The Civic Federation

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FOR IMMEDIATE RELEASE – OCTOBER 7, 2015
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CHICAGO, NEW YORK AND DETROIT ARE LOWEST PERFORMERS ON AVERAGE IN FINANCIAL TREND ANALYSIS FOR FY2009-FY2013

(CHICAGO) A report released today by the Civic Federation uses nine indicators of financial condition to measure the relative financial trends of Chicago and 12 other major U.S. cities from FY2009 to FY2013. The financial trends for Chicago, New York and Detroit were consistently less favorable on average than the other 10 cities during this time period, which marked the end of the Great Recession and beginning of recovery for most cities. The full 60-page report and 10-page executive summary are available at www.civicfed.org.

"When compared with Chicago, which still has an enormous unfunded pension liability, most of the other cities in our analysis experienced better post-Recession trends," said Laurence Msall, President of the Civic Federation. "These indicators suggest that Chicago needs to better align its revenue or spending structure with the demands of both current service needs and long-term debt obligations."

Financial trends for a majority of the cities deteriorated over the five-year period, most likely due to the recession and its aftermath. Chicago, New York and Detroit experienced the least favorable financial trends as measured by the selected indicators between FY2009 and FY2013. This does not mean that the higher ranked cities had better overall financial condition in any of the years studied. It means that they experienced more favorable trends during the five-year period in four areas of financial solvency.

The cities were ranked by their performance during the five-year period according to nine financial indicators, with a rank closer to one reflecting favorable performance. An average ranking across all the indicators was then calculated for each city, producing a summary rank. The summary ranks were grouped into high, middle and low performer average ranking groups. The average ranks of eight of the 13 cities were within a close range between 6 and 7. The top two and bottom three cities were outliers.

Financial Indicators Average Ranking of 13 U.S. Cities: FY2009-FY2013

Performance Level	City	Summary Rank
High	Pittsburgh	3
	Seattle	4
Middle	Los Angeles	6
	Phoenix	6
	Baltimore	7
	Boston	7
	Columbus	7
	Houston	7
	Kansas City (MO)	7
	Philadelphia	7
Low	New York	9
	Chicago	**10**
	Detroit	10

Note: The summary rank is grouped into high performance (1 - 4), middle performance (5 - 8) and low performance (9 - 13).

"Trend analysis is an effective way of comparing financial performance between cities over a period of time, but it should not be mistaken for a complete picture of Chicago's financial condition," said Msall. "Chicago's economy is very large and diverse, providing financial advantages and resilience many other cities in this report do not have."

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The financial indicators used in this report reflect four dimensions of governmental solvency: cash solvency, budgetary solvency, long-run solvency and service-level solvency. The following is a summary of Chicago's relative performance in these four areas.

Cash Solvency: Chicago's ability to generate financial resources in the short-term has generally declined, indicating a weakened but still relatively healthy cash solvency. The report measures cash solvency using the **working capital to expenses ratio**, an approximation of how many months the government is able to pay for operations. At its lowest point in FY2013, Chicago had enough working capital to fund approximately three months and two weeks of operations.

Budgetary Solvency: Two of Chicago's three budgetary solvency indicators, the **continuing services ratio** and the **fund balance ratio** were unfavorable. This suggests the City was experiencing difficulty in maintaining services with its existing revenue structure. Chicago's **operating deficit ratio** improved over the five-year period as the City steadily reduced its operating deficit.

Long-Run Solvency: Long-run solvency indicators expose significant challenges the City faces in meeting its existing long-term obligations. Although Chicago's **debt service expenditure ratio** generally experienced a favorable trend over the five-year period, Chicago is among the cities with a higher proportion of governmental expenditures being allocated to debt service. The City's **net worth ratio** declined over the five-year period, suggesting that Chicago has leveraged its assets. The **net worth ratio** analyzes the availability of assets for governmental activities.

Service-Level Solvency: Chicago experienced a five-year increase in three service-level solvency indicators measured by this report: **expenses per capita** (increase of $353 per person), **liabilities per capita** (increase of $3,300 per person) and real **taxes and fees per capita** (increase of $338 per person). These increases suggest a growing imbalance between the long-term service expectations of Chicago taxpayers and the City's ability to adequately fund those expectations.

City of Chicago
Relative Financial Condition Trends: FY2009-FY2013

Area of Solvency	Indicator	Rank	Five-Year Change	Average Annual Change
Cash	Working Capital to Expenses Ratio	11	(2 weeks)	(3 days)
Budgetary	Continuing Services Ratio	12	-22.3%	-5.6%
	Unrestricted Fund Balance Ratio*	12	-5.7%	-2.8%
	Operating Surplus (Deficit) Ratio	4	12.5%	3.1%
Long-Run	Net Worth Ratio	13	-14.3%	-3.6%
	Debt Service Expenditure Ratio	5	-0.5%	-0.1%
Service-Level	Expenses Per Capita	12	$ 353	$ 88
	Liabilities Per Capita	11	$ 3,300	$ 825
	Taxes and Fees Per Capita	10	$ 338	$ 85
	Average Rank	**10**		

*The unrestricted fund balance ratio trend reflects a three-year change because of a revision to GASB reporting standards for all statements after FY2011. For more information see the Fund Balance Ratio section of this report.

Note: For all indicators, a rank closer to 1 is favorable.

Source: City of Chicago Comprehensive Annual Financial Reports, FY2009-FY2013.

For more about each of the nine indicators used and the limitations of this analysis, as well as economic data for each of the 13 U.S. cities analyzed, access the full report and executive summary at www.civicfed.org.

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.