The Civic Federation

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CITY OF CHICAGO FARES POORLY RELATIVE TO OTHER CITIES IN TREND ANALYSIS OF FINANCIAL INDICATORS, FY2007 -- FY2011

(CHICAGO) A report released today by the Civic Federation uses nine indicators of financial condition to measure the relative financial performance of Chicago and 12 other major U.S. cities from FY2007 to FY2011. Of the cities analyzed, only Boston and Detroit consistently performed worse than Chicago by these metrics during the five-year period that encompasses the Great Recession and slow recovery. The full 56-page report is available at www.civicfed.org.

"Chicago's relative financial performance during this period was defined by many of the same challenges it faces today including a structural deficit and high debt levels," said Civic Federation President Laurence Msall. "These threats continue to handicap Chicago's performance as many other cities were somewhat better equipped to weather the 2008 financial downturn and resulting economic challenges."

A majority of the cities experienced deteriorating financial condition during the five-year period, likely due to the Great Recession and its aftermath. However, Chicago fared worse than most of the other cities. In addition to Chicago, the 12 other major U.S. cities analyzed were Baltimore, Boston, Columbus, Detroit, Houston, Kansas City (MO), Los Angeles, New York, Philadelphia, Phoenix, Pittsburgh and Seattle. These cities were also the focus of fiscal analysis by the Pew Charitable Trusts' Philadelphia Research Initiative, with the exception of Houston which the Federation substituted for Atlanta after a change in Atlanta's fiscal year led to inconsistent analysis.

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

Cash Solvency: Chicago's ability to generate financial resources in the short-term has declined, indicating a weakened, although still generally 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 FY2008, Chicago had enough working capital to fund approximately three months and one week of operations.

Budgetary Solvency: Chicago's budgetary solvency declined over the time period analyzed as well, suggesting that the City may have difficulty maintaining its current level of services with its existing revenue structure. Although the City's **fund balance ratio** experienced the largest growth of the 13 cities over the period, its actual ratio of fund balance to operating expenditures was among the lowest and a cause for concern. Other measures of budgetary solvency in the report are the **continuing services ratio** and the **operating deficit ratio**.

Long-Run Solvency: Long-run solvency indicators expose significant challenges the City faces in meeting its existing long-term obligations. While Chicago's **debt service expenditure ratio** generally decreased over the five-year period, it reveals that a high proportion of governmental expenditures is being allocated to debt service. The report also uses the **net worth ratio** to measure ability to meet long-term obligations including cumulative pension funding shortfalls, retiree healthcare obligations and tort/liability claims.

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Service-Level Solvency: Chicago experienced a five-year increase in the three service-level solvency indicators measured by this report: **expenses per capita** (increase of $232.68 per person), **liabilities per capita** (increase of $3,296.08 per person) and **taxes and fees per capita** (increase of $113.45 per person). These increases suggest a growing imbalance between the service expectations of Chicago taxpayers and the City's ability to adequately fund those expectations.

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 at www.civicfed.org.

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