease of the City's parking meters that will be used over a two-year period for operating expenses. These monies are one-time revenues. Ideally, at least some of these monies would be used to increase reserve funds or to reduce outstanding liabilities, instead of paying for recurring expenses.

The City of Chicago faces grave fiscal challenges both this year and in the future. Deficits are already projected to reach $194.0 million in FY2010, $210.0 million in FY2011 and $190.0 million in FY2012. These deficits will be driven in large part by stagnant revenues and expanding salary and benefit costs. Even with the personnel cuts in the proposed budget, personnel expenses will still grow by $466.0 million through FY2012. Dealing with the financial shortfalls will require further sacrifice and careful prioritization.

The City must also address its pension funding crisis. The most current reports of the funded ratios for the Fire and Police Pension Funds reveal that they are funded at 42.1% and 50.4%, respectively. These funded ratios are far below levels considered financially healthy and may be worse given recent financial market conditions. The City must act to improve the financial health of the funds and to reduce the mounting liabilities of the funds. This can be done by implementing common sense pension funding reforms, such as reducing benefits for new employees and limiting annuity increases for new hires at the lesser of 3.0% or the rate of inflation.

Chicago must also address its extraordinarily deficient Corporate Fund reserves. The FY2009 budget proposes Corporate Fund reserves that total only $1.5 million, just 0.05% of Corporate Fund appropriations of $3.18 billion. A reasonable fund balance would be the 5.0% minimum recommended by the Government Finance Officers Association. This would require reserves of $159.4 million.

Issues The Civic Federation Supports

The Civic Federation supports the following issues related to the FY2009 City of Chicago budget.

Personnel Reductions

The FY2009 City of Chicago budget makes painful but necessary reductions of 2,618 full-time equivalent (FTE) positions. Of those positions, 929 are layoffs and the remainder are vacant positions which will be terminated. The personnel reductions will save the City approximately $93.5 million. In addition, City employees will be asked to take three unpaid holidays, an action which will save up to $9 million. Closing the FY2008 budget gap included offering a voluntary severance package for certain employees and requiring non-union employees to forego a planned wage increase and to take furlough days.[1]

As part of its rightsizing strategy in FY2009, the City proposes to eliminate 309 positions in the Department of Streets and Sanitation; this will be nearly 1/3rd of all the total layoffs of 929 full-time equivalent positions.[2] In his budget address, Mayor Daley stated that the City will expand the use of one-laborer garbage trucks to a total of 140, an increase of 80.[3] These are necessary steps. The Civic Federation has long urged the City to move to reduce the number of sanitation workers on garbage trucks from three to two. Other municipalities are able to efficiently manage garbage pickup with fewer workers, some with only a single worker who both drives and loads the refuse. Another alternative would be to privatize the sanitation function. Private haulers already pick up refuse for businesses and apartment buildings and there is a pool of competitive vendors who are capable of undertaking this task.

The sanitation personnel reductions come after David Hoffman, the Inspector General of the City of Chicago issued a report entitled, “Waste and Falsification in the Bureau of Sanitation.” Investigators found that sanitation crews worked less than 6 hours per day on average even though they are paid for 8 hours of work per day. For the 10 wards investigated, the annual loss to the City in wages for work not done was $3.7 million. Extrapolating the results to all 50 wards, the investigation concluded that the “level of waste and falsification would compare to an annual loss to the City of $14.3 million in wages.” When benefit costs and the expense of maintaining and fueling garbage trucks was added in, the total loss to the City could be as much as $20.9 million.[4]

As the Inspector General’s report indicates, the opportunities for implementing efficiencies in the Bureau of Sanitation are great. We applaud the Mayor for moving to realize them.

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[1] Information provided by Chicago Office of Budget and Management, October 14, 2008.
[2] Information provided by Chicago Office of Budget and Management, October 14, 2008.
[3] Remarks by Mayor Richard Daley, 2009 Budget Address, October 15, 2008, p. 9.
[4] Office of the Inspector General, City of Chicago. *Report of the Inspector General’s Findings: Waste and Falsification in the Bureau of Sanitation*. October 7, 2008, p. 1.

Chicago, like the rest of the nation, is experiencing very rough economic times. Raising broad-based taxes such as the sales or property taxes would have a negative impact on the economy. It would especially make little sense to impose higher costs on businesses at a time they can least afford it. In any case, Chicagoans already pay one of the highest sales taxes in the nation at 10.25%. And the City has moved to impose a plethora of taxes and fees on a myriad of goods and activities. There isn't a great deal of room for more or higher taxes. Absent large increases in existing revenues or new taxes, revenues are not likely to increase for some time. Therefore, the City has little choice this year but to make the painful choice to cut spending. And, as 82.4% of the Corporate Fund budget is personnel-related, spending cuts must be in personnel. This is the same decision faced by governments and businesses across the United States.

The Civic Federation **supports** Mayor Daley's plan to balance the FY2009 budget in large part through spending cuts, including layoffs. We recognize that this is a very difficult decision that is not taken lightly. However, given economic reality, the City has taken an approach is both appropriate and responsible.

Department Consolidations and Reorganizations

The City will consolidate nine existing departments into four new departments as a cost saving measure in FY2009. These reorganizations are expected to save the city $7.6 million by reducing payroll, administrative and human resources expenses. These actions will lead to the elimination of 240 FTE positions.

City of Chicago Departmental Consolidations

New Department	Consolidated Departments
Business Affairs	Business Affairs, Consumer Protection
Family and Support Services	Children and Youth Services, Senior Services, Human Services, portion of Mayor's Office of Workforce Development
Zoning and Land Use Planning	Zoning, Planning and Development Department divisions of Land Use and Landmarks, property screening function of Department of Environment
Community Development	Parts of Departments of Planning and Development, Housing and the Mayor's Office of Workforce Development

Source: Chicago Office of Budget and Management

The Civic Federation strongly supports efforts to increase efficiency of operations and to effect cost savings by reducing duplication of effort. The consolidations are designed to more effectively group together similar functions that are currently located in different departments. The reorganization is a common-sense approach and the City is to be commended for moving in this direction.

Non-Personnel Operating Cost Reductions and Revenue Increases

The City will save $39.0 million in non-personnel related operating expense reductions in FY2009. Approximately $24.0 million will be saved from reductions in non-personnel related spending, which include the elimination of the free trolley service and the renegotiation of contracts with vendors, including information technology contracts. The City also will generate $15.0 million in savings from a variety of cost saving initiatives, including reducing downtown leasing costs, outsourcing Police Department information technology help and generating advertising revenues through municipal marketing.

On the revenue side of the ledger, the City proposes to generate $52.3 million through better ticket enforcement and additional fee and permit charges. It is estimated that $27.0 million can be earned through more aggressive cost recovery efforts including lowering the Denver boot threshold to two tickets older than one year, the installation of additional red light cameras and the elimination of tax collector commissions. An additional $25.3 million can be garnered through selective tax and fee increases:

- An increase in the top tier of the parking tax from $2.25 to $3.00 per day. The tax is will only apply to daily parking charges of $12 or more.[5] This is expected to yield $10.7 million.
- An increase in the City's amusement tax, from 4% to 5% on live theater and from 8% to 9% on other amusements.[6] This increase will raise approximately $8.1 million.
- A variety of user fees and permit fees and penalties also will be increased. This includes increasing recovery costs for emergency medical services covered by insurance. These revenue enhancements will raise $6.5 million.[7]

The Civic Federation supports the City's efforts to reduce its non-personnel operating costs and endorses reasonable increases in user charge-oriented revenue enhancements.

Long Term Lease of Midway Airport and the City's Parking Meters

The City successfully concluded its efforts to lease Midway Airport on September 30, 2008 with the announcement of a 99-year lease of the airport to Midway Investment and Development Company, LLC (MIDCo). MIDCo will pay the City $2.521 billion for the rights, including all revenues, and obligations related to the operation, management, improvement and development of the airport. The transaction is expected to close prior to year end after it is approved by the Chicago City Council and the Federal Aviation Administration (FAA). Proceeds from the lease will be used to pay-off approximately $1.3 billion in debt related to Midway, $1.1 billion can be used for city infrastructure projects and/or employee pensions, and approximately $100 million is available for general purposes.

The Civic Federation commends Mayor Daley for successfully negotiating a long-term lease of Midway Airport. The City has long been a regional leader in sensible alternative service delivery efforts that have helped to reduce operating costs and improve efficiency of service delivery. In our view, this transaction satisfied some key criteria for a successful move toward shifting management of an asset from government to a private firm. First, Midway Airport is not a core asset of the City, thereby making it a good candidate for privatization. Second, there was competitive pool of experienced airport operators bidding on the lease, thereby ensuring that the

[5] City of Chicago FY2009 Revenue Estimates and Overview, p. 53.
[6] City of Chicago FY2009 Revenue Estimates and Overview, p. 55.
[7] Information provided by Chicago Office of Budget and Management, October 14, 2008.

new operator would continue to provide good, efficient service to the traveling public. Third, most of the assets from the lease transaction will be used for long-term investments in infrastructure or paying down pension liabilities. We are, however, concerned that $100.0 million of the assets will be used over a five-year period for operating expenses rather than reducing liabilities.

At this time the Civic Federation will reserve comment on the City's proposed long-term lease of its parking meters. Insufficient detail is available for us to evaluate the transaction. We do oppose the use of any lease proceeds for operating expenses.

The FY2009 budget includes a proposal to outsource the Police Department's information technology help desk to generate cost savings. In subsequent years, the City is likely to consider further alternative service delivery efforts. As we have mentioned in previous years, one likely target for City privatization is garbage removal, given the number of viable, cost-effective private contractors available. Other potential candidates include customer service centers, fleet management, 311 calls non-emergency services, building management, payroll processing and accounting. We urge the City to consider these possibilities.

Issues of Concern to The Civic Federation

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

Extraordinarily Low Corporate Fund Reserves

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 $159.4 million in FY2009. Unfortunately, however, the City of Chicago's unreserved Corporate Fund balance is at a level far below an amount that is fiscally prudent for a government of its size. It is projected at only $1.5 million for FY2009. This is just 0.05% of the Corporate Fund appropriations of $3.18 billion. The minuscule size of the reserves has negatively impacted the City's ability to deal with the current economic downturn. Further deterioration will exacerbate the situation.

The City of Chicago has maintained a $500 million Skyway Investment Fund from the proceeds of the long-term lease of the Skyway. Only interest earnings from the reserve are used for operating purposes. The existence of the fund helps maintain the City's bond rating, which lowers borrowing costs. We are pleased that the administration has wisely resisted calls to draw down the principal of the reserve this year. However, the City still needs a Corporate Fund contingency reserve to deal with the pressures of year-to-year spending and revenue challenges.

Use of Midway, Parking Meter and Skyway Long- Term Lease Proceeds for Operating Expenses

The FY2009 Chicago budget utilizes three sums from long-term asset lease payments for operations:

- $50 million in proceeds from the anticipated long-term lease of the City's parking meters;
- A $20 million payment from a 5-year, $100 million annuity funded by the long-term lease of Midway Airport; and
- $11.3 million in proceeds from the Skyway lease for neighborhood, human and business assistance programs.

An additional $100 million will be used from anticipated parking meter proceeds to help close the current FY2008 budget gap. The FY2008 budget also contained $17 million from the Skyway Neighborhood and Human Investment Fund. In sum, the total amount of asset lease proceeds used to pay for City operating expenses in FY2008 and FY2009 will be $248.3 million.

The Civic Federation supports reasonable alternative service delivery proposals. However, we have concerns about the use of one-time proceeds from asset sales or long-term leases for operating expenses. We have expressed concerns about the use of Skyway proceeds or operating purposes in the past and we are concerned this year about the use of Midway Airport and parking meter lease proceeds to pay for FY2008 and FY2009 operations. The City's short- and long-term financial health would benefit if at least some of those one-time revenues were used to retire existing City debt and reduce long-term or short term debt service obligations. A reduction of this nature would improve the City's future borrowing capacity and free up operating resources.

Personnel Costs Continue To Rise Even with Position Reductions

At this point in time, the City projects shortfalls of $194 million in FY2010, $210 million in FY2011 and $190 million in FY2012. In these years, it is anticipated that revenue growth will fall far short of spending pressures. The primary driver of spending pressures will be increases in employee wages and benefits as well as debt service costs.[8]

Budget Outlook: FY2010-FY2012			
Expenses - Expected Growth	**FY2010**	**FY2011**	**FY2012**
Employee Wages and Benefits	$134,000,000	$179,000,000	$153,000,000
Debt Service	$63,000,000	$44,000,000	$24,000,000
Non-Personnel Increases	$35,000,000	$40,000,000	$45,000,000
Total Expense Growth	$232,000,000	$263,000,000	$222,000,000
Resources - Expected Growth			
Revenue Growth from 2009 Base	$38,000,000	$53,000,000	$32,000,000
Projected Shortfall	**($194,000,000)**	**($210,000,000)**	**($190,000,000)**

Source: City of Chicago Office of Budget and Management.

The number of non-grant funded positions in the City of Chicago workforce in FY2009 will fall by 2,123 full-time equivalent (FTE) positions to 33,607. When all positions are considered, the

[8] Information Provided by Chicago Office of Budget and Management, October 14, 2008.

number of FTEs will fall from 40,050 to 37,432, a decrease of 2,618 positions. City employees will be asked to take three unpaid holidays in FY2009, an action which will save up to $9 million. Despite these deep reductions, total personal service appropriations still will increase by 0.8% in FY2009, rising by $26.8 million from $3.16 billion to $3.18 billion. Corporate Fund personal service appropriations will increase by 0.7% in FY2009, increasing from $2.60 billion to $2.62 billion.

Personnel spending pressures drive budgetary costs in most governments and indeed most organizations. The City of Chicago is no exception. Continued spending pressures and a weak revenue base will require the City to continue to seek ways in coming years to reduce the cost of its workforce. This is likely to take the form of further job cuts, a serious consideration of employee benefit reductions and a shift to increase implementation of cost saving alternative service delivery strategies.

Fire and Police Pension Funds in a State of Fiscal Crisis

The funded ratios of all four City of Chicago pension funds increased in FY2007, the last year for which complete data are available. This is good news and is attributable to increases in assets. However, the funded ratios of the Police and Fire Pension Funds are still extremely low and recent investment returns are not expected to be positive. As a result, these funds continue to be in a severe funding crisis.

The funded ratios of the Fire Fund in FY2007 reported a very low funded ratio of 42.1 %. The Police Fund’s funded ratio in the same year was 50.4%. These retirement systems’ funded ratios are **far below levels considered financially healthy**.

The FY2007 funded ratio of the Municipal Pension Fund rose slightly from 67.2% to 67.6%. While this fund is in better shape than its counterparts, a 67.6% funded ratio is not optimal.

It is important to note that the funded ratio figures do not consider recent volatility in the economy in general and the stock market in particular. As pension funds rely heavily on investment returns to provide funding, the full impact of current economic conditions will not be reported for some time and could be quite negative.

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 will be released during the fall of this year. 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. The City must control benefit costs for new employees in order to reduce their long-term liabilities and costs.

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 FY1998 and FY2007, Chicago net direct debt rose by 177.9% or $3.7 billion. This represents an increase from over $2.0 billion to approximately $5.8 billion. During the five-year period between FY2003 and FY2007, net direct debt rose by 21.0% or $1.0 billion. Debt service appropriations in FY2009 are projected to be 18.9% of total appropriations, or $1.1 billion out of $5.9 billion. Rating agencies consider a debt burden high if this ratio is between 15% and 20%. Finally, between FY1998 and FY2007, overlapping debt from other governments combined increased by 61.5% at the same time as the City of Chicago's debt rose by approximately 178%. Total debt from all eight major governments rose by 98.8%. Thus, 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.

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 Pension Benefit Reform

The funding levels of the three City retirement systems are far below levels considered financially healthy. It is imperative that Chicago move to reduce its long-term pension obligations. The Civic Federation has several suggestions on how to accomplish that goal.

<u>Establish a Two-Tiered Pension System</u>

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. 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.

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

Currently, Police and Fire pension fund beneficiaries receive 3.0% 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%, whichever is less.

<u>Any Benefit Increases Should Require Contribution Increases</u>

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 per 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

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 of 5% of General Fund appropriations, perhaps by using some of the proceeds from the long-term leases of Midway Airport or the City's parking meters. In FY2009, this amount would total $159.4 million.

Roll Back Aldermanic Pay Raises

Chicago aldermanic salaries will automatically increase by 6.2% in FY2009, rising from $104,100 to $110,556. Only eight aldermen to date have refused to accept the pay increase.[9] Total salary costs for the aldermen will rise from $5.2 million to $5.4 million, a $271,110 increase.

The salary boost comes one year after the aldermen received a $40,000 increase in their office allowances. This boosted individual office allowances from $33,280 to $73,280. All fifty aldermen accepted this increase, resulting in a $2.0 million increase over FY2007 appropriation for aldermanic office expenses.[10] At any time aldermen can refuse to accept all or part of the $40,000 increase.[11] None have done so.

Chicago is in the midst of a severe economic downturn. Rising costs and falling revenues have forced the City to propose deep personnel cuts to balance the FY2009 budget. Deficits are likely for the next two years, requiring even more cutbacks in staffing and perhaps services. Yet only eight aldermen have done the right thing and notified the budget director in a sworn statement that they would forego a pay raise. Forty-two members have refused. The Civic Federation believes that all of the members of the City Council should join their eight colleagues in setting an example in these tough times and refuse to take a salary increase in 2009.

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[9] City of Chicago FY2009 Budget Recommendations, p. 52.
[10] City of Chicago FY2007 Budget Recommendations, p. 28, FY2009 Budget Recommendations, p. 51.
[11] Communication between the Civic Federation and Wendy Abrams, City of Chicago Spokesperson, August 20, 2008.

Use Some of the Asset Lease Proceeds to Reduce Liabilities or Increase Reserves

At least some of the proceeds received from asset sales or long-term leases negotiated by the City of Chicago should be used to increase reserve funds or to reduce liabilities.

One particularly good use of some of the Midway Airport and parking meter lease proceeds would be to inject funds into the woefully underfunded Corporate Fund reserves. As previously noted, the Chicago Corporate Fund will total approximately $1.5 million in FY2009, just 0.05% of projected Corporate Fund expenditures. This amount is drastically reduced from the $57.6 million reserved for contingencies in FY2005. Clearly, the City should act immediately to improve the state of its Corporate Fund balance.

Another prudent use of some of the asset lease proceeds would be to pay down the City's short-term Tax Anticipation Notes. The City annually issues short term Tax Anticipation Notes (TANs) or tender notes in anticipation of receiving funds from its property tax levy. For example, the City proposes to borrow $70.5 million in TANs for working capital for the Chicago Public Library in anticipation of the levy. The cost of this short-term borrowing is not available at this time.[12] Most other local governments have eliminated costly TAN borrowing, instead providing short term funding in anticipating of receiving property tax proceeds from their reserves. As the City's reserves are very low, this is not an immediate option. However, as the City is anticipates negotiating several long-term asset lease deals in the near future, we think it appropriate that some of the proceeds of those endeavors be earmarked to retire this debt. The City will benefit in the long run from saving several millions of dollars annually in borrowing costs.

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

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. Taxpayers deserve no less.[13]

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[12] Information provided by the Chicago Office of Budget and Management, October 30, 2008.
[13] See The Civic Federation. *Tax Increment Financing (TIF): A Civic Federation Position Statement.* November 12, 2007.

The Civic Federation's recommendation for increased transparency in TIF reporting include:

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. The City of Chicago should make complete information about TIF districts and TIF projects readily available electronically on the internet in a consistent and easily accessed format. This would include annual financial reports and redevelopment agreements.

3. 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 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.

4. 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.

5. 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. [14] 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.[15]

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[14] 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 .

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

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. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.

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 City Colleges, however, does provide the relevant information about the levy on its behalf in its budget.[16]

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 Paul Volpe, Office of Budget and Management (OBM) Director Bennett Johnson III, First Deputy Budget Director Andrea Gibson, Projects Administrator Ann McNabb and the entire OBM Department staff for their hard work in producing the City of Chicago's FY2009 budget. We also appreciate their willingness to provide us with a budget briefing, as well as answers to our budget questions.

BUDGET HIGHLIGHTS

The City proposes a total FY2009 budget of nearly $5.97 billion. This is a 0.2% **decrease** from the FY2008 appropriation of $5.98 billion. The Corporate Fund budget proposal is $3.18 billion, a 0.9% decrease over the FY2008 budget of $3.21 billion. The Corporate Fund represents 53.4% of the total budget.

[16] City Colleges FY2009 Budget, p. 47.

Corporate Fund Deficit of $469.0 Million

The City initially projected a $420.0 million Corporate Fund deficit in July 2008 in the release of the Preliminary Budget Estimates due to a combination of a $141.0 million FY2008 year-end shortfall, decreased resources in FY2009 totaling $167.0 and anticipated expenditure increases of $161.0 million.[17] The resulting total deficit for FY2009 is $469.0 million.

City of Chicago Corporate Fund Deficit Drivers: FY2009	
Measure	**Amount (in $ millions)**
FY2008 Shortfall Carry Over	$ 141.0
Anticipated Expenditure Increases	$ 161.0
Subtotal Increase for Expenses	**$ 302.0**
Projected Decrease in Revenues	**$ 167.0**
Total	**$ 469.0**

Source: City of Chicago FY2009 Budget Presentation, 10/14/2008.

The FY2009 $469.0 million budget deficit will be closed by reducing the overall FY2008 shortfall by $165.6 million, implementing spending reductions for a savings of $132.5 million and utilizing revenue enhancements for an additional $163.9 million. The City made significant expenditure reductions during FY2008 to offset the expected year-end shortfall, including:

- A hiring freeze and across-the-board non-personnel spending cuts in March of 2008 for a savings of $20 million;
- Implementation of voluntary severance program and elimination of wage increases along with mandatory furlough days for non-union employees in July of 2008 for a savings of $9.3 million; and
- Final year-end saving projections of $16.3 million due to reduced employee health care costs ($2.3 million), hiring restrictions ($8.0 million), and temporary reductions in operations ($6.0 million).

In FY2009 the City will eliminate 929 positions across all funds and including administrative, front-line, middle and upper management positions. The only departments that will not face personnel cuts are Compliance, Inspector General and the Independent Police Review Board. The City will also reduce non-personnel spending in FY2009 by renegotiating contracts with vendors and eliminating the free trolley service for a total savings of $24.0 million. Strategic reorganizations and consolidations will save the City $7.6 million. Other management improvements will save the City an additional $15.0 million in FY2009 and include outsourcing the Police Department's information technology help desk, reducing downtown leasing costs through negotiations with landlords and auctioning additional taxicab medallions.

In addition to reducing expenditures, the City will also explore new revenue opportunities in FY2009. The City expects to collect an additional $27 million in FY2009 from greater enforcement of fines and fees collections, including reducing the boot threshold to two tickets

[17] City of Chicago FY2009 Budget Recommendations presentation to the Civic Federation, October 14, 2008.

older than one year and installing additional red light cameras. By increasing the top-tier parking tax and amusement tax, along with other fees and recovery fines, the City will receive an additional $25.3 million. Anticipated leases of both Midway Airport and the city's parking meters are expected to generate an additional $20.0 million and $50.0 million in operating revenues for the City, respectively. Library fines will also increase for the first time in years, and are expected to raise an additional $1.6 million.

City of Chicago Gap Closing Measures: FY2009	
FY2009 Shortfall	**$ 469.0**
Reduction of FY2008 Shortfall	**$ 165.6**
FY2009 Mangement Improvement Savings	
Personnel Reductions	$ 93.5
Non-Personnel Reductions	$ 24.0
Other Savings Initiatives	$ 15.0
Strategic Reorganizations/Consolidations	$ 7.6
Subtotal FY2009 Management Savings	**$ 140.1**
FY2009 Revenue Enhancements	
Effective Enforcement and Cost Recovery	$ 27.0
Taxes, Fines & Fee Increases	$ 25.3
Anticipated Proceeds from Parking Meter Lease	$ 50.0
Restructuring Debt Profile	$ 19.0
Debt Service Savings	$ 13.0
Proceeds from Anticipated Lease of Midway	$ 20.0
Creation of a Waste Dumpster Permit Fee	$ 8.0
Increasing Library Fines	$ 1.6
Subtotal FY2009 Revenue Enhancements	**$ 163.9**
Total Reductions and Enhancements	**$ 469.6**

Source: City of Chicago 2009 Budget Recommendations presentation to the Civic Federation, October 14, 2008.

Management Efficiencies Savings

The City proposes management efficiency savings totaling $140.1 million for FY2009. The largest efficiency savings reported for FY2009 will be $93.5 million realized from personnel reductions. The City estimates that 613 corporate fund layoffs will save the City $41.0 million in FY2009. The City also estimates a savings of $24.0 million from non-personnel related spending, which included elimination of the free trolley service. Strategic reorganizations, which includes consolidating nine current city departments into four, will save the City an estimated $7.6 million by reducing payroll, administrative and human resources expenses. The City will generate $15.0 million in savings from other initiatives, including reducing downtown leasing costs, outsourcing information technology help and generating advertising revenues through municipal marketing.

Corporate Fund Management Efficiency Savings: FY2009	
Personnel Reductions	
Voluntary Severance	$ 6.9
Vacancy Reductions	$ 29.0
Layoffs	$ 41.0
Temporary Reduction in Operations	$ 6.6
Delay in Police Hiring	$ 10.0
Subtotal Personnel Reductions	**$ 93.5**
Subtotal Non-Personnel Reductions	**$ 24.0**
Subtotal Strategic Reorganizations	**$ 7.6**
Subtotal Other Savings Initiatives	**$ 15.0**
Total	**$ 140.1**

Source: City of Chicago 2009 Budget Recommendations presentation to the Civic Federation, October 14, 2008.

REVENUES

This section of the analysis provides an overview of All Fund and Corporate Fund revenue trends and property tax levy trends. The two-year comparison takes numbers from the final FY2008 budget appropriation ordinance and compares that data to the FY2009 proposed budget document. The final budget appropriation data is used in light of the substantial revisions made to the original FY2008 budget proposal, ensuring a more accurate two-year comparison.

All Fund Revenue Trends

The City of Chicago's total resources are projected to slightly decrease by 0.3% in FY2009, from nearly $5.99 billion to approximately $5.97 billion; this represents a $17.9 million decrease. The table that follows compares the City of Chicago's total resources in the FY2008 final budget ordinance and the FY2009 proposed budget document. An additional $63.0 million is included in the Transactions line item. This represents the mid-year appropriation amendment implementing an increase in the Real Estate Transfer Tax for the Chicago Transit Authority, as mandated by the mass transit bailout legislation passed in early 2008.[18] The category "Other Resources," which is expected to rise by 0.9% in FY2009, includes debt proceeds, transfers-in from other governments, miscellaneous fees and charges, and revenues specified as "other" in the City's FY2009 budget document. Some of the resource highlights include:

- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase slightly by $10.3 million or 1.0%.

[18] *See* Illinois P.A. 95-708.

- Sales tax revenues will fall by 4.0% or $23.1 million from FY2008 final budget appropriation projections, from $570.6 million to $547.5 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 $28.8 million or 7.4% to $362.0 million.
- The City is projecting an unreserved fund balance of only $1.5 million in FY2009, a 90.3% or $14.0 million decline over FY2008.[19]
- Municipal Utilities, which includes expected parking revenues for the City, is projected to decrease by 80.0% due to the anticipated lease of the City's parking meters.[20]

The top five City of Chicago revenues account for 58.8% of all resources or nearly $3.5 billion. They are:

1. Aviations Fees and taxes: $1.0 billion or 17.0 % of total resources;
2. Property Taxes: $796.9 million or 13.4% of all resources;
3. Sewer & Water Fees and Taxes: $639.7 million or 10.7% of the total;
4. Sales Taxes: $547.5 million or 9.2% of total resources; and
5. Utility Taxes & Fees: $523.3 million or 8.8% of all City resources.

City of Chicago Resources All Funds: FY2008* & FY2009 (in $ milions)				
Revenue	**FY2008**	**FY2009**	**$ Change**	**% Change**
Aviation	$ 1,003.5	$ 1,013.8	$ 10.3	1.0%
Property Taxes	$ 796.8	$ 796.9	$ 0.1	0.0%
Sewer & Water	$ 587.5	$ 639.7	$ 52.2	8.9%
Sales Taxes	$ 570.6	$ 547.5	$ (23.1)	-4.0%
Utility Taxes & Fees	$ 500.1	$ 523.3	$ 23.2	4.6%
Income Taxes/PPRT	$ 390.8	$ 362.0	$ (28.8)	-7.4%
Vehicle, Transportation & Motor Fuel Taxes	$ 383.7	$ 392.4	$ 8.7	2.3%
Other Resources	$ 345.1	$ 348.2	$ 3.1	0.9%
Transaction Taxes**	$ 395.9	$ 257.3	$ (138.6)	-35.0%
Fines, Forfeitures & Penalties	$ 266.2	$ 293.5	$ 27.3	10.3%
Recreation Taxes	$ 153.3	$ 162.6	$ 9.3	6.1%
Licenses & Permits	$ 142.3	$ 125.3	$ (17.0)	-11.9%
Proceeds & Transfers In	$ 109.7	$ 183.8	$ 74.1	67.5%
Business Taxes	$ 90.7	$ 94.0	$ 3.3	3.6%
Emergency Communications Surcharge	$ 76.0	$ 75.4	$ (0.6)	-0.8%
Charges for Services	$ 79.4	$ 93.7	$ 14.3	18.0%
Municipal Utilities (Parking)	$ 29.5	$ 5.9	$ (23.6)	-80.0%
Lease, Rentals & Sales	$ 24.5	$ 24.1	$ (0.4)	-1.6%
Special Events	$ 24.1	$ 24.6	$ 0.5	2.1%
Revenue Subtotal	**$ 5,969.7**	**$ 5,964.0**	**$ (5.7)**	**-0.1%**
Prior Year Unreserved Corporate Fund Balance	**$ 15.5**	**$ 1.5**	**$ (14.0)**	**-90.3%**
Total	**$ 5,985.2**	**$ 5,965.5**	**$ (19.7)**	**-0.3%**

*FY2008 data taken from final budget ordinance.
**$63 million has been added to this line for FY2008 to account for the mid-year appropriation of the Real Estate Transfer Tax to the CTA
Sources: City of Chicago FY2008 Final Budget Ordinance, and FY2009 Budget Overview and Revenue Estimates, pp. 44-74.

Over the five-year period between FY2005 and FY2009, all fund resources are projected to increase by 17.5%. The following trends can be projected for the top five City revenues:

[19] *City of Chicago FY2009 Overview and Revenue Estimates*, p. 47.
[20] *City of Chicago FY2009 Overview and Revenue Estimates*, p. 64.

- Aviation fees and taxes are expected to increase by 25.6%, rising from $806.9 million to $1.0 billion;
- Property taxes will increase by 11.7% as a result of the FY2008 increase;
- Sales tax revenues will increase by $102.1 million, from $445.4 million to $547.5 million;
- Sewer and water revenues will rise from $526.4 million to $639.7 million; and
- Utility taxes and fees will generate an additional $22.9 million over the five-year period.

City of Chicago Resources All Funds: FY2005 & FY2009 (in $ milions)				
Revenue	**FY2005**	**FY2009**	**$ Change**	**% Change**
Aviation	$ 806.9	$ 1,013.8	$ 206.9	25.6%
Property Taxes	$ 713.5	$ 796.9	$ 83.4	11.7%
Sewer & Water	$ 526.4	$ 639.7	$ 113.3	21.5%
Sales Taxes	$ 445.4	$ 547.5	$ 102.1	22.9%
Utility Taxes & Fees	$ 500.4	$ 523.3	$ 22.9	4.6%
Income Taxes/PPRT	$ 253.9	$ 362.0	$ 108.1	42.6%
Vehicle, Transportation & Motor Fuel Taxes	$ 399.2	$ 392.4	$ (6.8)	-1.7%
Other Resources	$ 313.5	$ 348.2	$ 34.7	11.1%
Transaction Taxes	$ 269.5	$ 257.3	$ (12.2)	-4.5%
Fines, Forfeitures & Penalties	$ 195.0	$ 293.5	$ 98.5	50.5%
Recreation Taxes	$ 110.5	$ 162.6	$ 52.1	47.1%
Licenses & Permits	$ 107.9	$ 125.3	$ 17.4	16.1%
Proceeds & Transfers In	$ 167.9	$ 183.8	$ 15.9	9.5%
Business Taxes	$ 68.3	$ 94.0	$ 25.7	37.6%
Emergency Communications Surcharge	$ 29.4	$ 75.4	$ 46.0	156.5%
Charges for Services	$ 83.7	$ 93.7	$ 10.0	11.9%
Municipal Utilities (Parking)	$ 25.2	$ 5.9	$ (19.3)	-76.6%
Lease, Rentals & Sales	$ 40.5	$ 24.1	$ (16.4)	-40.5%
Festival Fees & Charges/Special Events	$ 19.2	$ 24.6	$ 5.4	28.1%
Revenue Subtotal	**$ 5,076.3**	**$ 5,964.0**	**$ 887.7**	**17.5%**
Prior Year Unreserved Fund Balance	**$ -**	**$ 1.5**	**$ 1.5**	**0.0%**
Total	**$ 5,076.3**	**$ 5,965.5**	**$ 889.2**	**17.5%**

Sources: City of Chicago FY2005 Budget Overview and Revenue Estimates, pp. 44-58, and FY2009 Budget Overview & Revenue Estimates pp. 44-74.

Corporate Fund Revenue Trends

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 2.5% or $81.7 million **decrease** in Corporate Fund revenues in FY2009 from FY2008's amended final budget appropriation.[21]

The Corporate Fund's tax revenues are projected to **fall** by 6.4% in FY2009, down from over $2.2 billion in the final FY2008 budget appropriation document to $2.1 billion in the FY2009. 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 4.0% or $23.1 million. Income

[21] FY2008 data, in addition to being taken from the final budget appropriation ordinance, also includes the mid-year $63.0 million appropriation of the increase in the Real Estate Transfer Tax to the Chicago Transit Authority. The $63.0 million transfer is reflected in the FY2008 Transaction Taxes line item.

tax receipts, which include the personal property replacement tax levied on corporations and utilities, is projected to fall by 7.4% to $362.0 million from $390.8. Utility taxes and franchise fees will increase by 4.6%, rising from $500.1 million to $523.3 million.

Non-tax Corporate Fund revenues will remain almost constant, with a slight 0.4% or $3.7 million increase projected for FY2009. License and permit revenues will decrease by 11.9% in FY2009 due to the decline of the real estate market.[22] Leases, rentals and sales will also decline in FY2009 due to a lagging real estate market, falling from $24.5 million to $24.1 million, a 1.6% decline over FY2008 final revenue estimates.

The category of Proceeds and Transfers In will increase by 67.5% in FY2009, from the final FY2008 budget ordinance estimation of $109.7 million to $183.8 million in FY2009. This category includes tax revenue from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes non-tax revenue derived from transfers of nonrecurring revenue sources. The FY2009 projection includes $50 million in proceeds from the anticipated long-term lease of the City's parking meters and a $20 million payment from the Midway annuity funded by the long-term lease of Midway Airport.[23]

City of Chicago Corporate Fund Revenues: FY2008* & FY2009
(in $ millions)

Tax Revenue	**FY2008***	**FY2009**	**$ Change**	**% Change**
Sales & Use Taxes	$ 570.6	$ 547.5	$ (23.1)	-4.0%
Utility Tax & Franchise Fees	$ 500.1	$ 523.3	$ 23.2	4.6%
Income Taxes (Incl. PPRT)	$ 390.8	$ 362.0	$ (28.8)	-7.4%
Transaction Taxes**	$ 395.9	$ 257.3	$ (138.6)	-35.0%
Transportation Taxes	$ 152.4	$ 161.6	$ 9.2	6.0%
Recreation Taxes	$ 153.3	$ 162.6	$ 9.3	6.1%
Business Taxes	$ 90.7	$ 94.0	$ 3.3	3.6%
Municipal Auto Rental Tax	$ 3.8	$ 3.8	$ -	0.0%
Total Tax Revenue	**$ 2,257.6**	**$ 2,112.1**	**$ (145.5)**	**-6.4%**
Non-Tax Revenue				
Fines & Forfeitures	$ 266.2	$ 293.5	$ 27.3	10.3%
Licenses & Permits	$ 142.3	$ 125.3	$ (17.0)	-11.9%
Current Service Charges	$ 79.4	$ 93.7	$ 14.3	18.0%
Leases, Rentals & Sales	$ 24.5	$ 24.1	$ (0.4)	-1.6%
Municipal Utilities	$ 29.5	$ 5.9	$ (23.6)	-80.0%
Reimbursement,Interest,Other	$ 345.1	$ 348.2	$ 3.1	0.9%
Total Non-Tax Revenue	**$ 887.0**	**$ 890.7**	**$ 3.7**	**0.4%**
Prior Year Unreserved Fund Balance	$ 15.5	$ 1.5	$ (14.0)	-90.3%
Proceeds & Transfers In	**$ 109.7**	**$ 183.8**	**$ 74.1**	**67.5%**
Total Corporate Revenue	**$ 3,269.8**	**$ 3,188.1**	**$ (81.7)**	**-2.5%**

*FY2008 data is taken from the final budget ordinance document.

**$63 million has been added to this line for FY2008 to account for the mid-year appropriation of the Real Estate Transfer Tax to the CTA.

Source: City of Chicago FY2008 Final Revenue Estimates, and FY2009 Budget Overview and Revenue Estimates, p. 47.

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[22] *City of Chicago FY2009 Overview and Revenue Estimates*, p. 62.
[23] *City of Chicago FY2009 Overview and Revenue Estimates*, p. 65.

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2005 and FY2009, all Corporate Fund revenues will increase by 16.5%, a $450.4 million increase, that will push Corporate Fund revenues from $2.7 billion up to nearly $3.2 billion. During this period, Corporate Fund tax revenues rose by 17.1% and non-tax revenues increased by 16.3%. Municipal utilities, taking into account the anticipated lease of the City's parking meters, will decrease by 76.6% over the five-year period. Leases, rentals and sales, which includes revenues generated from city-owned land, is projecting a decrease of 40.5%, from $40.5 million in FY2005 to $24.1 million in FY2009.

Fines and forfeitures, which includes red light camera tickets, will increase by 50.5% over the five-year period, from $195.0 million to $293.5 million.

City of Chicago Corporate Fund Revenues: FY2005 & FY2009 (in $ millions)

Tax Revenue	FY2005	FY2009	$ Change	% Change
Sales & Use Taxes	$ 445.4	$ 547.5	$ 102.1	22.9%
Utility Tax & Franchise Fees	$ 500.4	$ 523.3	$ 22.9	4.6%
Income Taxes (Incl. PPRT)	$ 253.9	$ 362.0	$ 108.1	42.6%
Transaction Taxes	$ 269.5	$ 257.3	$ (12.2)	-4.5%
Transportation Taxes	$ 152.6	$ 161.6	$ 9.0	5.9%
Recreation Taxes	$ 110.5	$ 162.6	$ 52.1	47.1%
Business Taxes	$ 68.3	$ 94.0	$ 25.7	37.6%
Municipal Auto Rental	$ 3.4	$ 3.8	$ 0.4	11.8%
Total Tax Revenue	**$ 1,804.0**	**$ 2,112.1**	**$ 308.1**	**17.1%**
Non-Tax Revenue				
Fines & Forfeitures	$ 195.0	$ 293.5	$ 98.5	50.5%
Licenses & Permits	$ 107.9	$ 125.3	$ 17.4	16.1%
Current Service Charges	$ 83.7	$ 93.7	$ 10.0	11.9%
Leases, Rentals & Sales	$ 40.5	$ 24.1	$ (16.4)	-40.5%
Municipal Utilities	$ 25.2	$ 5.9	$ (19.3)	-76.6%
Reimbursement,Interest,Other	$ 313.5	$ 348.2	$ 34.7	11.1%
Total Non-Tax Revenue	**$ 765.8**	**$ 890.7**	**$ 124.9**	**16.3%**
Prior Year Unreserved Fund Balance	$ -	$ 1.5	$ 1.5	0.0%
Proceeds & Transfers In	$ 167.9	**$ 183.8**	$ 15.9	9.5%
Total Corporate Revenue	**$ 2,737.7**	**$ 3,188.1**	**$ 450.4**	**16.5%**

Sources: City of Chicago FY2005 Budget Overview and Revenue Estimates, p. 47, and FY2009 Budget Overview and Revenue Estimates, p. 47.

Skyway Revenues

The FY2009 budget contains $11.3 million in proceeds from the Skyway lease for neighborhood, human and business assistance programs. This is the last distribution from the $100.0 million Neighborhood and Human Investment Fund created using a portion of the proceeds from the lease of the Skyway. The project to create a citywide case management system will receive $2.0 million, while Meals on Wheels will receive $1.7 million. To further support the City's affordable housing plan, Skyway proceeds are also being used to fund a host of housing initiatives, including an affordable housing loan program, a home energy assistance program as well as funding for emergency housing repairs.[24]

City of Chicago Skyway Proceeds Appropriations: FY2009 (in $ millions)	
Program	**Amount***
Citywide Case Management System	$ 2.0
Meals on Wheels	$ 1.7
Affordable Housing Development Loans	$ 1.6
Out-of-School Youth Programs	$ 1.0
Low-Income Housing Trust Fund	$ 1.0
City Blocks Façade Improvement	$ 0.8
Ex-Offender Job and Job Training	$ 0.8
Low-Income Home Engery Assistance	$ 0.6
Transportation Studies	$ 0.6
Emergency Housing Assistance	$ 0.6
HomeMod	$ 0.4
Plan to End Homelessness	$ 0.2
Total	**$ 11.3**

Source: City of Chicago FY2009 Overview and Revenue Estimates p. 3.
*Total numbers differ slightly due to rounding.

Property Tax Revenue

The City of Chicago's proposed 2009 property tax levy for City government purposes is $796.8 million, the same as in 2008.

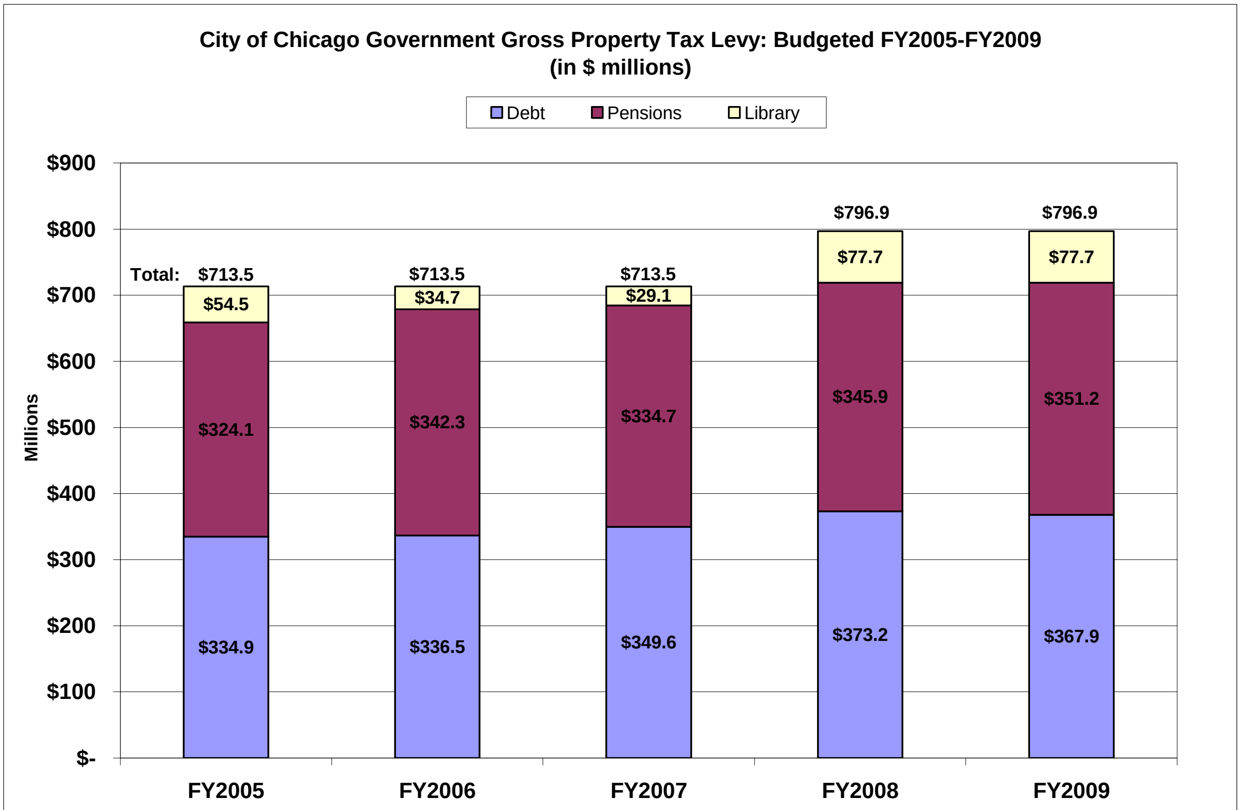
The proposed 2009 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[25] A portion of the Library levy funds debt service on bonds issued for the Library's capital program, but some of the levy pays for short-term borrowing to fund Library operating 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 FY2009 will not begin to be collected until the autumn of 2010.

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 borrowing activities and bond payment schedule. None of the property tax levy is used for Corporate Fund operating purposes.[26]

The levy for City government purposes had been 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. This exceeded the City's self-imposed limit on property tax increases. As a home rule unit of

[24] *City of Chicago FY2009 Overview and Revenue Estimates*, p. 2.
[25] Since 1996, the Library has been listed as a separate line item on Chicago property tax bills.
[26] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.

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.[27] 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.



Source: City of Chicago Budgets FY2005-FY2009 Recommendations Summary "B". Excludes levies for the City Colleges of Chicago debt service and Special Service Area #1.

MIDWAY AIRPORT LONG TERM LEASE

The City successfully concluded its efforts to lease Midway Airport on September 30 with the announcement of a 99 year lease of the airport to Midway Investment and Development Company, LLC (MIDCo). MIDCo will pay the City $2.521 billion for the rights, including all revenues, and obligations related to the operation, management, improvement and development of the airport. MIDCo is owned by YVR Airport Services, Citi Infrastructure Investors (a unit of Citigroup) and John Hancock Life Insurance Company. YVR operates the Vancouver International Airport as well as 17 other airports worldwide. These 18 airports handled 29

[27] 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".

million passengers in 2007, with the Vancouver airport representing 18 million of them. In 2007, Midway handled approximately 19 million passengers.[28]

The transaction was approved by the Chicago City Council on October 8, 2008 and is expected to close prior to year-end after it is approved by the Federal Aviation Administration (FAA). Illinois Governor Blagojevich recently signed the Local Government Facility Lease Act into law, which governs how the proceeds of the long-term leases can be used. More specifically, the law says at least 90% of the proceeds of the lease agreement shall be expended or obligated for construction and maintenance of infrastructure within the municipality, contributions to municipal pension funds, or any combination of the preceding.[29]

Proceeds from the lease will be used to pay off approximately $1.3 billion in debt related to Midway[30] with the remainder being allocated 90% to city infrastructure projects and employee pensions. The proceeds can be reduced by up to $100 million if interest rates increase sufficiently between the date bids were submitted and the closing; there is no increase in proceeds should interest rates fall.[31]

Use of Midway Airport Long-Term Lease Proceeds		
Retire Midway Debt	$	1,300,000,000
Establish 5-Year Annuity to Pay for Operating Expenses	$	100,000,000
Funding for Infrastructure Projects or to Reduce Pension Liabilities	$	1,121,000,000
Total	**$**	**2,521,000,000**

* The figures are preliminary and may be subject to change.
Source: Fran Spielman, "Midway Airport Leased for $2.5 Billion, *Chicago Sun-Times* , October 1, 2008.

Under the lease agreement, the City is obligated to provide police, firefighting and emergency medical services to MIDCo. Previously Midway was charged for these services. Charges billed by the City to Midway were $11.4 million and $11.8 million in 2006 and 2007, respectively.[32] The City is also obligated to complete specific, currently existing capital projects: Concourse A Infill, employee parking expansion, Runway 4R-22L rehabilitation, Residential Sound Program, 2006 equipment and vehicle acquisitions and acquisition of particular parcels of real estate. The City has given a 5 year right of first refusal to MIDCo to purchase the City owned property at 72nd and Cicero Avenues.[33]

MIDCo, in its turn, is responsible for all other activity and capital projects during the lease term. They will initially be required to operate the airport at service less than current and these standards can be changed by the City and the Airlines to meet standards and practices of airports comparable to Midway. MIDCo will also be required to operate under the City's MBW/WBE, Living Wage (Municipal Code Sec 2-92-610) and Prevailing Wage (IL Prevailing Wage Act, 820 ILCS130/1) requirements.[34] The approximately 160 current Midway employees will be

[28] YVR press release September 30, 2008, http://www.yvr.ca/authority/newsreleases/news_details.asp?id=534
[29] IL P.A. 094-0750.
[30] Fran Spielman, "Midway airport leased for $2.5 billion," Chicago Sun-Times, October 1, 2008.
[31] Midway Concession and Lease Agreement, Section 2.4(g)
[32] Chicago Midway International Airport, Audited Financial Statements for the Year Ended December 31, 2007, p. 33.
[33] Midway Concession and Lease Agreement, Section 4.4(a-f) and Section 3.23
[34] Midway Concession and Lease Agreement, Section 11.6-11.8

offered employment with the City or positions with MIDCo at comparable pay levels. MIDCo is required to accept the current collective bargaining agreements and in the future to negotiate in good faith with any union for labor neutrality and card check procedure agreements.[35]

A separate, 25 year Use Agreement has been negotiated between the Airlines, the City and MIDCo that limits the airlines' fees to $45 million for the first 6 years of the agreement and limits future increases to the CPI (excluding food and energy).[36] In 2006 these fees were $43 million and $37 million in 2007. In 2006, total revenues from operating sources (airline fees and concessions) were $106 million with an additional $48 million from non-operating sources, primarily from passenger and customer facility charges and interest income. In 2007 operating revenues were $107 million and non-operating revenues were $60 million. All of these sources will be part of MIDCo's revenue.[37]

APPROPRIATIONS

The FY2009 City of Chicago budget proposes a net appropriation of approximately $5.97 billion. This is a **decrease** of 0.2% or approximately $14.1 million less than the previous fiscal year amended final appropriation ordinance.[38] Personnel Services appropriations are projected to slightly increase by 0.8%. Travel appropriations will decrease by 22.5% over the two-year period, from $4.0 million in FY2008 to $3.1 million in FY2009.

City of Chicago Appropriations by Object All Funds: FY2008* & FY2009 (in $ millions)

Object	FY2008*	FY2009	$ Change	% Change
Personnel Services	$ 3,160.9	$ 3,187.7	$ 26.8	0.8%
Contractual Services	$ 762.9	$ 755.4	$ (7.5)	-1.0%
Travel	$ 4.0	$ 3.1	$ (0.9)	-22.5%
Commodities	$ 131.9	$ 162.7	$ 30.8	23.4%
Equipment	$ 9.8	$ 12.8	$ 3.0	30.6%
Permanent Improvements	$ 2.9	$ 2.9	$ -	0.0%
Specific Items/Contingencies**	$ 2,290.6	$ 2,215.2	$ (75.4)	-3.3%
Subtotal	**$ 6,363.0**	**$ 6,339.8**	**$ (23.2)**	**-0.4%**
Less Internal Transfers	$ 311.3	$ 302.2	$ (9.1)	-2.9%
Less Proceeds of Debt	$ 70.4	$ 70.4	$ -	0.0%
Total	**$ 5,981.3**	**$ 5,967.2**	**$ (14.1)**	**-0.2%**

*FY2008 data is taken from the budget appropriation ordinance due to substantial revisions to the original budget document.

**$63 million has been added to this line for FY2008 to account for the mid-year appropriation of a portion of the Real Estate Transfer Tax to the CTA.

Source: City of Chicago FY2008 Budget Appropriation Ordinance, Summary D, and FY2009 Budget Recommendations, p. 10.

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[35] Midway Airport – Long-term Concession and Lease factsheet, http://www.aci-na.org/static/entransit/midway_factsheet.pdf

[36] Midway Airport – Long-term Concession and Lease factsheet, http://www.aci-na.org/static/entransit/midway_factsheet.pdf

[37] Chicago Midway International Airport, Audited Financial Statements for the Year Ended December 31, 2007, pp. 6-7.

[38] FY2008 data, in addition to being taken from the final budget appropriation ordinance, also includes the mid-year $63.0 million appropriation of the increase in the Real Estate Transfer Tax to the Chicago Transit Authority. The $63.0 million transfer is reflected in the FY2008 Specific Items/Contingencies line item. *See* City of Chicago FY2008 Final Budget Appropriation Ordinance, Summary D.

Over the five-year period from FY2005 to FY2009, net appropriations have risen by 17.3%, or approximately $878.8 million. Personnel Services appropriations have increased by roughly 13.0% over the five-year span from FY2005 to FY2009. Commodities appropriations will increase by 60.6%, from $101.3 million in FY2005 to $162.7 million in FY2009.

City of Chicago Appropriations by Object All Funds: FY2005 & FY2009 (in $ millions)				
Object	**FY2005**	**FY2009**	**$ Change**	**% Change**
Personnel Services	$ 2,821.0	$ 3,187.7	$ 366.7	13.0%
Contractual Services	$ 649.3	$ 755.4	$ 106.1	16.3%
Travel	$ 3.1	$ 3.1	$ -	0.0%
Commodities	$ 101.3	$ 162.7	$ 61.4	60.6%
Equipment	$ 9.4	$ 12.8	$ 3.4	36.2%
Permanent Improvements	$ 3.0	$ 2.9	$ (0.1)	-3.3%
Specific Items/Contingencies	$ 1,829.8	$ 2,215.2	$ 385.4	21.1%
Subtotal	**$ 5,416.9**	**$ 6,339.8**	**$ 922.9**	**17.0%**
Less Internal Transfers	$ 262.5	$ 302.2	$ 39.7	15.1%
Less Proceeds of Debt	$ 66.0	$ 70.4	$ 4.4	6.7%
Total	**$ 5,088.4**	**$ 5,967.2**	**$ 878.8**	**17.3%**

Source: City of Chicago FY2005 Budget Recommendations, Summary D, and FY2009 Budget Recommendations, p. 10.

Appropriations by Fund

The FY2009 budget projects that appropriations for all funds will decrease by 0.2% from FY2008 final budget appropriations, except for the Enterprise Fund which will increase by 3.9%.[39] Appropriations for the City's Corporate Fund will decrease slightly, falling from $3,218.5 million in FY2008 to $3,188.0 million in FY2009.

The Special Revenue Fund, which includes appropriations for operations of specific activities that require special accounting procedures, decreased by 2.4% over FY2008. Appropriations for Special Revenue Funds include $63.0 million appropriation for the CTA portion of the increased Real Estate Transfer Tax, which was approved mid-year. The $63 million represents a nine-month appropriation of the CTA's portion of the tax.[40]

Appropriations for the Debt Service Fund will experience both the largest percentage and dollar amount decreases, falling by 6.9% to $537.4 million. Pension Fund appropriations will also decrease by $2.1 million or 0.5%. 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 3.9% over FY2008.

[39] FY2008 data, in addition to being taken from the final budget appropriation ordinance, also includes the mid-year $63.0 million appropriation of the increase in the Real Estate Transfer Tax to the Chicago Transit Authority. This $63.0 million transfer is reflected in the FY2008 Special Revenue Fund line item. Communication between the Civic Federation and the City of Chicago Office of Budget and Management, October 23, 2008.

[40] Communication between the Civic Federation and the City of Chicago Office of Budget and Management, October 30, 2008.

City of Chicago Appropriations by Fund: FY2008* & FY2009 (in $ millions)				
	FY2008*	FY2009	$ Change	% Change
Corporate Fund	$ 3,218.5	$ 3,188.0	$ (30.5)	-0.9%
Special Revenue Fund**	$ 519.3	$ 506.7	$ (12.6)	-2.4%
Pension Funds	$ 457.0	$ 454.9	$ (2.1)	-0.5%
Debt Service Fund	$ 577.2	$ 537.4	$ (39.8)	-6.9%
Enterprise Fund	$ 1,590.9	$ 1,652.9	$ 62.0	3.9%
Total Resources	**$ 6,362.9**	**$ 6,339.9**	**$ (23.0)**	**-0.4%**
Less Proceeds of Debt	$ 311.3	$ 302.2	$ (9.1)	-2.9%
Less Internal Transfer	$ 70.4	$ 70.4	$ -	0.0%
Net Appropriation	**$ 5,981.2**	**$ 5,967.3**	**$ (13.9)**	**-0.2%**

*FY2008 data taken from the final budget appropriation ordinance.

**$63 million has been added to this line for FY2008 to account for the mid-year appropriation of a portion of the Real Estate Transfer Tax to the CTA

Source: City of Chicago Office of Budget and Management, and FY2009 Budget Overview and Revenue Estimates p. 44.

Net appropriations are projected to rise by approximately 17.3% in the five-year period since FY2005. The largest increase of 24.8% is projected to be in appropriations for the City's Special Revenue Fund. Corporate Fund expenditures are expected to rise by 14.3%, from nearly $2.8 billion to $3.2 billion. Appropriations for the Enterprise Fund are also expected to increase, by 23.8% or $317.4 million.

City of Chicago Appropriations by Fund: FY2005 & FY2009 (in $ millions)				
	FY2005	FY2009	$ Change	% Change
Corporate Fund	$ 2,790.1	$ 3,188.0	$ 397.9	14.3%
Special Revenue Fund	$ 406.1	$ 506.7	$ 100.6	24.8%
Pension Funds	$ 408.2	$ 454.9	$ 46.7	11.4%
Debt Service Fund	$ 477.6	$ 537.4	$ 59.8	12.5%
Enterprise Fund	$ 1,335.5	$ 1,652.9	$ 317.4	23.8%
Total Resources	**$ 5,417.5**	**$ 6,339.9**	**$ 922.4**	**17.0%**
Less Proceeds of Debt	$ 66.1	$ 302.2	$ 236.1	357.2%
Less Internal Transfer	$ 262.5	$ 70.4	$ (192.1)	-73.2%
Net Appropriation	**$ 5,088.9**	**$ 5,967.3**	**$ 878.4**	**17.3%**

Source: City of Chicago FY2005 Budget Overview and Revenue Estimates, and FY2009 Budget Overview and Revenue Estimates, p. 44.

Appropriations 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. For FY2009, Streets and Sanitation is now listed under this umbrella program group.[41]
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, manages O'Hare and Midway Airports.
- **General Financing Requirements** departments administer pension benefits, long term debt payments, and other cross-departmental expenses.

Appropriations by program between the final FY2008 budget appropriation and the FY2009 proposed budget will remain rather constant, decreasing by 0.2%.[42] Previously acting as a stand alone program category, the Department of Streets and Sanitation will be folded into the Infrastructure Services category for FY2009. Consequently, appropriations for Infrastructure will increase dramatically, or by 85.1%. General Financing Requirements, which include the new CTA portion of the Real Estate Transfer Tax, also provide for employee benefit and pension costs. In FY2009, $454.9 million were appropriated to the City's pension funds, while $411.7 million were appropriated for employee health benefits.[43] Grant fund appropriations will rise slightly from $1,564.8 in FY2008 to $1,595.4 in FY2009.

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[41] *City of Chicago FY2009 Program and Budget Summary*, p. 217.
[42] FY2008 data, in addition to being taken from the final budget appropriation ordinance, also includes the mid-year $63.0 million appropriation of the increase in the Real Estate Transfer Tax to the Chicago Transit Authority. This $63.0 million transfer is reflected in the FY2008 General Financing Requirements line item. *See* City of Chicago FY2008 Final Budget Appropriation Ordinance, Summary E.
[43] Communication between the Civic Federation and the City of Chicago Office of Budget and Management, October 30, 2008.

City of Chicago Appropriations by Program Area: FY2008* & FY2009 (in $ millions)				
	FY2008*	FY2009	$ Change	% Change
Finance and Administration	$ 504.4	$ 510.4	$ 6.0	1.2%
Legislative and Elections	$ 39.9	$ 37.2	$ (2.7)	-6.8%
City Development	$ 310.0	$ 282.9	$ (27.1)	-8.7%
Community Services	$ 661.5	$ 618.1	$ (43.4)	-6.6%
Public Safety	$ 2,074.9	$ 2,107.4	$ 32.5	1.6%
Regulatory	$ 126.9	$ 135.2	$ 8.3	6.5%
Streets and Sanitation	$ 365.9	$ -	$ (365.9)	-100.0%
Infrastructure Services	$ 376.0	$ 695.9	$ 319.9	85.1%
Public Services Enterprises	$ 793.2	$ 848.3	$ 55.1	6.9%
General Financing Requirements**	$ 2,675.3	$ 2,699.9	$ 24.6	0.9%
Subtotal	**$ 7,928.0**	**$ 7,935.3**	**$ 7.3**	**0.1%**
Less Proceeds and Reimbusements	$ 381.7	$ 372.6	$ (9.1)	-2.4%
Less Grant Funds	$ 1,564.8	$ 1,595.4	$ 30.6	2.0%
Total	**$ 5,981.5**	**$ 5,967.3**	**$ (14.2)**	**-0.2%**

*FY2008 data is taken from the final budget appropriation ordinance.

**$63 million has been added to this line for FY2008 to account for the mid-year appropriation of a portion of the Real Estate Transfer Tax to the CTA

Source: City of Chicago FY2008 Budget Appropriation Ordinance, Summary G, and FY2009 Program & Budget Summary, p. 3.

Appropriations by major program area between FY2005 and FY2009 are presented in the next exhibit. The two largest increases by percentage occurred in Public Service Enterprises and Regulatory, with increases of 43.8% and 35.7% respectively. Infrastructure Services appropriations have also increased dramatically, but this is due to the aforementioned shift of Streets and Sanitation appropriations to this category in FY2009.

City of Chicago Appropriations by Program Area: FY2005 & FY2009 (in $ millions)				
	FY2005	FY2009	$ Change	% Change
Finance and Administration	$ 416.6	$ 510.4	$ 93.8	22.5%
Legislative and Elections	$ 30.3	$ 37.2	$ 6.9	22.8%
City Development	$ 247.5	$ 282.9	$ 35.4	14.3%
Community Services	$ 570.4	$ 618.1	$ 47.7	8.4%
Public Safety	$ 1,655.2	$ 2,107.4	$ 452.2	27.3%
Regulatory	$ 99.6	$ 135.2	$ 35.6	35.7%
Streets and Sanitation	$ 349.8	$ -	$ (349.8)	-100.0%
Infrastructure Services/Transportation	$ 242.2	$ 695.9	$ 453.7	187.3%
Public Services Enterprises	$ 590.1	$ 848.3	$ 258.2	43.8%
General Financing Requirements	$ 2,294.6	$ 2,699.9	$ 405.3	17.7%
Subtotal	**$ 6,496.3**	**$ 7,935.3**	**$ 1,439.0**	**22.2%**
Less Proceeds and Reimbusements	$ 328.5	$ 372.6	$ 44.1	13.4%
Less Grant Funds	$ 1,079.3	$ 1,595.4	$ 516.1	47.8%
Total	**$ 5,088.5**	**$ 5,967.3**	**$ 878.8**	**17.3%**

Source: City of Chicago FY2005 Program & Budget Summary, p. ii, and FY2009 Program & Budget Summary, p. 3.

RESERVE FUNDS

Between FY2002 and FY2006, unreserved, undesignated Corporate Fund balances increased by 106.2%, or from $13.0 million to $26.3 million.[44] In those same years, the unreserved fund balance in the Corporate Fund as a percentage of Corporate Fund operating expenditures rose from 0.5% to 0.9%. However, between FY2005 and FY2006, unreserved fund balance fell sharply from $57.6 million to $26.8 million, a decline of 53.5%. In FY2007, the unreserved Corporate Fund balance fell further to 0.2% or just $4.6 million.

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.[45] A Corporate Fund reserve of 5% of Corporate Fund expenditures would have required approximately $153.1 million. This is over $148.5 million more than what the City reported in FY2007.

The situation has deteriorated since FY2007. In the FY2009 Budget, the City projects a FY2007 year end unreserved Corporate Fund balance of only $1.5 million that will be carried over into the new fiscal year.[46] This is just 0.5% of the operating expenditures of $3.18 billion budgeted for the new fiscal year.

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.

City of Chicago Unreserved, Undesignated Corporate Fund Balance Ratio (FY1998-FY2007)

	Unreserved, Undesignated Corporate Fund	Operating Expenditures	Ratio
FY1998	$ 177,254,000	$ 2,167,894,000	8.2%
FY1999	$ 108,107,000	$ 2,288,518,000	4.7%
FY2000	$ 80,653,000	$ 2,380,310,000	3.4%
FY2001	$ 33,241,000	$ 2,440,426,000	1.4%
FY2002	$ 13,014,000	$ 2,442,796,000	0.5%
FY2003	$ 19,458,000	$ 2,661,102,000	0.7%
FY2004	$ 42,246,000	$ 2,567,658,000	1.6%
FY2005	$ 57,648,000	$ 2,739,570,000	2.1%
FY2006	$ 26,834,000	$ 2,902,202,000	0.9%
FY2007	$ 4,634,000	$ 3,063,019,000	0.2%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY1998-FY2007

[44] See City of Chicago *Comprehensive Annual Financial Reports*, FY2002-FY2006.
[45] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).
[46] *FY2009 City of Chicago Budget Overview and Revenue Estimates*, p. 47.

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

The following sections detail personnel appropriations, personnel head count by agency, cost of employee health benefits and the effects of the proposed department reorganizations on personnel count.

Personnel Appropriations

Corporate Fund personal service appropriations are projected to increase by $17.0 million in FY2009, a 0.7% increase over the amended FY2008 budget amount.

City of Chicago Corporate Fund Appropriations
For Personal and Non-Personal Services: FY2008 & FY2009

	FY2008	FY2009	$ Change	% Change
Personal Services	$ 2,609,154,432	$ 2,626,158,687	$ 17,004,255	0.7%
Non-Personal Services	$ 597,685,568	$ 561,813,313	$ (35,872,255)	-6.0%
Total	**$ 3,206,840,000**	**$ 3,187,972,000**	**$ (18,868,000)**	**-0.6%**

Source: FY2008 City of Chicago Budget Recommendations, p. iv, and FY2009 City of Chicago Budget Recommendations, p. 5

Between FY2005 and FY2009, personal service appropriations in the Corporate Fund will increase by 14.3%, from approximately $2.3 billion to $2.6 billion. This represents a $328.1 million rise. The percentage of Corporate Fund appropriations earmarked for personal services, stayed flat at 82.4% over the five-year period.

City of Chicago Corporate Fund Appropriations
For Personal Services: FY2005 & FY2009

	FY2005	FY2009	$ Change	% Change
Personal Services	$ 2,298,027,117	$ 2,626,158,687	$ 328,131,570	14.3%
% of Corporate Fund	82.4%	82.4%		

Source: FY2005 City of Chicago Budget Recommendations, p. iv, and FY2009 City of Chicago Budget Recommendations, p. 5

Personnel Head Count by Agency

For FY2009, the City of Chicago recommends funding 37,432 full time equivalent (FTE) positions. This represents a decrease of 6.5% or 2,618 positions from the number of FTEs in the FY2008 amended budget. There will be a reduction of 510 FTEs in the Streets and Sanitation program area, representing a 14.0% decrease, and a reduction of 410 FTEs in the Public Safety program area, representing a 1.8% decrease. However, it is important to note that no sworn officer positions were eliminated in the FY2009 budget, including vacancies.[47]

The greatest number of positions reduction will occur in the area of Community Services, which will see the elimination of 608 FTEs, 15.8% reduction. The greatest percentage decrease will occur in the area of City Development, which will eliminate 203 positions for a reduction of 40.0%. The totals for full-time equivalents were obtained from the *City of Chicago FY2009 Program & Budget Summary* – these totals are larger than those reported in the *FY2008 Budget Overview and Revenue Estimates* because they include positions funded by grants**.**

[47] Communication between the Civic Federation and the City of Chicago Office of Management and Budget, October 30, 2008.

Full-Time Equivalent Positions by Agency: FY2008 & FY2009				
Agency	**FY2008 Appropriation**	**FY2009 Recommended**	**# Change**	**% Change**
Finance & Administration	3,217	2,857	(360)	-11.2%
Legislative & Elections	370	357	(13)	-3.5%
City Development	508	305	(203)	-40.0%
Community Services	3,848	3,240	(608)	-15.8%
Public Safety	22,748	22,338	(410)	-1.8%
Regulatory	994	840	(154)	-15.5%
Streets & Sanitation	3,648	3,138	(510)	-14.0%
Transportation	819	723	(96)	-11.7%
Public Service Enterprises	3,898	3,634	(264)	-6.8%
Total	**40,050**	**37,432**	**(2,618)**	**-6.5%**

Source: FY2009 City of Chicago Program and Budget Summary, FY2009 figures reflect amended budget appropriations

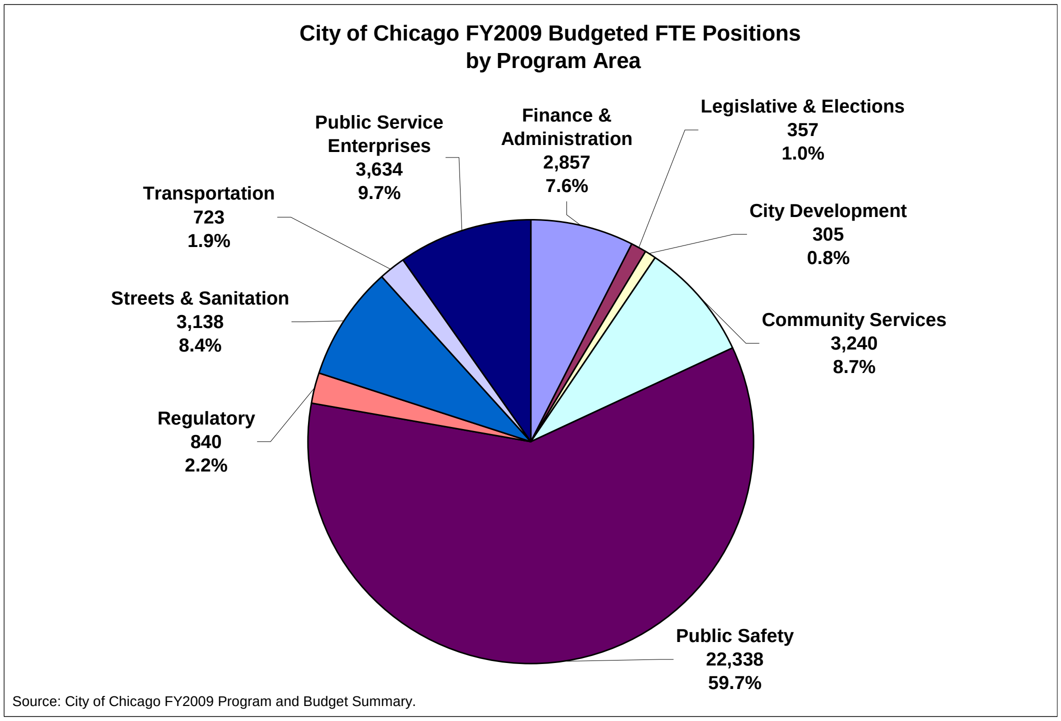
During the five-year period from FY2005 to FY2009, there has been a 7.0% reduction in the level of total full-time equivalent (FTE) positions. This is a reduction of 2,857 FTE positions, from the 40,236 FTE positions budgeted in FY2005 to the 37,432 FTE positions recommended for FY2009. Over this five-year period, there has been a trend of reduction in all nine program areas. The greatest unit decreases occurred in the areas of Community Services, Public Service Enterprises and Streets & Sanitation, which experienced reductions of 711 FTE positions, 610 FTE positions and 347 FTE positions, respectively. Finance and Administration, City Development, Regulatory and Transportation program areas all experienced reductions of more than 135 FTEs. The greatest percentage declines for the years between FY2005 and FY2009 were in the program areas of City Development and Transportation, which saw decreases of 49.6% and 24.1%, respectively.

Full-Time Equivalent Positions by Agency: FY2005 & FY2009				
Agency	**FY2005 Appropriations**	**FY2009 Recommended**	**# Change**	**% Change**
Finance & Administration	3,156	2,857	(299)	-9.5%
Legislative & Elections	369	357	(12)	-3.3%
City Development	605	305	(300)	-49.6%
Community Services	3,951	3,240	(711)	-18.0%
Public Safety	22,470	22,338	(132)	-0.6%
Regulatory	1,003	840	(163)	-16.3%
Streets & Sanitation	3,485	3,138	(347)	-10.0%
Transportation	953	723	(230)	-24.1%
Public Service Enterprises	4,244	3,634	(610)	-14.4%
Total	**40,236**	**37,432**	**(2,804)**	**-7.0%**

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

FY2005 Figures reflect amended budget appropriations

Approximately 59.7% of all budgeted FTE positions in the proposed FY2009 budget are in the area of Public Safety. The next largest percentages are in the categories of Public Service Enterprises and Community Services, at 9.7% and 8.7% respectively.



Employee Health Care Trends

After experiencing substantial increases in health care costs during recent years, the City has begun to take significant steps to curb the rate at which their employee benefit costs rise. During recent years the City has implemented greater cost-sharing initiatives with employees in much the same manner as the private sector and other governments have done. Some of the cost-saving measures implemented by the City include successful negotiations for a reduction of Blue Cross administrative fees, increased employee contributions to their health care plans, and improved prescription pricing.[48] The City has also implemented employee wellness and disease management programs, negotiated with providers for more favorable rates and conducted dependant-coverage audits.[49]

It has also achieved substantial cost savings through the joint-purchasing of prescription drug and healthcare plans. The City estimates its savings from this plan between September 2004 and December 2008 to total $46.5 million.[50]

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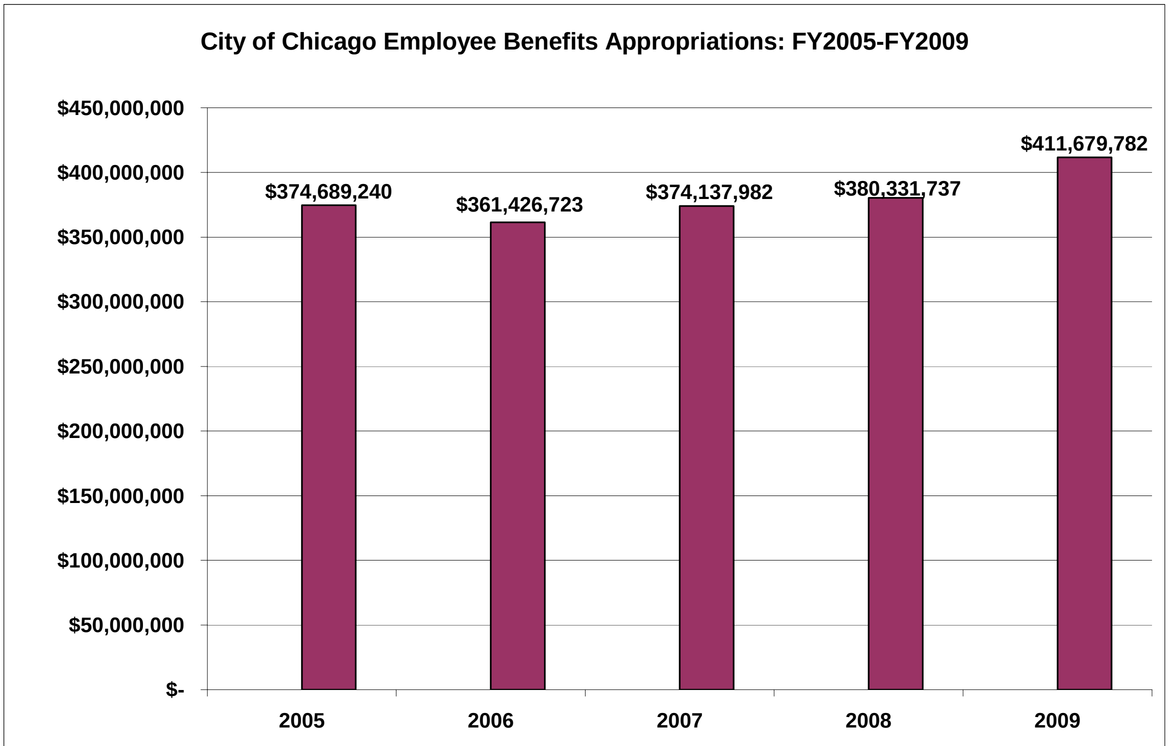
[48] The City of Chicago Office of Budget and Management, in a meeting with the Civic Federation, October 9, 2007.
[49] *City of Chicago FY2008 Overview and Revenue Estimates*, p. 89.
[50] Communication between the Civic Federation and the City of Chicago Office of Budget and Management, October 30, 2008.

The following graph shows the increase in the City's employee health costs from FY2005 through FY2009. Between FY2005 and FY2009, the City estimated that its share of employee benefit costs increased by 9.9% or $37.0 million.



Source: City of Chicago Program and Budget Summary, FY2005-FY2009

Strategic Reorganizations and Consolidations

As a cost-savings measure, city management will consolidate nine existing departments into four new departments. Strategic reorganization and consolidation is expected to save the city $5.8 million by eliminating 240 FTE positions, including the elimination of 129 vacancies and 111 expected lay-offs. The new Department of Community Development will undergo the largest personnel cuts with the elimination of 106 positions. The new Department of Business Affairs and Consumer Protection, Department of Family and Support Services, and Department of Zoning and Land Use Planning will eliminate 46 positions, 83 positions and 5 positions respectively.

Strategic Reorganizations and Consolidations: FY2009					
New Department Name	Consolidated Departments	Vacancy Reductions	Lay-offs	Total FTE Reductions	Cost Savings
Department of Business Affairs and Consumer Protection	Business Affairs, Licensing and Consumer Services	32	14	46	$ 1,400,000
Department of Family and Support Services	Children and Youth Services, Senior Services, Human Services, portions of the Mayor's Office of Workforce Development	45	38	83	$ 2,900,000
Department of Zoning and Land Use Planning	Department of Zoning, Department of Planning and Development Divisions of Land use and Landmarks, property screening function of the Department of Environment	0	5	5	$ 450,000
Department of Community Development*	parts of the Deparments of Planning and Development, Housing and portions of the Mayor's Office of Workforce Development	52	54	106	$ 5,800,000
Total		129	111	240	$ 5,800,000

Source: City of Chicago FY2009 Proposed Budget - Overview and Revenue Estimates p. 9-10

*Note: Forty-six of the 106 positions that will be reduced from the Department of Community Development are funded through the corporate fund. Net savings from these forty-six corporate fund reductions are expected to total $2.8 million.

ALDERMANIC SALARY AND OFFICE EXPENSE INCREASES

Salaries for City of Chicago aldermen are scheduled to increase by 6.2% in FY2009. Governed by Chicago municipal code, salaries for the City's aldermen were set in 2006 at a rate of $98,125, with annual increases tied to the Consumer Price Index rate of inflation for urban wage earners in Chicago.[51] In FY2008 aldermen made $104,100, with an expected increase of 6.2% in FY2009 that will bring their total annual compensation to $110,556. This is an increase of $6,455 over FY2008.

City of Chicago Aldermanic Salary Rate: FY2008 & FY2009				
	FY2008	FY2009	$ Change	% Change
Annual Salary	$ 104,101	$ 110,556	$ 6,455	6.2%

Source: City of Chicago Spokesperson Wendy Abrams, August 20, 2008.

Aldermen may refuse to accept the annual salary increase by notifying the budget director in a sworn statement on or before September 15 of each year. For FY2009 eight city council members have refused the annual increase, choosing instead to keep their salary rate at $104,101 for FY2009. The remaining 42 city council members have accepted the increase.[52] The current pay raise structure for aldermen is in effect until 2011. In order for the current annual increase structure to continue past 2011 the Aldermen must re-authorize the ordinance. The following chart reflects the current cost of the salary increases, taking into account the eight aldermen who did not accept automatic raise.

[51] City of Chicago Municipal Code, Title II, Chapter 2-8-041.
[52] City of Chicago FY2009 Budget Recommendations, p. 52.

City of Chicago Aldermanic Salary Costs: FY2008 & FY2009				
	FY2008	FY2009	$ Change	% Change
Total Salary Costs	$ 5,205,050	$ 5,476,160	$ 271,110	5.2%

Source: Chicago FY2009 Budget Recommendations, p. 52.

In addition to the automatic pay increases, Aldermen also received a $40,000 increase to their annual office expense appropriation that was codified in the Chicago FY2008 annual appropriation ordinance. The action raised the yearly aldermanic office allocation amount to $73,280 from $33,280. All fifty alderman accepted this increase which resulted in a $2.0 million, or 120.2%, increase over FY2007 appropriation for aldermanic office expenses.[53] At any time aldermen can refuse to accept all or part of the $40,000 increase.[54]

City of Chicago Aldermanic Office Expenses: FY2007 & FY2008				
	FY2007	FY2008	$ Change	% Change
Office Expenses	$ 1,664,000	$ 3,664,000	$ 2,000,000	120.2%

Source: City of Chicago FY2007 Budget Recommendations, p. 28, and FY2009 Budget Recommendations, p. 51.

ADDITIONAL PROPERTY TAX REVENUES

As discussed on page 24, the City of Chicago's proposed 2009 property tax levy for City government purposes, including the library, is $796.8 million. However, this figure does not capture 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.[55]

[53] City of Chicago FY2007 Budget Recommendations, p. 28, FY2009 Budget Recommendations, p. 51.
[54] Communication between the Civic Federation and Wendy Abrams, City of Chicago Spokesperson, August 20, 2008.
[55] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php

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;[56] 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 requires 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.[57] 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.[58] It remains at $36.6 million for FY2009.

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.[59]

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.[60] 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.[61]

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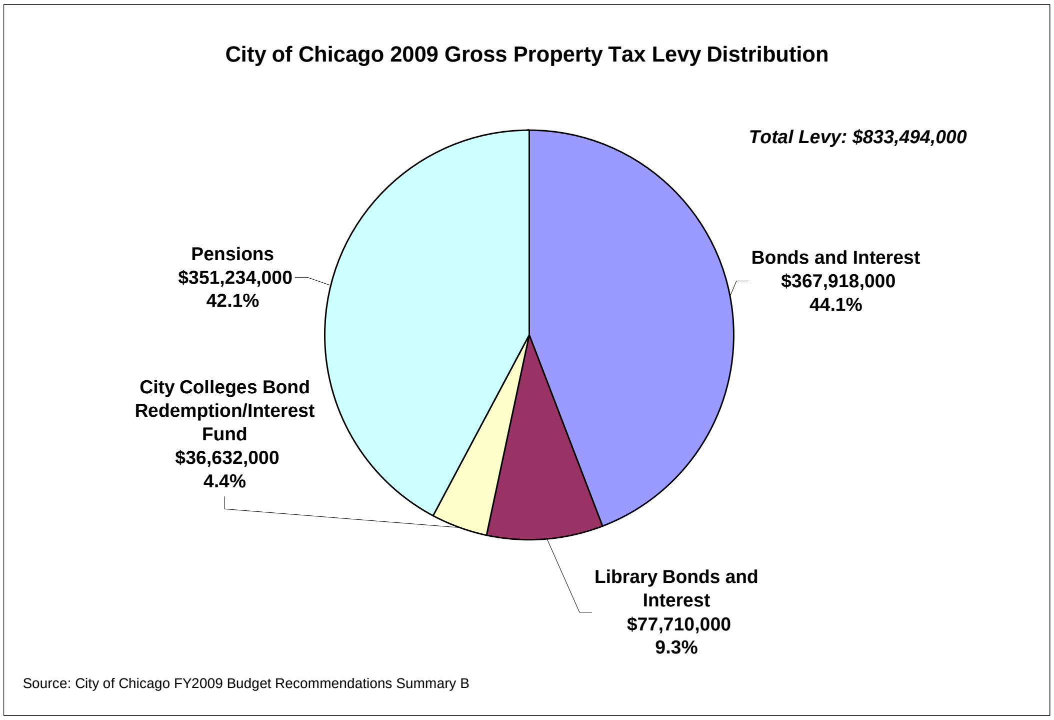
[56] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[57] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[58] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, page B-7. http://emma.msrb.org/MS232999-1.pdf
[59] The City Colleges levy appears in the City's Budget Recommendations book (page 29) but is absent from the property tax discussion on page 45 of the Overview and Revenue Estimates book.
[60] 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/MS238446-1.pdf . See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2007, pages 54, 73, 74, 143.
[61] 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/MS238446-1.pdf

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.[62]

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.[63] In addition, the City has recently issued over $356 million in new bonds to finance its "Modern Schools Across Chicago" school construction program.[64]

The pie chart below illustrates the distribution of the City's total proposed property tax levy for 2009 (taxes payable 2010). Approximately 4.4% of the City's proposed FY2009 property tax levy is for City Colleges bonds, and 9.3% is for the Library. Roughly 42.1% is dedicated to pension payments and 44.1% 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.



[62] 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/MS238446-1.pdf .
[63] City of Chicago Comprehensive Annual Financial Report for the Year Ended December 31, 2007, page 136.
[64] 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 155 TIFs in Chicago.[65]

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 doesn't 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.[66] 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 2007 rates, payable in the autumn of 2008. For 2007, Chicago TIFs generated $555.3 million, up from $386.5 million in 2005.[67]

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.[68]

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 2007 property tax revenues total over $1.3 billion. This is an increase of $196.6 million over FY2005.

City of Chicago FY2005 - FY2007 Gross Property Tax Levy and TIF Revenue

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

*Because TIF revenue can only be calculated once tax rates for a given year are known, the FY2008 TIF total will not be known until the autumn of 2009.

Source: City of Chicago Budgets FY2005-FY2007 Recommendations Summary "B", Cook County Clerk Tax Agency Reports 2005 and 2006, and Clerk TIF reports 2006 and 2007

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.

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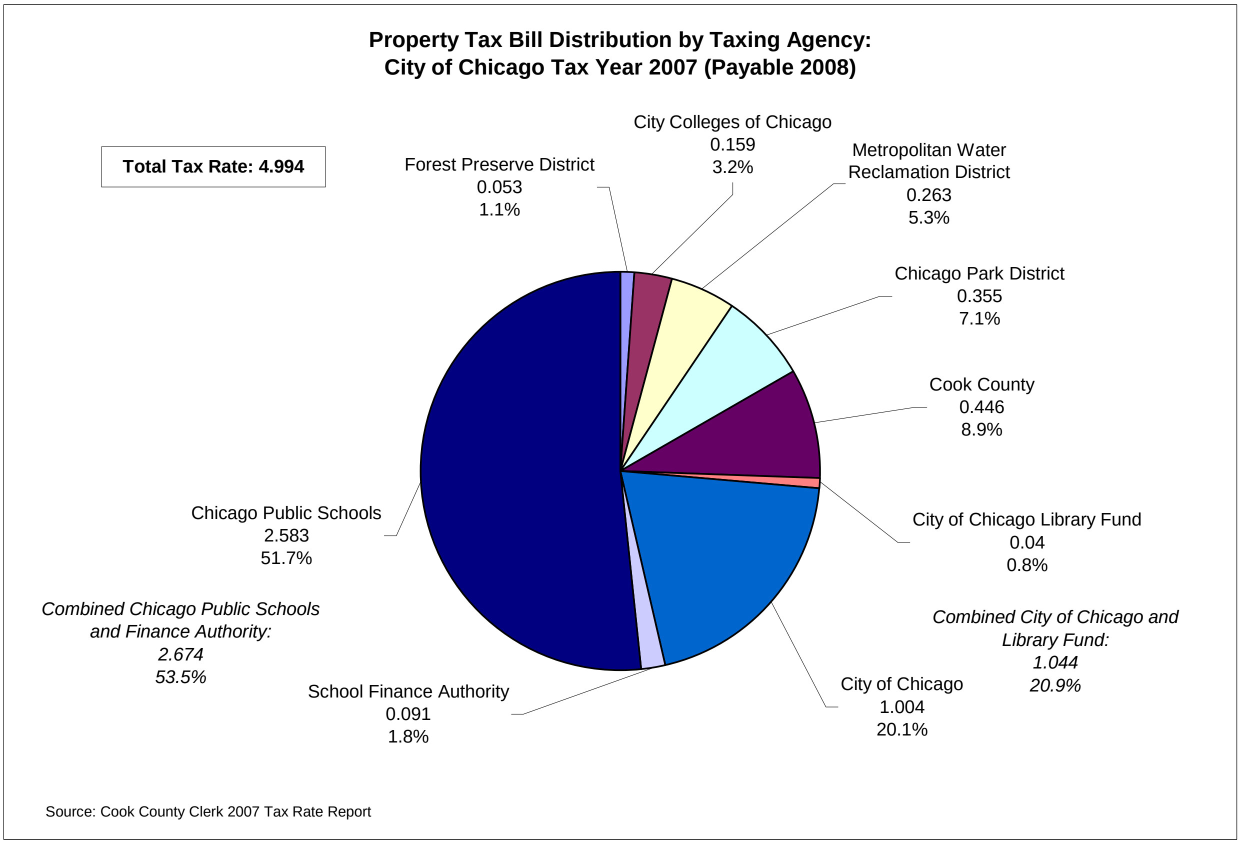
[65] City of Chicago Department of Planning and Development web site, navigate from www.cityofchicago.org .
[66] See *Tax Increment Financing (TIF): A Civic Federation Issue Brief,* http://www.civicfed.org/articles/civicfed_260.pdf
[67] Cook County Clerk 2006 and 2007 TIF Reports. See http://www.cookctyclerk.com/sub/TIF.asp
[68] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.

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,[69] and the City of Chicago reprints that pie chart in its own Overview and Revenue Estimates section of the annual budget. The 2007 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 20.9% of an average City property tax bill is for the City of Chicago, including the Library, and 53.5% is for the Chicago Public Schools, including the School Finance Authority. 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 2005-2007 levies as reported by City Budget Appropriation Ordinances and by the Cook County Clerk. The roughly $17-$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 are not listed in the City appropriations but presumably are part of the Bond and Interest fund levy in the Clerk's reports.

[69] Cook County Clerk 2007 Tax Rate Report, page v. http://www.cookctyclerk.com/pdf/2007%20tax%20rates%20report.pdf

City of Chicago Gross Property Tax Levy: Tax Year 2005-2007 As Reported in the City of Chicago Appropriation Ordinances				
Fund #	**Fund Name**	**2005**	**2006**	**2007**
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
512	Note Redemption and Interest Fund	$ 16,208,000	$ 12,715,000	$ 3,867,000
516	Library Bond Redemption Fund	$ 1,111,000	$ -	$ -
521	Library Note Redemption and Interest Fund	$ 53,404,000	$ 34,737,000	$ 29,103,000
681	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000
683	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000
684	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 713,452,000**
549	City Colleges Bond Redemption/Interest Fund	$ 5,729,000	$ 5,729,000	$ 33,509,000
	GRAND TOTAL	**$ 719,181,000**	**$ 719,181,000**	**$ 746,961,000**

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 2005-2007 As Reported in the Cook County Clerk Agency Tax Rate Reports				
Fund #	**Fund Name**	**2005**	**2006**	**2007**
3	Bonds & Interest	$ 331,938,289	$ 335,910,594	$ 400,728,571
120	Police Pension	$ 137,284,000	$ 135,528,000	$ 141,080,000
121	Fire Pension	$ 49,372,000	$ 69,500,000	$ 65,242,000
122	Municipal Pension	$ 137,412,000	$ 137,228,000	$ 128,378,000
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**
259	Library Note Redemption	$ 53,404,000	$ 34,737,000	$ 29,103,000
	GRAND TOTAL City + Library	**$ 737,059,341**	**$ 737,996,488**	**$ 768,398,571**

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.[70] 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 districts, do pay for TIF. We have also recommended that the bill include a link to a page on the

[70] 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 .

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.[71]

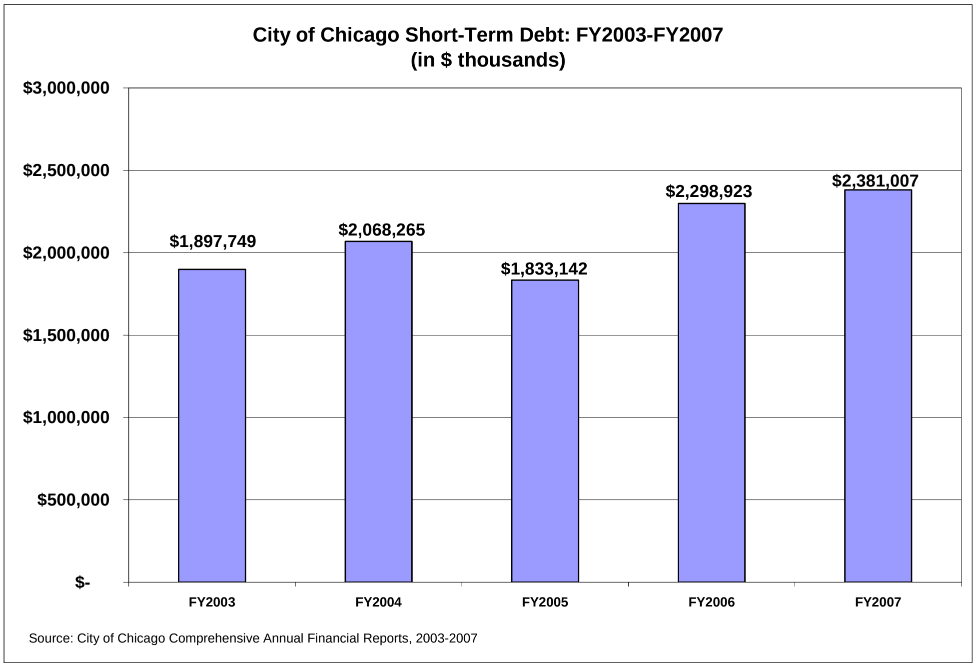
DEBT TRENDS

The Civic Federation employs several measures of debt for purposes of this analysis: short-term debt trends, long-term net direct debt and net direct per capita trends, debt service appropriation trends and bond ratings.

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. City of Chicago short-term debt includes all current liabilities except accrued salaries and wages, accrued payroll, compensated absences, accrued interest and accrued and other liabilities. For purposes of consistency over time, short-term debt is calculated for Governmental Activities, or activities in the four Governmental Funds.

In FY2007, short-term debt for the City of Chicago's Governmental Activities increased by 3.6% from the previous fiscal year. This represented an $82.1 million increase from $2.3 billion to nearly $2.4 billion. However, short-term debt had increased by 25.4% in the prior year, jumping from $1.8 billion to $2.3 billion. The amount of short-term debt has fluctuated over the five years analyzed here, averaging roughly $2.0 billion.



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

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 period, total net direct debt rose by 177.9% or $3.7 billion. This represents an increase from $2.0 billion to approximately $5.8 billion. During the five year period between FY2003 and FY2007, net direct debt rose by 21.0% or $1.0 billion.

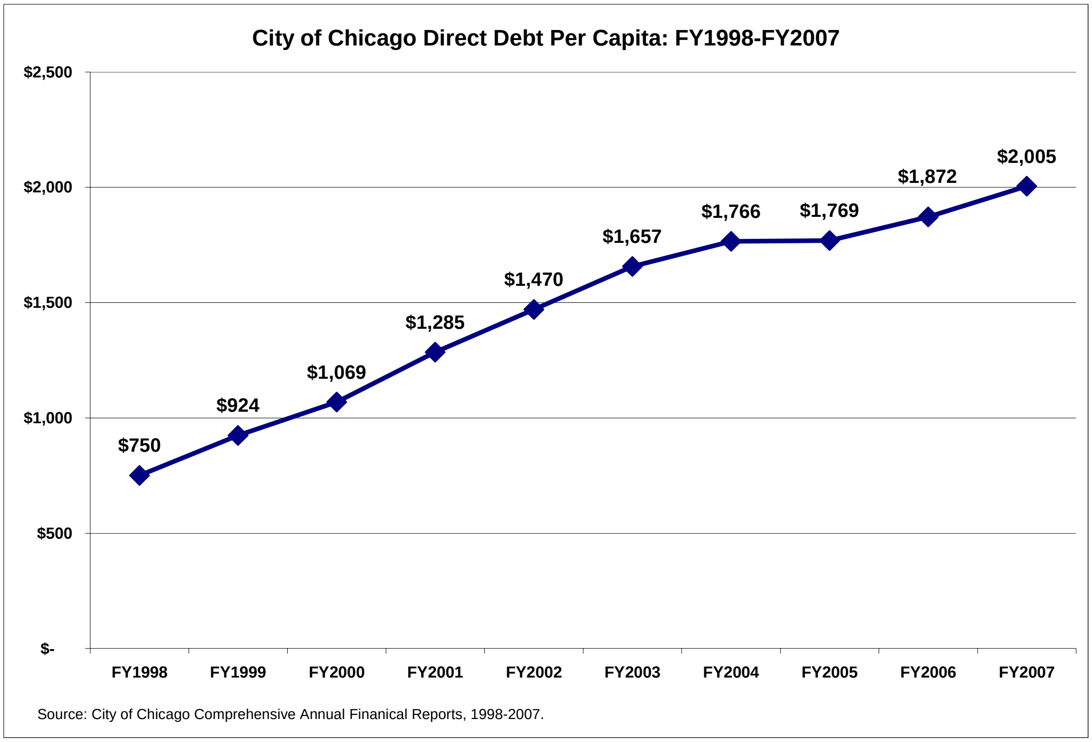
City of Chicago Direct Debt: FY1998-FY2007	
FY1998	$2,088,913,000
FY1999	$2,571,412,000
FY2000	$3,094,839,000
FY2001	$3,722,403,000
FY2002	$4,257,256,000
FY2003	$4,798,541,000
FY2004	$5,113,565,000
FY2005	$5,123,729,000
FY2006	$5,422,232,000
FY2007	$5,805,921,000
$ Change	**$3,717,008,000**
% Change	**177.9%**

Source: FY2007 Chicago Comprehensive Annual Financial Report, pp.146-147

Long-Term Net Direct Debt Per Capita

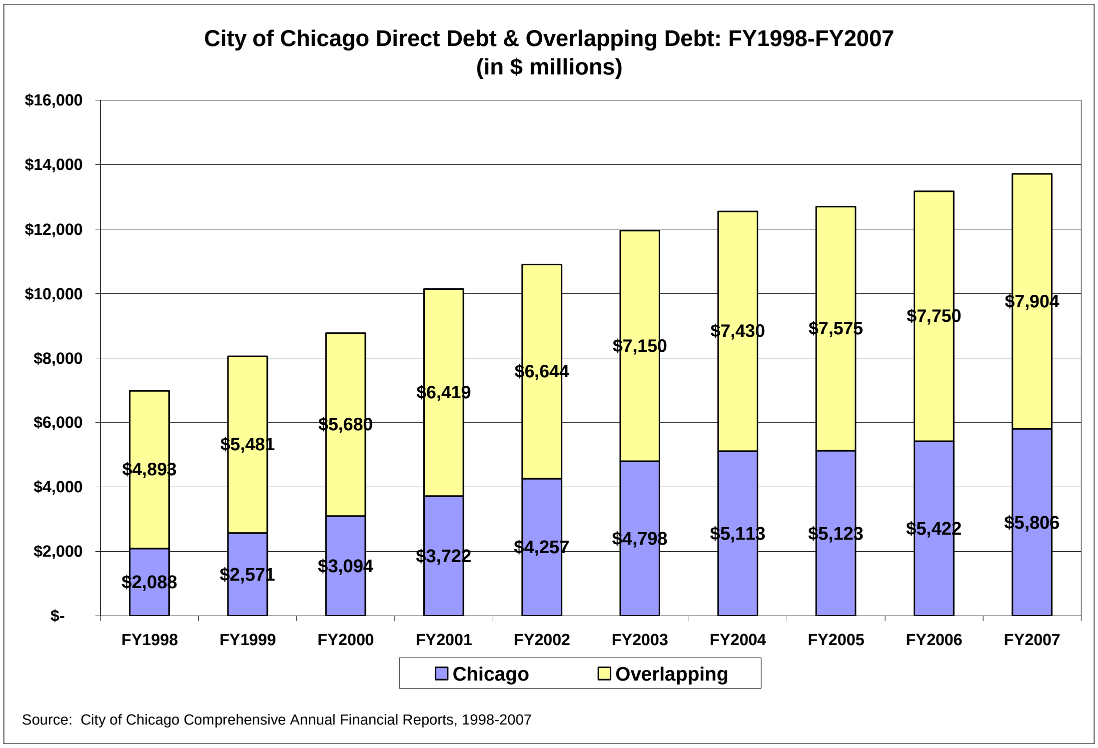
A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Between FY1998 and FY2007, direct debt per capita rose by 167.2%, from $750 to $2,005. The inflation rate over that same period was 24.1%.[72]

[72] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers in Chicago-Gary-Kenosha statistical area, 1998-2007.



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 FY1998 and FY2007, overlapping debt from other governments combined increased by 61.5% at the same time City of Chicago debt rose by 178.1%. Total debt from all eight major governments rose by 93.4%. Thus, the rate of increase in City of Chicago direct debt was almost three times the increase for the other governments in the region.



Debt Service Appropriations

Debt service appropriations in FY2009 are projected to be 18.9% of total appropriations, or $1.1 billion out of $5.97 billion. This figure is relatively 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 declined to 18.9%, from 19.6% in FY2008.

City of Chicago Debt Service Appropriations: FY2005-FY2009			
	Debt Service	Total Appropriation	Ratio
FY2005	$ 895,752,246	$ 5,088,409,000	17.6%
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%

Source: Program and Budget Summaries FY2005-FY2009, General Financing Requirements

Bond Ratings and Rating Agency Outlook

As of December 31, 2007, 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. A comprehensive list of credit ratings for the City's General Obligation and Revenue bonds as well as a description of the meaning of the various ratings follows.

City of Chicago Credit Ratings (12/31/07)						
Rating Agency	**Moody's**	*Description*	**Standard & Poor's**	*Description*	**Fitch**	*Description*
General Obligation						
City	Aa3	High Quality	AA-	High Quality	AA	Very High Credit Quality
Revenue Bonds						
O'Hare Airport						
First Lien	Aa3	High Quality	AA	High Quality	AA+	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA	Very High Credit Quality
Third Lien	A1	Upper Medium Grade	A-	Strong capacity to pay	A	High Credit Quality
First Lien PFC	A1	Upper Medium Grade	A	Strong capacity to pay	A+	High credit quality
Midway Airport						
First Lien	A2	Upper Medium Grade	A	Strong capacity to pay	A+	High credit quality
Second Lien	A3	Upper Medium Grade	A-	Strong capacity to pay	A	High credit quality
Water						
First Lien	Aa3	High Quality	AA-	High Quality	AA+	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA	Very High Credit Quality
Wastewater						
First Lien	n/a	n/a	n/a	n/a	n/a	n/a
Junior Lien	A2	Upper Medium Grade	A	Strong capacity to pay	AA-	Very High Credit Quality
Sales Tax	Aa3	High Quality	AAA	Highest Quality	AA-	Very High Credit Quality
Motor Fuel Tax	A2	Upper Medium Grade	AA+	High Quality	A+	High credit quality

Source: *City of Chicago FY2007 CAFR* , p. 27 and Douglas and Miranda, *Elected Official's Guide to Rating Agency Presentations, p. 8.*

PENSION TRENDS

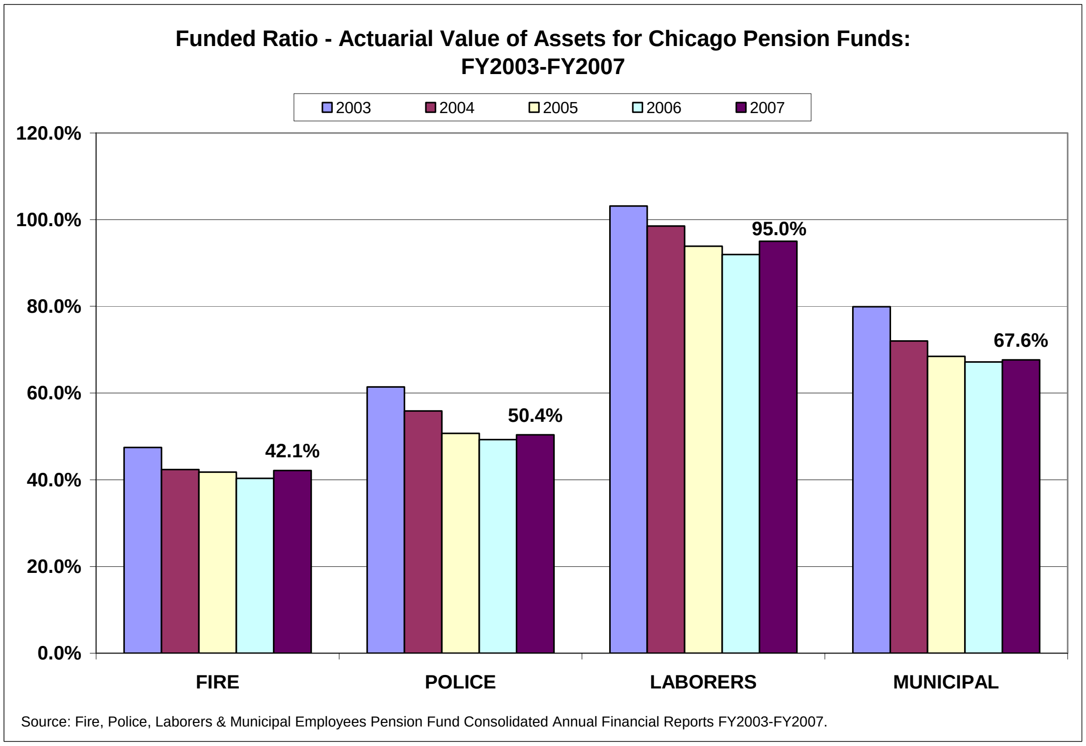
The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborer’s Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds’ fiscal health: funded ratios, the value of unfunded liabilities, and the investment rate of return.

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.

After dropping for four consecutive years, the funded ratios of all four City pension funds increased in FY2007. The Fire Fund in FY2007 reported a funded ratio of 42.1%, up slightly from 40.4 % in FY2006. The Police Fund’s funded ratio increased from 49.3% in FY2006 to 50.4% in FY2007. However, the FY2007 level is still below the funded ratio for the Police Fund in FY2003 of 61.4%. The Municipal Fund increased slightly, from a funded ratio of 67.2% in FY2006 to 67.6% in FY2007. The Laborers Funds continues to remain healthy, with a funded ratio of 95.0%.

The slight increase in the funded ratios across all city pension funds is a positive development after years of decreasing funded levels. However, the Fire and Police Pension Funds are a serious cause for concern as they are well below levels considered financially healthy.

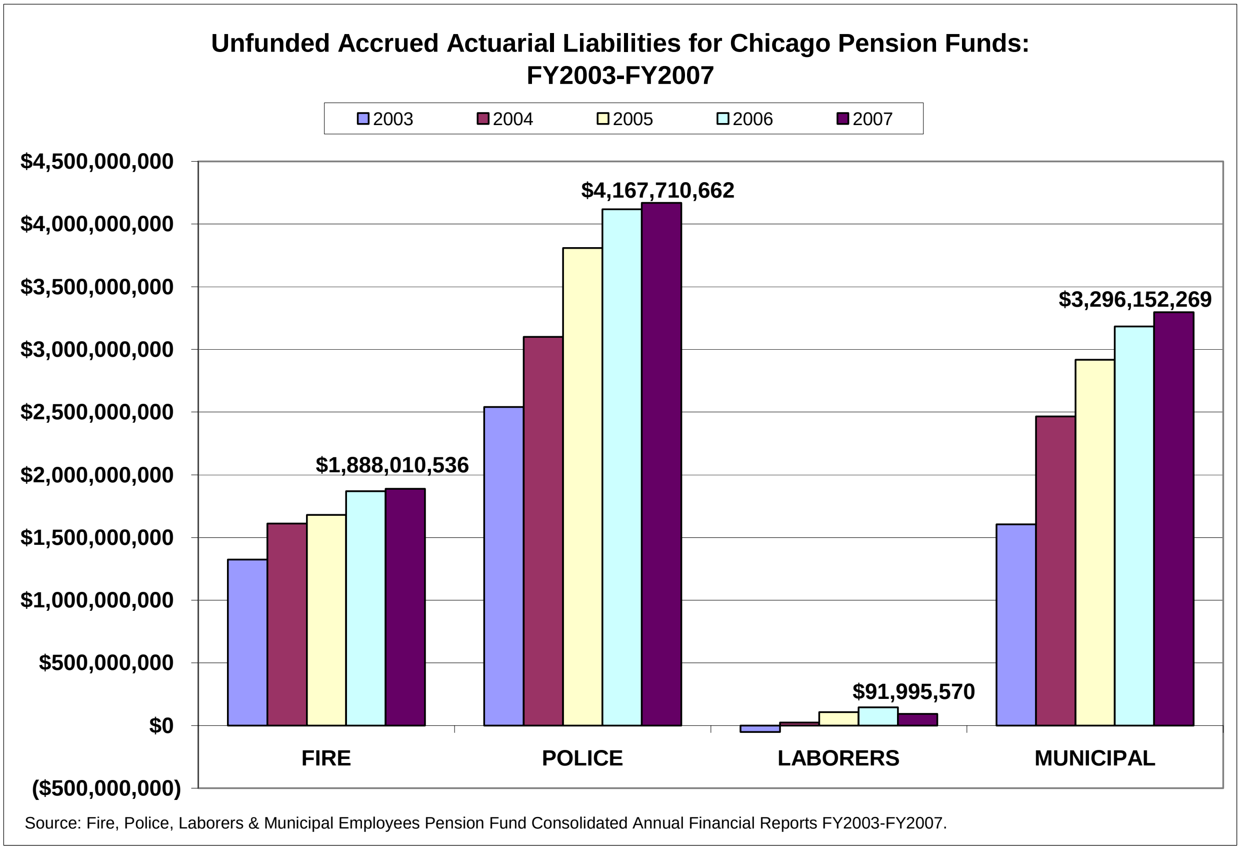


Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2003 and FY2007, unfunded liabilities for the City's pension funds increased by 74.3% or nearly $4.0 billion, from $5.4 billion to $9.4 billion. A summary of the five-year changes in unfunded liabilities is shown below:

- Fire Pension Fund: 42.7% increase, from $1.3 million to $1.8 billion;
- Police Pension Fund : 64.0% increase, from $2.5 billion to $4.2 billion;
- Laborers Pension Fund: a change from -$51.2 million to $91.9 million,[73] and
- Municipal Pension Fund: 105.4% increase, from $1.6 billion to $3.3 billion.

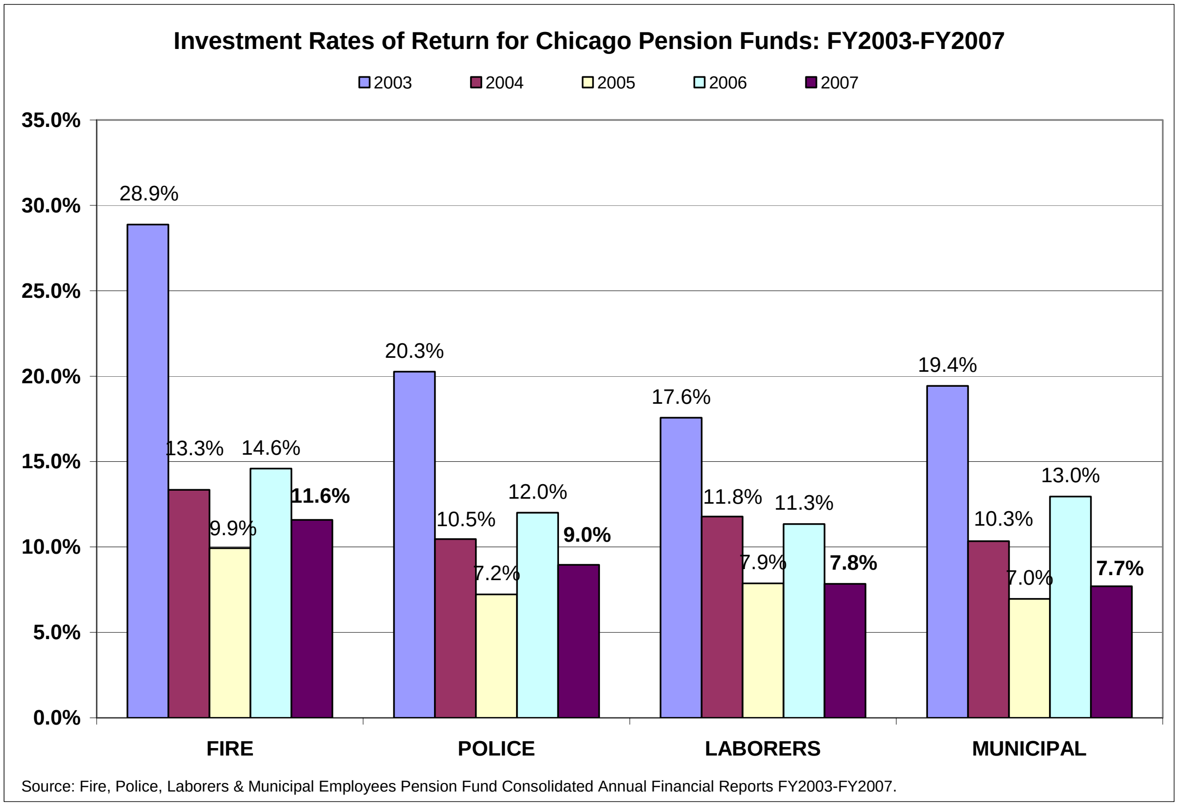
[73] The Laborers Fund had a surplus, or negative unfunded liability, until FY2004.



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

Investment Rates of Return

In FY2007, all four City pension funds reported positive, rates of return on investments. However, the rates of return have fallen since their recent high point in FY2003. The average market rate of return for all City of Chicago pension funds was 9.0% in FY2007. The highest rate of return was reported by the Fire Fund, 11.6%. The Police Fund reported a 9.0% rate of return, the Laborers Fund 7.8% and the Municipal Fund 7.7%.



OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administers a defined 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.[74]

Annuitants who retired prior to July 1, 2005 receive a 55% subsidy from the City and annuitants retiring after July 1, 2005 receive 50%, 45%, 40% and 0% subsidies from the City based on years of actual employment. The terms of the obligation were approved by a court ordered settlement agreement.[75]

The annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer. The ARC represents the amount needed to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period to not exceed 30 years. The exhibit below shows the components of the annual cost of OPEB for each of the City of Chicago's four pension funds. The annual OPEB cost in FY2007 was $42.2 million. Contributions were made in the amount of $21.0 million, leaving the total net OPEB obligation for the City at $21.1 million at the end of FY2007.

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[74] City of Chicago FY2007 Comprehensive Annual Report, p. 85.
[75] City of Chicago FY2007 Comprehensive Annual Report, p. 85.

OPEB Costs for City of Chicago Retiree Heathcare Plan FY2007 (in $ thousands)					
	Pension Funds				
	Municipal	**Laborers'**	**Police**	**Fire**	**Total**
Annual Required Contribution	$23,287	$3,568	$11,220	$4,177	$42,252
Interest on Net OPEB Obligation	$0	$0	$0	$0	$0
Adjustment to ARC	$0	$0	$0	$0	$0
Annual OPEB Cost	$23,287	$3,568	$11,220	$4,177	$42,252
Contributions Made	**$8,531**	**$2,203**	**$8,108**	**$2,248**	**$21,090**
Increase (decrease) in net OPEB Obligation	$14,756	$1,365	$3,112	$1,929	$21,162
Net OPEB Obligation - Beginning of Year	**$0**	**$0**	**$0**	**$0**	**$0**
Net OPEB Obligation - End of Year	**$14,756**	**$1,365**	**$3,112**	**$1,929**	**$21,162**

Source: Chicago FY2007 CAFR, p. 83.

OPEB Plan Funded Status

The actuarial accrued liability for the Chicago pension fund healthcare benefits was $485.4 million in FY2007. The plans had no assets as they are funded on a pay as you basis; thus there is a 100% unfunded liability.

City of Chicago OPEB Funded Status FY2007 (in $ thousands)					
	Municipal	**Laborers'**	**Police**	**Fire**	**Total**
Actuarial Accrued Liability	$217,868	$41,411	$179,040	$47,097	$485,416
Actuarial Value of Assets	$0	$0	$0	$0	$0
Unfunded Actuarial Accrued Liability	$217,868	$41,411	$179,040	$47,097	$485,416

Source: Chicago FY2007 CAFR, p. 85.