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CIVIC FEDERATION SUPPORTS PROPOSED FY2015 CHICAGO BUDGET *Recent Progress Threatened by Pension Funding Crisis, Borrowing for Operations*

(CHICAGO) – In a report released today, the Civic Federation announced its support for the City of Chicago's proposed FY2015 operating budget of \$7.3 billion but expressed deep concern for how the City will manage rising pension costs and debt service payments in future years. The full 101-page analysis is available at www.civicfed.org.

The FY2015 budget closes a \$297.3 million deficit with reasonable structural changes including targeted tax and fee increases, vacancy eliminations and other operational efficiencies. The budget also reflects significant actions toward long-term stability including the 2014 pension reform law for the City's Municipal and Laborers' pension funds and the continued phase out of the City's retiree health care subsidy and planned transition of most retirees to coverage under the federal Affordable Care Act.

"Mayor Emanuel and his team are continuing to make the reasonable changes and bold decisions necessary to stabilize Chicago's finances," said Laurence Msall, president of the Civic Federation. "Two issues, however, threaten to erase all recent progress: the pension funding crisis and the administration's continued use of borrowing for operations through the issuance of refunding bonds."

Landmark pension reforms were enacted in June 2014, but only for two of the City's four pension funds. The City's Police and Fire pension funds remain dangerously close to running out of funds with market value funded ratios of only 27.0% and 31.7% respectively in FY2013. The Illinois General Assembly passed legislation in 2010 that mandates a sharp \$550 million increase in contributions to the Police and Fire funds. This change, even without considering increased contributions to the City's Municipal and Laborers' funds, would require a significant increase in the City's property tax levy, crippling cuts to City services, or both. The Mayor, City Council and State legislators must work together to create a reform framework for the Police and Fire funds that will stabilize the funds at an affordable cost to taxpayers. The Civic Federation also recommends that the City study ways to consolidate its pension funds, including the possibility of merging its Police and Fire funds with suburban and downstate public safety funds.

Over the last three fiscal years, the City of Chicago reduced its annual debt service payments by refunding bonds that are due to mature and extending the life of these bonds for an additional 30 years, a practice referred to as "scoop and toss." This practice dramatically increases the cost of providing government services. It also could threaten the City's ability to issue future debt by filling the out years of the City's debt service schedule with previously issued bonds. The Civic Federation urges the City to develop a strategy for ending this costly and unsustainable practice.

The Federation's full report also discusses the creation of the City Council Office of Financial Analysis in 2013. The office was intended to give aldermen access to the independent information and analysis they need to be effective stewards of the City's finances. A delay in fully implementing the office means aldermen will not have access to this resource before they vote on the FY2015 budget.

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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