



The Civic Federation

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CIVIC FEDERATION: FY2011 CHICAGO BUDGET DOES NOT ADDRESS CITY'S STRUCTURAL DEFICIT

The Civic Federation announced today that it opposes the \$6.2 billion FY2011 City of Chicago budget because it does not do enough to address the City's structural deficit. Instead it relies upon long-term asset lease funds and other non-recurring revenues to close a \$654.8 million shortfall. The Federation urges the City Council to reduce spending to avoid further deterioration of the City's financial condition. The full 80-plus page analysis of the budget is available at www.civicfed.org.

The City of Chicago faces significant challenges to its fiscal stability: a structural deficit, enormous unfunded pension liabilities, and a growing bonded debt burden. Large and growing budget deficits have been a problem for the City since FY2007. Repeated use of non-recurring revenue sources to close those deficits has allowed Chicago to keep its spending artificially high and left larger deficits with each passing year. By the end of FY2011, over 80% of the \$2.98 billion generated from the Skyway and parking meter leases will have been spent if the budget is passed as proposed. "In the past three months the City's debt rating has been downgraded in part because of its use of asset lease proceeds to prop up the budget," said Laurence Msall, president of the Civic Federation "The City's short-sighted budgeting has costly consequences."

It is important to acknowledge that the City's mounting deficit problem is also due to increased spending. In fact the largest expenditure in the budget, appropriations for personnel, increased by 9.2% between FY2007 and FY2011 despite a reduction in the City's local funds workforce of 2,945. Between FY2005 and FY2009 City expenses grew at over twice the 8.1% rate of inflation while the city's tax revenues grew by only 6.5%. Clearly, Chicago's budget trend is not sustainable. If the City does not stop deferring necessary but difficult changes to its spending, hefty tax hikes and/or enormous budget cuts will be needed to balance the budget when one-time revenues have run out.

The FY2011 proposed budget does include \$96.9 million in expense reductions, including position eliminations and layoffs, unpaid holidays and furlough days, and health care cost reductions. The Civic Federation supports these moves and urges further cuts. The City of Chicago has also made great strides in developing a performance measurement system and making performance data available in the budget document. Performance measurement will be key to directing necessary future expenditure cuts toward under-utilized, underperforming, and inefficient services.

The Civic Federation is very concerned that despite a landmark report that was published in April 2010 by Mayor Daley's Commission to Strengthen Chicago's Pensions, the City has not proposed any pension reforms. The Commission's report noted that the City's police and fire pension funds risk running out of money within ten years if nothing is done. Unfunded liabilities for the City's pension funds reached an astonishing \$12.4 billion in FY2009—\$4,348 per resident of Chicago. "While the Civic Federation is pleased that Mayor Daley has announced that he will join the effort to get the State of Illinois to extend recent pension reforms to police and fire funds across the State, the City must commit to do much more to end its pension crisis," said Msall. "Increased employer and employee contributions as well as pension fund consolidation must be on the table." Moreover, due to the size of the Chicago pension crisis, the City cannot look to increase the property tax to close future deficits—every penny will be needed to fund City of Chicago workers' pensions.

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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