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THE CIVIC FEDERATION SUPPORTS FY2007 CHICAGO BUDGET *Remains Concerned about Pension Funds in Crisis*

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(CHICAGO) – The Civic Federation released its independent analysis of Mayor Daley's proposed city of Chicago budget today. The Federation **supports** the proposed \$5.7 billion FY2007 spending plan for holding the line on property tax increases and stabilizing personnel-related expenditures through reduced staffing levels and other management efficiencies.

“The taxpayers of Chicago should consider this budget to be a positive for their pocketbooks over the next year. The next ten to twenty years is another story. The city of Chicago must take action now, while times are good and revenues increasing, to make changes to reduce the unfunded liabilities of the pension funds and long-term debt levels. Such moves may sting, but they are better than the wholesale pain that is sure to result if the unfunded pension situation is allowed to continue,” said Laurence Msall, President of the Civic Federation.

The Civic Federation's complete city of Chicago budget analysis, including detailed findings and recommendations, is available today on our website at www.civicfed.org.

While the Federation found much to be positive about in the budget, the group retained **serious concerns** about the state of the city's pension funds, the funded ratios of which dropped for the fifth consecutive year. Between FY2001 and FY2005, unfunded liabilities for the funds increased by 216.9%, from \$2.7 billion to \$8.5 billion. Three of the four funds are clearly in crisis, with funded ratios well under the generally-recommended level of 80-90%. “The city of Chicago's unfunded pension liabilities surpass all large cities in the United States by billions of dollars,” said Msall. “This is a situation which requires immediate action; city officials cannot rely upon future asset sales alone to fix this problem. They must begin to adequately fund pensions and implement reforms without delay.” The Federation's analysis provided many recommendations as to how the health of the pension funds can be improved, such as reducing pension benefits for new employees, requiring benefit enhancements to be matched by contribution increases, and tying city contributions to funding levels rather than an arbitrary multiplier.

The Civic Federation was also troubled that the city used \$12 million in contingency funds to help reduce the \$94 million budget shortfall. The reserve will fall to a mere 1.9% of Corporate Fund expenditures from 2.1% in FY2005, well below the minimum Government Finance Officers Association-recommended level of 5-15%. Reserve funds are necessary to provide for contingencies and emergencies and to help insulate governments from downward turns in the economy. While the Civic Federation appreciates the efforts of the city's financial team to increase reserves from the abysmal levels of five years ago, this year's budget marks a step in the wrong direction for the reserve fund. Following the GFOA's recommendations would require adding nearly \$98 million to the \$57.5 million the city has proposed. The Federation recommends doing this as soon as possible by using natural revenue growth or perhaps some of the proceeds from the privatization of an asset.

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.