

The Civic Federation

177 North State Street, Suite 400, Chicago, IL 60601 • 312.201.9066 fax 312.201.9041 • civicfed.org



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EMBARGOED UNTIL 12:01 A.M., OCTOBER 31, 2012

For more information contact Laurence Msall, 312-201-9044

CHICAGO BUDGET CONTINUES MUCH-NEEDED RESTRUCTURING OF CITY GOVERNMENT

Civic Federation urges immediate work with unions, State legislators on pensions

(CHICAGO) – In a report released today, the Civic Federation announced its support for the City of Chicago's proposed \$6.5 billion FY2013 budget which reduces the City's reliance on one-time revenue sources while restructuring City government through better managing personnel expenditures. The full 108-page analysis is available at www.civicfed.org.

The proposal holds the City's property tax levy nearly flat and does not include any new tax or fee increases. The budget also proposes to eliminate the burdensome Employers' Expense Tax or "head tax" as of December 31, 2013, six months ahead of schedule. "The City is in a stronger financial position today because of critical reforms implemented by Mayor Emanuel and his team," said Laurence Msall, president of the Civic Federation. "We are concerned, however, that the City has not yet completely eliminated its reliance on one-time revenue sources."

The proposed budget closes a \$298 million budget gap with increased efforts in healthcare claims management and joint purchasing, more aggressive debt collection, work rule adjustments and expanded opportunities for managed competition. Some of these management reforms will help to contain the sharp personnel-related cost increases that are driving the City's structural deficit, as over 80% of the City's Corporate Fund is reserved for personnel costs. With a deficit of \$580 million projected for FY2015, steps taken in the past two years to narrow the structural gap must be expanded in the future.

While the City has dramatically reduced its reliance on one-time revenue sources, at least \$47 million of the FY2013 budget gap will be closed with non-recurring revenues including refinancing of existing debt and one-time Tax Increment Financing (TIF) surplus. The City places itself in a vulnerable position by depending on significant amounts of revenue that by definition will not be available for next year's budget.

The Civic Federation also urges the City to develop a long-term plan to build a healthy level of budgetary reserves. The City does have reserves in the form of the \$500 million Skyway Long-Term Reserve Fund and is making efforts to replenish its Parking Meter Long-Term Reserve Fund. However, the City does not have Corporate Fund reserves that it has built up through annual budgetary discipline of spending less than it requires in revenue and applying the balance to a reserve. A true budgetary reserve would be a resource in contingencies such as when the City borrowed in 2012 to pay for a \$78.4 million tort settlement related to the hiring of firefighters, compounding the cost of the lawsuit for taxpayers.

Funding levels for all four of the City's pension funds dropped significantly for the fourth consecutive year. Previous reforms to the City's Police and Fire pension funds will lead to a \$733 million increase in the City's required pension contribution in FY2015. Meanwhile, without reform, the Municipal and Laborers' Funds are projected to run out of funds in 2025 and 2028, respectively. The Federation strongly urges the City to work with relevant unions and to engage members of the Illinois General Assembly in moving forward with the reform framework Mayor Emanuel presented to the General Assembly in May 2012. "The pension funding crisis threatens to erase all progress made to stabilize City finances," said Msall. "The Mayor and City Council urgently need to focus their attention and political will on fixing this broken system."

The Civic Federation is an independent, non-partisan government research organization that promotes efficient delivery of public services and sustainable tax policies in the Chicago region and State of Illinois. For more information, please visit the Federation's website at www.civicfed.org.

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