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CHICAGO'S FY2014 BUDGET AN URGENT REMINDER OF NEED FOR PENSION REFORM

Pension Contribution Increase in FY2015 Threatens to Derail Fiscal Progress

(CHICAGO) – In a report released today, the Civic Federation announced its support for the City of Chicago's proposed \$7.0 billion budget as a reasonable short-term plan that continues to reduce the City's structural deficit. However, Chicago's fiscal and economic stability continue to be jeopardized by the failure to fix the City's broken pension system. The full 111-page analysis is available at www.civicfed.org.

“This budget should serve as an urgent reminder of the enormous price the City will pay if it is unable to stabilize its pension system,” said Laurence Msall, president of the Civic Federation. “Mayor Emanuel and his team have made significant fiscal progress in recent years, much of which will be derailed when the City's unaffordable pension contribution increase takes effect next year.” The City faces a \$590 million increase in its required pension contribution in FY2015, a rise so sharp it would require a significant increase in the City's property tax levy, crippling cuts to City services or both.

The FY2014 budget closes approximately two-thirds of a \$338.7 million budget gap with structural changes that will continue to reduce the City's ongoing deficit. To help balance the FY2014 budget, Mayor Emanuel has proposed an increase in the City's cigarette tax rate, a reduction in the partial exemption from the amusement tax for cable companies and targeted rate increases for fines and permits. “These moderate increases to recurring revenue sources are preferable to broad-based tax increases and are far better than using one-time funds from asset lease reserves, as the City did between FY2005 and FY2011,” said Msall. The FY2014 budget also includes an estimated \$24 million in savings resulting from the City's difficult but innovative decision to phase out its retiree healthcare subsidy.

Earlier this year, members of the Chicago Police Sergeants' union rejected a contract that included significant pension reforms and would have been the first step toward implementing the pension reform framework presented by Mayor Emanuel to the Illinois General Assembly in May 2012. The severity of the City's pension crisis has only grown since this setback. All four of the City's pension funds reported significant drops in their funding levels this year and the Municipal and Laborers' Funds are projected to be insolvent within 10 to 20 years without reform. The Federation urges Mayor Emanuel and the Chicago City Council to continue working with its unions and engaging members of the Illinois General Assembly to enact sustainable reforms for this broken system.

The Civic Federation commends the Mayor and members of the City Council for proposing to create an Independent Financial Analysis Office for the City Council. The office will give aldermen access to the independent information and analysis they need to be effective stewards of taxpayer dollars. The Federation's full analysis also includes recommendations to improve the City's debt management policy, formalize a tax increment financing (TIF) surplus policy and implement a formal long-term financial plan.

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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