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IMMEDIATE RELEASE – FEBRUARY 14, 2011

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NEW CHICAGO MAYOR MUST TAKE IMMEDIATE ACTION ON PERILOUS CITY FINANCES

The new Mayor of the City of Chicago faces three major fiscal challenges that will require the immediate attention of the new administration, according to a new report released today by the Civic Federation. The daunting difficulties include addressing the City's significant structural budget deficit, a growing bonded debt load and crisis-ridden employee pensions. The Federation's report includes both short- and long-term recommendations the new Mayor should implement to close a FY2012 budget gap of at least \$500 million and stabilize the City of Chicago's finances.

During the past decade, through good economic times and bad, the City of Chicago has had significant and growing budget deficits. "The Great Recession and its aftermath have only exacerbated the City's longstanding problem of spending growing faster than available revenues," said Laurence Msall, president of the Civic Federation. Between FY2007 and FY2011—a time period encompassing the recent recession and sluggish recovery—appropriations have risen by 8.6% even though recurring revenues have fallen significantly.

The City's deficit problem has grown because Chicago government has failed to implement enough efficiencies and make deep enough spending cuts, instead relying on non-recurring revenues, including over \$1 billion in proceeds from the lease of City assets. The Civic Federation's report lays out in detail just how rapidly the City has depleted the windfall from the Skyway and parking meter leases. By the end of FY2011, the Civic Federation estimates that the City will have spent 80.7% of the \$2.98 billion generated from the asset leases. The City's use of non-recurring revenue sources like the lease proceeds has built increasing deficits into its budgets and obscured the structural imbalance between expenditures and revenues.

The Civic Federation report lays out recommendations that will help the new mayor close the immediate budget gap and, crucially, work on long-term problems that must be solved if the City is to eliminate its structural deficit. The number one task the next Mayor must immediately undertake is a long-term financial planning process. Short-sighted spending plans have contributed mightily to the City's current budget crisis. The City's budgetary challenge is now of such a magnitude that it will require a multi-year plan to address. Chicago's governmental leaders, stakeholders and taxpayers should all participate in a process that will require difficult choices about tax increases and service cuts.

The long-term recommendations also include ideas to ameliorate the City's severe pension crisis. After the passage of pension reform legislation by the State of Illinois in 2010, the City faces two distinct pension difficulties: 1) the Municipal and Laborers' funds will deplete their assets within 20 years if nothing more is done and 2) the Police and Fire funds are no longer threatened with insolvency, but the enormous increase in the City's required contribution to them starting in 2015 will be a strain on future financial stability. "It is important that all of the candidates for Mayor understand that solving the pension crisis will require a politically difficult combination of significant new revenues from City taxpayers and from employees, as well as further benefit reductions," 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. For more information, please visit the Federation's website at www.civicfed.org.

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