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CIVIC FEDERATION SUPPORTS PROPOSED FY2016 CHICAGO BUDGET AND NECESSARY PROPERTY TAX INCREASE

Cautions that plan is subject to significant uncertainty pending decisions on pension and retiree health care reform

(CHICAGO) – In a report released today, the Civic Federation announced its support for the City of Chicago’s proposed FY2016 budget of \$7.8 billion and applauded long overdue action to address the City’s public safety pension funding crisis. However, the Federation is concerned the property tax increase alone is not enough to stabilize Chicago finances, especially given continued legal uncertainty surrounding pension and retiree health care reforms. The full 111-page analysis is available at www.civicfed.org.

The FY2016 budget includes a \$1.26 billion property tax levy, an increase of \$427.7 million from the originally adopted FY2015 budget. The total proposed property tax increase of \$544.2 million between FY2015 (payable in 2016) and FY2018 (payable in 2019) will be dedicated entirely to fund the Police and Fire pension funds. This unprecedented infusion of property taxes is a much-needed step toward stabilizing the City’s two worst-funded pension plans.

“Mayor Emanuel and his team deserve credit for transparently outlining a plan to address one of the City’s most urgent financial crises,” said Laurence Msall, President of the Civic Federation. “Greater sacrifice will be needed to address the pension funding crises for non-public safety funds, the liquidity crises at Chicago Public Schools and the City’s ongoing structural deficit. To minimize the demand on taxpayers, we urge the City to consider greater cost savings and efficiencies, especially in public safety operations that have largely avoided budgetary scrutiny in recent years.”

The FY2016 budget reduces the City’s reliance on “scoop and toss,” an expensive practice that extends the life of existing bonds and dramatically increases the cost of providing government services. As part of a five-point debt management proposal presented to the Civic Federation in 2015, Mayor Emanuel pledged to phase out “scoop and toss” by FY2019, starting with a \$100 million reduction in FY2016. The Civic Federation urges the City Council to formally include this plan in Chicago’s debt management policy to ensure it is fully implemented and that any deviation from the plan is given proper public vetting.

While supporting the overall budget, the Civic Federation is concerned that the City has not publicly released a plan for how it would fund two significant potential expenses in FY2016: an additional \$220 million pension contribution and an increase in retiree health care costs. To balance the FY2016 budget, the City assumes that Senate Bill 777 and its proposed changes to the City’s pension funding schedule will become law. Senate Bill 777 has passed both houses of the Illinois General Assembly. As of this report, however, the bill has not been released for Governor Rauner’s consideration and the Governor has not indicated that he will sign it. Without Senate Bill 777, the City will be required to contribute an additional \$220 million to its pension funds in FY2016.

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The FY2016 budget is also subject to ongoing litigation over the City's phase-out of its retiree health care subsidy. A ruling against the City could significantly increase retiree health care costs in FY2016 and beyond. The Civic Federation expressed further concern that the FY2016 budget would increase the City workforce at a time when Chicago is facing great financial challenges.

The Civic Federation's full report also includes support for a proposed garbage removal fee that is already imposed by most other major U.S. cities and the proposal to pursue privatization of the City's 311 non-emergency call center. With proper oversight and safeguards, the Civic Federation supports privatization as an effective means of reducing costs and operational inefficiencies in government.

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.