



The Civic Federation

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CHICAGO'S FY2010 BUDGET RELIES TOO HEAVILY ON LONG-TERM RESERVE FUNDS SAYS CIVIC FEDERATION *Short-Sighted Plan Ignores Future Deficits*

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The Civic Federation opposes the proposed \$6.14 billion FY2010 City of Chicago budget because it is unsustainable and relies predominantly on one-time reserve funds to close its \$520 million deficit. The Federation's full 69-page analysis of the budget is available on our website, www.civiced.org.

The FY2010 budget was crafted without adequate attention to future budgets. The City proposes to close 93.8% of its deficit with \$370 million from its asset lease reserves and \$118 million in savings from debt restructuring. The Civic Federation cannot emphasize enough that these one-time revenues will not be available to close what are almost certain to be significant deficits next year and the year after.

For many years, the City of Chicago has been living beyond its means as its expenses have outpaced revenues. There is no doubt that the worst recession this country has experienced in 70 years has contributed to the City's predicament, but Chicago has also run a deficit every year for the past decade—through good times and bad—and those deficits have gotten steadily worse. "Chicago has failed to address the fundamental imbalance in its budget, instead relying on asset sales to prop up the budget and avoid necessary cuts," said Laurence Msall, president of the Civic Federation. "Unfortunately, putting off cuts only makes them more painful and expensive later."

The City set aside substantial reserves from the Skyway and parking meter leases to improve its finances and reassure bondholders. An unrestrained drawdown of those reserves in the proposed FY2010 budget could lead to serious problems in the future, as Mayor Daley himself has warned. For all of these reasons, the Civic Federation believes the City must come to terms with its budget deficit and balance it through other means such as a smaller \$93.1 million drawdown of long-term reserves to counteract a decline in economically sensitive revenues. Further cuts, including the sensitive but necessary reduction in the growth in public safety expenditures, which make up 60% of the budget, will also be necessary.

The City of Chicago is in the midst of a crisis that has thrown several of its ongoing problems into stark relief. The City has not allocated sufficient operating budget reserves, as recommended by the Civic Federation in its last seven budget analyses. Budget reserves are meant to cushion government spending against contingencies, such as the severe shortfall in revenues the City experienced this year. The Federation has also warned Chicago for many years that its policy of using asset sale proceeds for operating expenses is unsustainable, the truth of which has been borne out by this budget, which relies on those funds more heavily than ever.

Another looming concern of rating agencies is the appalling financial condition of the City's pension funds, especially the Police and Fire funds. Each resident of Chicago, young and old, is now responsible for \$3,778 in unfunded obligations to the City's current and future retirees. With less than fifty cents on the dollar available in assets to cover its pension promises to firefighters and police, Chicago must immediately begin to implement a two-tiered pension system and work with the Illinois General Assembly to increase its employer contributions to pensions.

"The Civic Federation realizes that our recommendations to balance the budget will mean further pain for Chicago workers and residents," said Msall. "However, the risk with the Mayor's plan is that it will require even greater pain and sacrifice in future years."

*Executive Committee
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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. For more information, please visit the Federation's website at www.civiced.org.