



## CIVIC FEDERATION OPPOSES FY2008 CHICAGO BUDGET, URGES CITY COUNCIL TO REJECT MASSIVE PROPERTY TAX INCREASE

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Standing up for weary taxpayers throughout Chicago, the Civic Federation announced its opposition to Chicago Mayor Richard Daley's \$5.9 billion FY2008 budget today at a public hearing at City Hall. The Federation believes the budget's proposed 15.1%, \$108 million property tax increase should be rejected and that the city should stick to its self-imposed property tax cap.

The stated purpose of the property tax increase is to fund libraries. "While the Civic Federation agrees that libraries are important," said Laurence Msall, president of the Civic Federation, "the city has failed to provide a compelling reason for why libraries should be the beneficiaries of such a large property tax increase or even how library services would be enhanced by the increased funding." The Federation believes that Chicago has several more pressing financial issues that it must address before increasing taxes for libraries. The City Council should therefore reject the record property tax increase and instead maintain the City of Chicago's self-imposed tax cap. This would limit the FY2008 tax increase to the rate of inflation: a more reasonable 2.5% or \$17.8 million. Proposed spending increases should then be reduced by a corresponding \$90.2 million.

In order to restrain spending, the Civic Federation's analysis finds that the city must continue to move forward on its efforts to contain costs and better manage its existing resources. Most importantly, the city must continue its efforts in the area of alternative service delivery and reducing personnel expenditures. The Federation commends the city for the substantial savings it has achieved in the area of employee health care through private sector-style employee cost sharing and other initiatives. The joint purchasing of employee prescription drug plans with other local governments, for example, has saved the city nearly \$20 million so far. Similar savings in other areas of city government would go a long way toward mitigating the need for huge tax increases.

The Civic Federation's analysis identified two areas of financial distress that the city must address without delay: its pension funding crisis and chronically underfunded emergency reserve fund. The funding levels of the city's four pension funds continue to deteriorate at an alarming rate with the Fire, Police, and Municipal funds dipping to 40.4%, 49.3%, and 67.2%, respectively. These funded ratios are far below the 90% level that is widely-agreed to be necessary for a fund to be considered healthy. The Federation is encouraged that the city plans to use a portion of the proceeds from future asset sales or leases to shore up its pension funds, but the rapidity with which the city's pensions have slid from relative health into crisis demands immediate action. Although pension benefits for current employees are constitutionally protected, the city can and must reduce pension benefit costs for new employees in order to bring pension liabilities under control.

The fact that the city's expected budget deficit was exacerbated by the unexpected expenses incurred during last February's cold snap is an excellent illustration of why it is important for all governments to maintain healthy fund balances for contingencies. The recommended balance is 5-15% of operating expenditures or revenues; Chicago will carry over only 0.5% or \$15.5 million for the new budget year. The city would have to increase its reserves by \$144.5 million to meet the minimum recommended reserve.

*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.*