The Civic Federation

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CITY OF CHICAGO FY2012 PROPOSED BUDGET:

Analysis and Recommendations

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The Civic Federation ● 177 N. State Street ● Chicago, IL 60601 ● civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the proposed FY2012 City of Chicago budget of nearly $6.3 billion because it begins to reduce the City's structural deficit with significant expenditure reductions and targeted revenue increases. The proposed budget greatly reduces the City's past reliance on one-time sources to close the $635.7 million budget gap.

The Civic Federation offers the following **key findings** on the City of Chicago FY2012 budget:

- The City proposes a FY2012 local funds budget of nearly $6.3 billion; this is a 2.1% increase from the FY2011 adopted appropriation of nearly $6.2 billion across all local funds. When grant funds are included, the FY2012 budget totals $8.2 billion;
- **The Corporate Fund budget proposal is $3.1 billion, which is a 5.4% decrease from FY2011 adopted appropriations** and a 6.9% decrease from FY2011 year-end revenue estimates;
- Corporate Fund tax revenues are projected to increase by $2.2 million or 0.1% from FY2011 year-end estimates while non-tax revenues will increase by $83.5 million or 9.4%;
- The City proposes to reduce budgeted positions by 2,299 positions or 7.0% to 30,623 positions. Corporate Fund positions will decline by 2,186, an 8.2% decline from the FY2011 proposed budget. These reductions include vacancy eliminations and layoffs;
- Corporate Fund personnel service appropriations are projected to decrease by 4.9% or $131.9 million from the FY2011 adopted appropriations;
- The property tax levy for City purposes will rise by $1.1 million in FY2012 for a total levy of $834.6 million including amounts levied for the City Colleges of Chicago and Chicago Public Schools;
- The $635.7 million FY2012 budget deficit was reportedly closed using the following measures: $417.4 million in expenditure reductions; $88.8 million in financing initiatives; $78.8 million in revenue enhancements; $39 million in revenue growth and $32.5 million in reimbursements from CPS for pension costs; and
- Unfunded liabilities for the City's four pension funds have grown by $12.1 billion or 449.3% from $2.6 billion in FY2001 to $14.8 billion in FY2010.

The Civic Federation **supports** the following elements of the City of Chicago's FY2012 budget:

- Reducing expenditures by $417.4 million in FY2012, including savings realized from the elimination of vacant positions and consolidating departments;
- Maintaining the City's property tax revenues nearly flat;
- Significantly reducing the City's reliance on one-time revenue sources;
- Making targeted revenue increases and improving collections of existing taxes and fees rather than seeking broad-based tax increases;
- Pursuing alternative service delivery in recycling pick-up and collaboration opportunities with Cook County;
- Producing an Annual Financial Analysis with trend data and budget projections; and
- Scheduling a public hearing on the proposed budget at a specific time that is not part of a regular City Council meeting.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2012 budget:

- The City still has structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time. Significant steps taken to narrow the structural gap in FY2012 must be expanded in the future;

- Long-term liabilities continue to grow and the City has not articulated a plan to curb this growth. Long-term obligations grew by 40.7% between FY2006 and FY2010;
- **The City faces a severe pension crisis, which grows worse the longer action is delayed. The City's unfunded pension liabilities have reached $14.8 billion or $5,473 per resident of the Chicago;**
- Bonded debt levels are high and debt service as a percent of total local fund appropriations is expected to reach 22.9% in FY2012. This represents $1.4 billion in debt service payments out of total local funds spending of $6.3 billion;
- Corporate Fund reserves are still inadequate at only 2.7% of operating expenditures, and the City has not taken action to adopt a Corporate Fund fund balance policy;
- The City does not allocate shared expenses such as employee healthcare and pension payments to departments, making it difficult to assess the full cost of services provided by those departments; and
- The budget lacks specificity regarding proposed gap-closing measures, which makes it difficult for the public or aldermen to evaluate them or propose alternatives.

The Civic Federation offers the following specific **recommendations** as a guide to improving the City of Chicago's financial management:

- **Implement pension reform, including changing employer and employee contributions so that they relate to the funded status of the plans, reducing benefits not yet earned for current employees, pursuing pension fund consolidation and reforming pension board governance;**
- Adopt a Corporate Fund fund balance policy to build and maintain operating reserves;
- Limit the declaration of TIF surplus and ensure that rules for any surplus declaration are part of a comprehensive TIF policy. Repeated accumulation and declaration of TIF surplus raises concerns that TIFs either do not have achievable redevelopment goals and should be terminated or that they generate more revenue than is needed and some parcels should be released from the TIF so that their equalized assessed value may be returned to the tax base;
- Evaluate the staffing structure and deployment of the City's public safety functions, especially the Fire Department, with the goal of reducing personnel costs;
- Implement a long-term financial planning process that includes the participation of the City Council and general public in order to plan responsibly for the City's fiscal future;
- Strengthen the capital planning process and develop a capital improvement plan that includes a comprehensive needs assessment;
- Measure and report the full unit cost of City services in order to evaluate their efficiency and compare them to alternative service delivery opportunities; and
- **Improve the budget document format by reporting the following items: prior years' actual expenditure and personnel data, all revenues by source, consistent full-time equivalent position counts including grants and vacancies and all property tax levies including those levied by the City on behalf of the City Colleges of Chicago and Chicago Public Schools.**

CIVIC FEDERATION POSITION

The Civic Federation **supports** the proposed FY2012 City of Chicago budget of nearly $6.3 billion because it takes effective action to reduce the City's structural deficit through significant expenditure reductions and targeted revenue increases. The proposed budget greatly reduces the City's reliance on one-time revenue sources to close the $635.7 million budget gap. It prudently does not contain general tax increases, but rather focuses primarily on reducing the cost of the City's operations and reforming the way in which government services are delivered.

The City will continue to face significant challenges with an ongoing—although much smaller—structural deficit, enormous unfunded pension liabilities and growing bonded indebtedness. Repeated use of non-recurring revenue sources in the past, especially the use of over $1.3 billion of principal from the proceeds from the Skyway and parking meter long-term asset leases, has exacerbated the City's financial crisis and led to a persistent structural deficit in the annual operating budget. While the FY2012 budget makes great strides in reducing the structural deficit, the proposed budget continues to use some non-recurring revenues to close its budget shortfall and does not address long-term debt and pension issues.

Issues the Civic Federations Supports

The Civic Federation supports the following elements of the proposed FY2012 City of Chicago budget.

Significant Expenditure Reductions

The proposed budget states that the City will close $417 million of its $635.7 million projected FY2012 budget gap through expenditure reductions. The proposed $3.1 billion Corporate Fund budget declines by 5.4% from the FY2011 appropriations. Such a significant decrease in the City's operating budget has not occurred in at least the past ten years. The expenditure reductions include personnel reductions as well as the closure of three police stations and the consolidation of Police and Fire Department headquarters.

The FY2012 proposed personnel services (including salaries, benefits and pensions) for all local funds is $3.2 billion, which is approximately 51.0% of the budget excluding grant funds, for 30,623 positions.[1] This is a decline of $104.1 million from FY2011 and is the first significant cut in personnel expenditures since FY2004. From FY2004 to FY2011, personnel services appropriations across all local funds increased by $593.4 million or 21.9% despite a reduction of 4,205 full-time positions or 11.3%. The City proposes to lay off 517 employees and eliminate a total of 2,100 budgeted vacant positions across all local funds in FY2012.[2]

The Civic Federation strongly supports the City's efforts to reduce operating expenses, including the personnel reductions. Approximately 84% of the Corporate Fund budget is spent on personnel costs, which consistently rise faster than revenues due to labor agreements and

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[1] "All local funds" is the Corporate Fund, special revenue funds, pension funds, debt service funds, and enterprise funds. It excludes grant funds.
[2] City of Chicago, FY2012 Budget Overview, p. 2.

healthcare cost increases. The Federation commends the City for addressing rising personnel costs in the public safety departments. In the past five years, public safety personnel costs in the Corporate Fund have increased by 4.6% despite significant reductions in the number of budgeted public safety positions. During the same time, personnel services appropriations for non-public safety departments have declined by 10.2%. Personnel reductions and reforms to personnel-related expenses will continue to be key factors in balancing the City's expenditures with recurring resources.

Targeted Revenue Enhancements

The FY2012 budget includes a number of targeted revenue increases for the Corporate Fund. It also includes revenue increases for specific expenditures such as water infrastructure management and street maintenance.

Corporate Fund revenues will increase due to various fines and fee increases. While Corporate Fund tax revenues are projected to increase by $2.2 million, or 0.1% from FY2011 year-end estimates, non-tax revenues will increase by $83.5 million or 9.4%. A one percentage point increase in the City's home rule hotel tax rate, from 3.5% to 4.5%, will increase the total effective hotel tax rate from 15.4% to 16.4% and raise business tax revenues by $13.9 million.[3] Additionally, fines will be increased for owners of vacant, dirty and blighted properties and for criminal activities, including driving under the influence.

In an effort to address the City's aging water infrastructure, the Mayor proposes an increase in water and sewer fees for residents and changes to the fee waiver system that would no longer subsidize water services for many non-profit organizations. The proposed FY2012 budget estimates $147.8 million in additional revenue for the Sewer and Water funds.

The budget also proposes increased vehicle fees and parking taxes that will fund more street maintenance projects and repairs. The proposals include increased rates for heavier vehicles and trucks and higher parking tax rates during business hours on weekdays. Fees for loading zones and valet spaces will be re-assessed to more closely reflect the market value of street space.

The revenue proposals in the FY2012 budget are reasonable and preferable to broad-based tax increases, which can have a negative economic impact. The water, sewer and transportation-related revenue increases in the FY2012 budget are targeted at users and will be allocated for the repair, maintenance and rehabilitation of infrastructure. It is reasonable to ask users of public goods and services to pay for the costs incurred to maintain them.

Significant Reduction in Use of One-Time Revenue Sources

Unlike last year's budget recommendation, the FY2012 proposed budget does not include the use of proceeds from the Skyway and parking meter long-term asset lease reserves. The Civic Federation has repeatedly recommended that these types of funds be dedicated to retiring debt, reducing unfunded pension liabilities, making long-term capital investments and creating substantial long-term reserve accounts. As the Federation recommended and as Mayor Emanuel

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[3] See page 46 of this report for a breakdown of the hotel tax rate.

has proposed in his FY2012 budget, only the interest earned on asset lease proceeds should be used for operating expenses as a replacement for the revenues that were originally generated by the assets before they were leased.

While the City has dramatically reduced its reliance on one-time revenue sources, at least $75 million of the FY2012 budget gap will be closed with non-recurring resources that include restructuring existing debt for $53 million, taking advantage of low interest rates for $10 million and $12 million in one-time Tax Increment Financing (TIF) surplus.[4]

The Civic Federation commends the City for its recognition that short-term operating appropriations are an improper use of asset lease proceeds. We urge the administration to take the next step and end the use of one-time revenues to balance its budget. One-time revenue sources from actions such as debt restructuring should only be used for non-recurring purposes that improve the City's financial position, such as reducing long-term liabilities or building reserves.

Holding Property Tax Revenue Constant

The FY2012 budget maintains the City's property tax revenue at roughly the previous year's level. The City of Chicago's proposed 2012 property tax levy for City government purposes is $798.0 million, which is a $1.1 million increase from the FY2011 levy. The increase comes from the City's desire to capture property tax revenues from three expiring TIF districts and transfer them to the general property tax levy. However, the levy increase is not an increase in the amount of money taxpayers will owe in property taxes. This is because taxpayers were previously paying the $1.1 million for TIF district expenses, which are not reported in the operating budget. Now, they will pay the $1.1 million instead as part of the levy, which is reported in the budget.

The levy for City government purposes was $713.5 million between FY2003 and FY2007. In FY2008 the levy was increased by 11.7%, or $83.4 million, to $796.8 million, a tax increase that City residents first began paying in their fall 2009 tax bills. The $1.1 million increase in FY2012 brings the levy for government purposes to $798.0 million.

The Civic Federation commends the City for holding the line on the amount of revenue it seeks from homeowners and businesses via the property tax this year. Raising broad-based taxes before spending has been stabilized and all possible cost cutting efficiencies have been implemented would be counterproductive as City residents struggle to deal with the aftermath of the recession and the housing foreclosure crisis.

In the near future, however, solving the City's pension crisis will likely require increased funding that may necessitate a property tax increase as well as major benefit reductions.

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[4] City of Chicago, Chicago Investors Conference Presentation, p. 22. Available on the City of Chicago's website at http://www.cityofchicago.org/content/city/en/depts/fin/supp_info/bond_issuances0/presentations.html.

Pursuing Alternative Service Delivery

The City will continue its managed competition program for recycling services through 2012. The FY2012 budget proposes introducing a similar managed competition model to other City services in 2012.[5] In addition, the Joint Committee on City-County Collaboration identified possible increased revenues that would result from sharing tax enforcement data and resources to increase compliance with similar City and County taxes, such as the cigarette tax.[6]

The Civic Federation endorses the City's efforts to introduce greater efficiency in service delivery through alternative service delivery methods, including managed competition and collaboration with other governments.

Scheduling a Public Hearing on the Proposed Budget

The only opportunity for the public to comment on the Mayor's complete budget proposal is at one public hearing, which was traditionally held as part of a regular City Council meeting. In the past, there has been no designated time for the public hearing to begin because it took place only after other Council business had been conducted.

This year the City Council has scheduled a public hearing on the budget at 11:00 am on November 2, 2011.[7] This is an improvement over past practice. The Civic Federation still urges the City Council to allow time for adequate public participation by holding more than one public hearing as do many other local governments including the Chicago Public Schools and Chicago Transit Authority. These hearings on the proposed budget should be separate from regularly scheduled City Council meetings at times and locations convenient to the public. The hearings should be held at least ten working days after publication of the proposed budget and five working days before the City Council is scheduled to vote on the budget.

Developing an Annual Financial Analysis

Mayor Emanuel issued an executive order on May 20, 2011 mandating an Annual Financial Analysis.[8] The analysis was released on July 29, 2011. The analysis is essential for viable long-range planning and it represents an important first step in a more complete long-term financial planning process. It includes:

- A financial condition analysis that covers the previous ten years including a discussion of key factors impacting the performance of the City's revenue streams;
- A three-year baseline forecast that describes key assumptions as well as alternative forecasts to show positive and negative variances;
- A reserve analysis that includes the corporate fund reserve and asset lease reserves;

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[5] See the Blue Cart Recycling Program on the City of Chicago's website at http://www.cityofchicago.org/city/en/depts/doe/supp_info/recycling1/blue_cart_recycling.html (last visited October 6, 2011). City of Chicago, FY2012 Budget Overview, p. 3.
[6] City of Chicago, Joint Committee on City-County Collaboration, June 2011, p. 81.
[7] http://www.chicityclerk.com/headlines/2011/oct/PublicHearing.pdf.
[8] City of Chicago, "Mayor Emanuel Signs Executive Order Creating a Long-Term Budgeting and Financial Planning Process for the City of Chicago," news release, May 20, 2011.

- An analysis of the City's capital improvement program; and
- An analysis of general debt obligations and long-term liabilities.

The analysis provided a framework for the development of the City's FY2012 budget. It was a good first step toward the creation of a formal long-term financial plan and we applaud the Mayor and his financial team for this accomplishment.

Civic Federation Concerns

The Civic Federation has **concerns** regarding several critical financial issues facing the City of Chicago.

Ongoing Structural Deficit

In the Annual Financial Analysis 2011 document, the City projected that its Corporate Fund deficit would grow to $741.4 million in FY2013 and $790.7 million in FY2014 under a continuation of 2011 revenue and expenditure trends. These projections assume that expenditures grow at the 10-year historical average rate of 2.3% and that revenues would grow by 1.3% in 2013 and 1.1% in 2014. The City also includes two alternative projections with slightly higher or lower revenue growth estimates.[9] These projections demonstrate that if nothing is done in FY2012 to change the structural gap between ongoing revenues and expenditures, the City will continue to face larger gaps in the future.

The new administration has begun to make changes in many areas of City government including the Police Department to reduce administrative layers and redeploy officers, but more significant changes to public safety functions will need to be made. Despite a proposed Corporate Fund reduction in personnel costs of $131.9 million, or 4.9%, in FY2012 personnel costs for public safety departments are collectively down only 1.6%. This is due in part to a $33.9 million, or 7.3%, increase in personnel costs for the Fire Department.[10]

Growing Long-Term Liabilities

The two-year increase in long-term liabilities from FY2009 to FY2010 was 11.7% or a $1.4 billion increase. The five-year increase in total long-term obligations between FY2006 and FY2010 was 40.7%. This is a $3.9 billion increase. Long-term debt (bonds, notes and certificates payable) rose by 22.7%, increasing from $6.9 billion to nearly $8.5 billion. Other liabilities, which include pension and lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 86.9%. The single largest percentage and dollar increase over the five-year period was for pension obligations, which increased by 122.4% or $2.3 billion. The steady increases in long-term obligations, particularly the large pension obligation increase, are a cause for concern.

[9] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 34.
[10] The $33.9 million increase is pursuant to a collective bargaining agreement and includes $26 million for sworn personnel salary increases plus $6.6 million for increases in duty availability pay, uniform allowances and holiday pay. Information provided by City of Chicago Office of Budget and Management, November 1, 2011.

Pension Funding Crisis

The City faces a severe pension funding crisis. The Police and Fire pension funds were only 39.7% and 32.4% funded in FY2010 on an actuarial value basis; the funded ratio for the Municipal Fund was 49.8% and the Laborers Fund was 73.8%.[11] A funded ratio below 80% is a cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time. The City's pension crisis has been caused largely by consecutive years of contributions that were insufficient for the level of benefits promised.

Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $12.1 billion or 449.3%. The total unfunded liabilities reached $14.8 billion in FY2010, of which $6.0 billion was in the Municipal Fund followed by the Police Fund with $5.7 billion.

The gap between the actuarially calculated annual required contribution (ARC) and the City's employer contributions to its pension funds has grown at an alarming rate over the past ten years.[12] **In FY2001 the City's employer contribution to its four pension funds was equivalent to 12.6% of payroll, or slightly more than the ARC. By FY2010 the City's employer contribution was only 13.3% of payroll while the ARC had grown to 34.9% of payroll. In other words, a reasonable pension funding policy would have required the City to contribute an additional 21.5% of payroll, or $687.1 million, to its pension funds in FY2010.** The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $3.1 billion shortfall. The worsening financial condition of the City's pension funds was a major factor cited by both Fitch Ratings and Moody's Investors Service in their downgrades of Chicago's General Obligation Bonds in August and October 2010.[13]

Public Act 96-1495 enacted in December 2010 will require the City to begin making contributions to its Police and Fire pension funds in 2015 that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials have estimated that the contribution increase will be roughly 60% in 2015.[14] Prior to the enactment of Public Act 96-1495, the Fire Fund was projected to run out of assets during 2021 and the Police Fund was projected to run out of assets during 2025.[15]

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[11] These are funded ratios based on the actuarial value of assets. For a discussion of actuarial value see Civic Federation, "Status of Local Pension Funding Fiscal Year 2009," February 10, 2011, at http://www.civicfed.org/civic-federation/publications/status-local-pension-funding-fiscal-year-2009-evaluation-ten-local-gov.
[12] See the Pension section of this report for an explanation of ARC and employer contributions.
[13] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010. Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
[14] Letter of December 8, 2010 from the Chicago City Council to Governor Pat Quinn. Last visited on January 4, 2011 at http://www.wttw.com/res/pdf/quinn_letter.pdf.
[15] Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, pp. 46, 108.

The pension funding crisis demands immediate attention by Mayor Emanuel and the City Council. Unfortunately there are no easy fixes and any solution will require sacrifices on the part of employees and citizens alike.

High Bonded Debt Burden

The City of Chicago continues to have a relatively high debt burden according to three key commonly-used indicators:

- Between FY2001 and FY2010 Chicago total net direct debt rose by 96.9% or $3.6 billion. This represents an increase from $3.7 billion in FY2001 to approximately $7.3 billion in FY2010.
- Between FY2001 and FY2010, overlapping debt from other local governments combined increased by 42.7% at the same time City of Chicago debt rose by 96.9%. Total debt from all eight major governments rose by 62.6%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other governments in the region.
- Chicago debt service appropriations in FY2012 are projected to be 22.9% of total local fund appropriations or $1.4 billion out of expenditures totaling nearly $6.3 billion. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[16]

The sharp upward trend in debt burden over time is a cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.

Inadequate Corporate Fund Reserves

Fund balance is an important financial indicator for governments because it measures a jurisdiction's capacity to withstand financial emergencies.[17] The City's unreserved Corporate Fund reserves dwindled to just $226,000 or 0.01% of operating expenditures in FY2008. They were substantially increased to $81.1 million in FY2010. However, this represents a fund balance ratio of 2.67%, far below the 16.7% recommended by the Government Finance Officers Association (GFOA) as a healthy fund balance for a general purpose government.[18] In FY2012 the prior year unreserved corporate fund balance is projected at $143.5 million or 4.6% of projected Corporate Fund expenditures.[19] This ratio is an improvement but still far below the GFOA standard.

[16] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[17] Craig S. Maher and Karl Nollenberger, "Revisiting Kenneth Brown's 10-Point Test" *Government Finance Review*, October 2009.
[18] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[19] City of Chicago, FY2012 Budget Overview, p. 12.

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential that it account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking: setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees; materials and supplies; associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[20]

The City's budget does not have full cost data for its programs in its budget. Currently, the City typically budgets the following categories of appropriations for City Departments:

- Personnel Services
- Contractual Services
- Travel
- Commodities and Materials
- Specific Purposes

The Personnel Services category of expenditures within operating departments only includes expenses related to salaries. Specifically it includes line item expenditures such as salaries and wages, salary adjustment and savings from unpaid time off. It does not include any fringe benefits or pensions. The City has a separate cost center for each fund called "Finance General" where a variety of costs are lumped together including the following items:

- Health Maintenance Premiums (HMO)
- Claims and Administration for Hospital and Medical Care
- Term Life Insurance
- Claims and Costs of Administration for Worker's Compensation
- Unemployment Insurance

Corporate Fund personnel services included in Finance General are budgeted at $433.6 million for FY2012.[21] In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds. Pension Fund costs are budgeted in separate pension funds and not reflected in departmental programs or the Corporate Fund. The FY2012 proposed budget includes $476.3 million for pension funds.[22]

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[20] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[21] City of Chicago, FY2012 Budget Recommendations, p. 327.
[22] City of Chicago, FY2012 Budget Overview, p. 166.

The City is clearly not including a significant amount of the full cost of services in departments' budgets. For example, a Chicago News Cooperative investigation found that the cost of Streets and Sanitation Department rises from $141 million to $204 million when unallocated costs are accounted for.[23] By those estimates 31% of the cost is not included in the department's budget. It is very common for governments to budget or include an analysis of the full cost of programs in their budget documents. Both Los Angeles and New York have tables in their budget that outline the cost of programs including pensions, benefits, liability claims and financing and even debt service.[24]

Lack of Specificity Regarding Gap-Closing Efforts

The City's proposed Budget 2012 Overview book does not provide sufficient detail on how the City will close its $635.7 million budget gap. The Civic Federation was unable to find detailed evidence in the budget documents for the specific actions proposed in the general categories described above or the Corporate Fund dollar amounts associated with each gap-closing measure. As a result, the Federation cannot fully evaluate the proposed gap-closing package, projected savings and revenues or proportion of one-time versus structural actions.

Civic Federation Recommendations

The Civic Federation has several recommendations regarding ways to improve the City of Chicago's financial management practices in both the short- and long-term.

Implement Pension Reform

The Civic Federation makes the following recommendations regarding the City's four pension funds:

Reduce Benefits Not Yet Earned By Current Employees

The Mayor and City Council should seek to reduce benefits not yet earned by current employees. They should seek actuarial projections and legal opinions on the size and type of benefit reductions (e.g., raising the retirement age, reducing automatic annuity increase, or reducing final average salary) needed to make the pension plans affordable and sustainable now and in the future. Alternatively, employees could be permitted to retain their current benefit plan but be required to make higher contributions.[25]

A reduction in benefits would not affect existing retirees or benefits already earned by current employees, but would prospectively affect future benefits earned by current employees. Once the best options for ensuring the sustainability of the pension funds have been determined through

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[23] Dan Mihalopoulos and Mick Dumke, "Service Couldn't Be Better, and at $200 a Ton It Should Be," *Chicago News Cooperative*, February 12, 2011.

[24] For examples, please see budgeting of respective Police Departments. The City of New York, FY2011 Budget Analysis, p. 4 (http://www.nyc.gov/html/omb/downloads/pdf/adopt10_bfa.pdf). The City of Los Angeles, Budget FY2010-11, p. 124 (http://controller.lacity.org/AdoptedBudget/index.htm).

[25] Such an option would be similar to a proposal that is under consideration by the General Assembly in House Bill 149 and Senate Bill 512.

legal and actuarial analysis, these options should be discussed with labor unions and presented to the General Assembly as soon as possible.

In the future, no benefit enhancements to the pension plans should be considered unless the funds are at least 90% funded. Any enhancement should only be considered if it is funded on a pay-as-you-go basis whereby employer and/or employee contributions are increased to fully fund the enhancement. Any enhancement should also expire after five years, subject to renewal.

Increase Employer and Employee Contributions to Meet the Actuarially-Based Needs of the Funds

Employee contributions to the four City pension funds are a fixed percentage of pay. The City's employer pension contributions are a multiple of past employee contributions, with no relationship to the financial health of the plan.

The Civic Federation recommends that both employer and employee contributions be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC). At a minimum, contributions to the Municipal and Laborers' funds should be put on a 30-year schedule to reach 90% funded, as the Police and Fire funds were pursuant to Public Act 96-1495. Contribution increases should be implemented as soon as possible, because the longer they are postponed the larger the increases will have to be in the future.

In order to increase its employer contributions, the City will need to cut other expenditures, raise taxes or fees or do both.

The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured such that employees pay a proportion of required contributions, similar to the new structure of the Chicago Transit Authority contributions. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions, and that those contributions relate to the fiscal health of the fund. The Commission to Strengthen Chicago's Pension Funds modeled 60%/40% cost-sharing for additional contributions but noted that this ratio could be changed.[26]

Pursue Pension Fund Consolidation

The Civic Federation recommends that the City study ways to consolidate its pension funds by, for example, merging the four funds into a single fund or by merging the Municipal and Laborers' funds with the Illinois Municipal Retirement Fund and merging the Police and Fire funds into a single Chicago Public Safety fund. It is difficult to understand how the maintenance of four separate pension funds is either beneficial to taxpayers or cost effective for the City of Chicago.

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[26] City of Chicago, Commission to Strengthen Chicago's Pension Funds, April 30, 2010, p. 34*ff*.

Reform Pension Board Governance

If the four City pension funds remain separate, the Civic Federation recommends that the composition of the pension boards of trustees be revised in three ways. The balance of employee and management representation on the boards should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent taxpayer representation on the board. Finally, financial experts should be included on the pension boards and financial training for non-expert members should be required.[27]

Adopt Corporate Fund Balance Policy to Build Reserves

The Civic Federation urges the City to establish Corporate Fund reserves that meet the minimum standard proposed by the Government Finance Officers Association, equivalent to two months of expenditures or revenues. In FY2012 this amount would total roughly $515 million. The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[28]

The City does have reserves in the form of the $500 million Skyway Long-Term Reserve Fund. While asset reserves have in the past been viewed favorably by bond rating agencies, it was a one-time windfall. The Civic Federation is deeply concerned that the City has not demonstrated the will or ability to build a Corporate Fund reserve through disciplined execution of a reserve policy that would require it to hold back spending on an annual basis until the target reserve level is reached.

The Civic Federation recommends that the City develop a long-term plan and policy to build up its Corporate Fund reserves as revenues slowly begin to recover. These reserves must be built using discipline and not spending all anticipated revenues. More specifically, the City should establish a Corporate Fund unrestricted fund balance equal to 10% of the prior year's Corporate Fund expenditures. The City should build up this reserve level over a period of five years by setting aside recurring Corporate Fund revenues in amounts necessary to reach 5% of prior year Corporate Fund revenues by year-end fiscal year 2012, 6% by year-end 2013, 7% by year-end 2014, 8% by year-end 2015, 9% by year-end 2016 and 10% by year-end 2017.

Upon achievement of the targeted level, 50% of the reserve fund should be available for use in unforeseen emergencies (Emergency Fund) and 50% would be available for a Revenue Stabilization Fund to mitigate service reductions during recessionary periods when Corporate Fund economically-sensitive revenues decline by at least 5% from the prior year. Use of the reserve fund for either of these purposes would be subject to approval by the City Council and must be accompanied by a plan to replenish the Fund over five years.

[27] Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf (last visited on February 9, 2011). See also Civic Federation, "Recommendations to Reform Public Pension Boards of Trustees in Illinois," February 16, 2006. http://www.civicfed.org/civic-federation/publications/recommendations-reform-public-pension-boards-trustees-illinois (last visited on February 9, 2011).
[28] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

The historical trend analysis and forecasts provided in the Long-Term Financial Plan will show whether or not the reserve targets are being met.

The City Council and Mayor should evaluate the City's Corporate Fund unrestricted fund balance to determine what actions should be taken in order to reach the targeted levels.

Limit Declaration of TIF Surplus

In FY2011 the City declared a surplus of $180 million in 25 Tax Increment Financing districts, thus allowing for the transfer of $38.5 million to its Corporate Fund. The administration used its share of funds to help address the City's budget deficit and distributed the remaining funds to the overlapping taxing districts in compliance with state statute. In FY2012 the City will declare a surplus in three TIF districts and will receive $12 million as its share of the distribution of those funds.[29]

Given the City's severe budgetary crisis, it is acceptable for the City to review its TIFs and declare a significant TIF surplus again in FY2012. However, beyond FY2012 the City must develop a more systematic way to evaluate and utilize any surplus funds. This strategy should be addressed in a comprehensive TIF policy.

Repeated accumulation and declaration of surplus in a TIF would raise concerns that the TIF does not need its revenue for redevelopment projects. Such a situation could indicate that either the TIF does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF so that their EAV may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

Adopt Financial Policies

The mayor should present and the City Council should adopt a series of financial policies previously recommended by the Civic Federation and consistent with the best practices of the GFOA. These policies should be regularly evaluated as part of a Long-Term Financial Plan review each spring, which should include opportunities for public input during the early stages of the review process. The Long-Term Financial Plan review process should also include at least one opportunity for the public to comment on the updated Long-Term Financial Plan at a public hearing prior to its final approval. The public hearing should be held at least ten working days after the date of the draft plan's publication and five working days before the final approval of the plan.

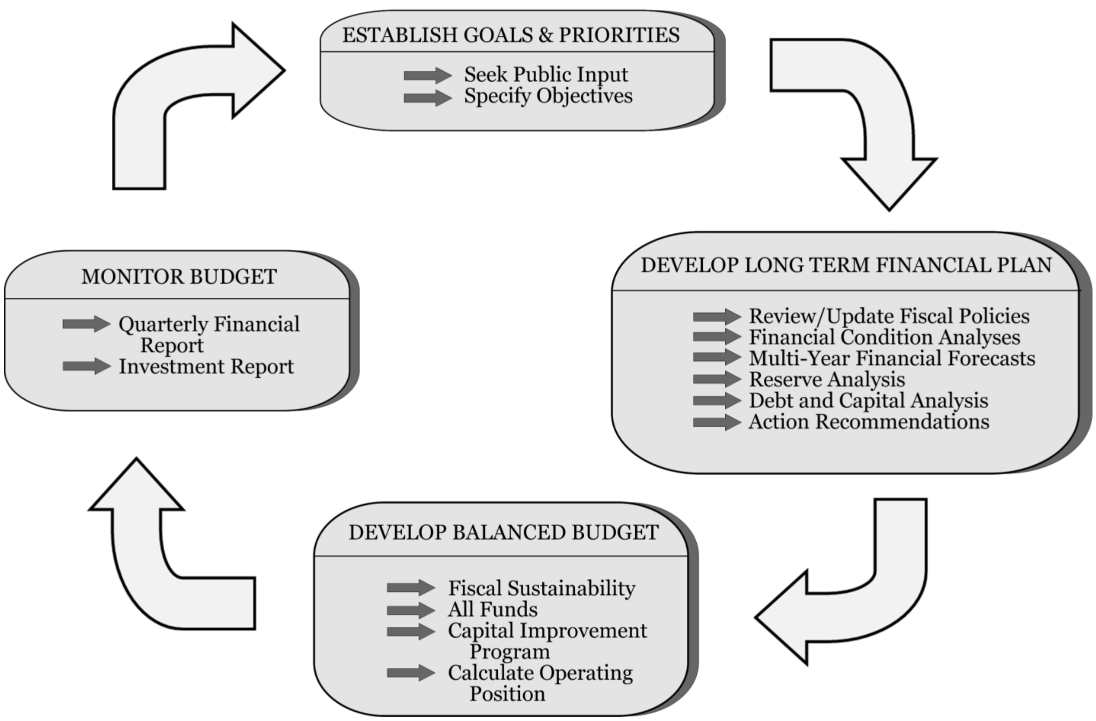
[29] City of Chicago, FY2012 Budget Overview, p. 15.

Implement a Formal Long-Term Financial Plan

The Annual Financial Analysis released by the City prior to development of its FY2012 budget was as an important step toward the development of a formal long-term financial plan. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice, such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[30]

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[31] First, the Mayor and his administration will articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan will evaluate financial and service data in order to determine how to accomplish the goals and priorities. It will include a review of the City's financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced City of Chicago budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.

Long-Term Financial Planning Process



[30] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).
[31] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

If the City chooses not to undertake a full long-term financial planning process, at a minimum the Annual Financial Analysis should be expanded to include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

Evaluate Fire Department Staffing and Deployment in Order to Reduce Expenditures

The Civic Federation strongly urges the City to thoroughly examine the Fire Department's staffing structure and deployment with the goal of reducing personnel costs. While total Corporate Fund appropriations will decline by 4.1% between FY2008 and FY2012, the Fire Department's Corporate Fund appropriations will rise by 9.8%.

It is clear that staffing changes will have to be at the core of cost reductions at the Fire Department. Over $499.3 million or 95.7% of the Fire Department proposed FY2012 Corporate Fund appropriation is for personnel services including salaries, overtime, holiday pay, duty availability, specialty pay, compensatory time payment and furlough/supervisors compensation time buy-back.[32] These personnel costs do not include additional fringe benefits, disability and pension costs that are appropriated in the Finance General category. It will be difficult to make significant reductions to Fire Department expenditures without addressing personnel costs, including those in Finance General.

The most recent publicly-available comprehensive review of the Chicago Fire Department was prepared by TriData Corporation and published in June 1999.[33] Although the review did not examine the number or location of fire stations in the City, it did make recommendations on nearly every other aspect of department operations. Personnel-related recommendations included:

- Reduce levels of senior management and train lower level managers to be more effective supervisors;

[32] City of Chicago, FY2012 Budget Recommendations, p. 254.
[33] TriData Corporation, *Comprehensive Review of the Chicago Fire Department*, June 1999, http://www.cityofchicago.org/content/dam/city/depts/cfd/general/PDFs/TriDataReportJune1999.pdf (last visited on May 20, 2011).

- Reduce costs by civilianizing more positions such as messengers, parts and vehicle deliverers and air mask maintenance workers;
- Shift more resources from fire suppression to fire prevention and education;
- Reduce some engine companies from five people to four people or increase the number of permitted variances from the minimum staffing.[34]

Strengthen the Capital Budgeting and CIP Process

In previous years, the City's capital improvement plan (CIP) has been released in the summer. However, this year the new five-year FY2012-FY2016 capital improvement plan is not yet available. The Budget Office indicates that it will be released by the end of 2011.[35] In addition, a long-term capital planning process using performance metrics and return-on-investment (ROI) standards has been finalized and was incorporated into the FY2012 budget process.[36]

The Civic Federation urges the City to: (1) develop and have the City Council adopt capital planning related financial policies, (2) strengthen the City's CIP by including an objective needs assessment and (3) adopt a formal capital budget.

The Government Finance Officers Association (GFOA) recommends that jurisdictions adopt policies to inventory and assess the condition of all major capital assets. It also recommends that governments adopt a long-range financial planning policy that considers the implications of capital budgets.[37] The Mayor should present and the City Council should adopt financial policies in order to provide staff with clear criteria on how to assess capital assets and rank capital projects.

The City's previous CIPs have included descriptions of the needs assessment and project selection criteria used for each program area, but how well individual projects meet the selection criteria was not outlined and the overall state of the City's assets was not described. The CIP has stated that when funding constraints occur projects were eliminated based on (1) departmental priority, (2) needs of the program area, (3) effect of the project on operating budget and (4) comments received.[38] The GFOA recommends using a rating system to facilitate decision making in capital planning.[39] The CIP should utilize a rating system to determine which projects get eliminated based on the adopted financial policies. The CIP should transparently outline how the rating scale is applied to programs and/or projects.

The Government Finance Officers Association also recommends that governments prepare and adopt a formal capital budget as part of their annual or bi-annual budget process. It recommends that the capital budget be adopted by a formal action of the legislative body, either as a

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[34] TriData Corporation, *Comprehensive Review of the Chicago Fire Department*, June 1999, http://www.cityofchicago.org/content/dam/city/depts/cfd/general/PDFs/TriDataReportJune1999.pdf (last visited on May 20, 2011).
[35] Information provided by the City of Chicago Office of Budget and Management, November 1, 2011.
[36] City of Chicago, Office of the Mayor, "The First 100 Days of the Emanuel Administration," press release, August 22, 2011.
[37] Government Finance Officers' Association, "GFOA Best Practice: Adoption of Financial Policies," (2002).
[38] City of Chicago, 2010-2014 Capital Improvement Program, p. 4.
[39] Government Finance Officers' Association, "Preparing and Adopting Multi-Year Capital Planning," (2006).

component of the operating budget or as a separate capital budget. The capital budget should be directly linked to and flow from the CIP.[40] It is common practice for governments to adopt a capital budget in addition to the CIP. For example, both New York and Los Angeles have capital budgets that are adopted by their City Councils.

Measure and Budget for the Full Cost of City Programs

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Indirect cost such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[41]

Improve Budget Format

The Civic Federation offers the following recommendations to improve the transparency and usefulness of City's budget documents.

Report Actual Expenditure and Personnel Data in the Budget Overview and Revenue Estimates

The Budget Overview and Revenue Estimates book includes actual revenue data for five prior years, as well as a year-end estimate and the budget projection in the "Budget Details" section. This is important historical information and a critical feature of the budget presentation. The Civic Federation urges the Budget Office to also provide actual data for the expenditures and personnel parts of the "Budget Details." Currently only the appropriated, not actual, figures for prior year expenditures and personnel are provided.

Provide Revenue Data in an Electronic Format

This year the City posted appropriations and personnel data sets on its data portal in a searchable and downloadable format. This is a significant step forward. The Civic Federation urges the City to also provided detailed revenue data sets in the future so that users may sort multiple years of data by revenue type and fund.

Consistently Report Full-Time Equivalent Positions

The budget documents do not consistently show the total number of full-time equivalent positions in all areas of the documents, including filled positions and vacancies. Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position. The FTE count includes full-time, part-time, seasonal and hourly wage earners.

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[40] Government Finance Officers Association, "GFOA Best Practice: Incorporating a Capital Project Budget in the Budget Process," (2007).
[41] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service" (2002).

The FY2012 Budget Recommendations, which will be voted on by the City Council to become the FY2012 Appropriations Ordinance, describes position count and personnel services appropriations by fund. But position count is represented by full-time positions only (both filled and vacant), while personnel services appropriations reflect expenses for full-time equivalent positions, including personnel related expenses such as pension and healthcare costs. The Civic Federation recommends that the City revise its budget documents to accurately and consistently reflect the number of individuals employed by the City as well as the total number of full-time equivalent positions needed to provide City services across all departments, including grant-funded positions.

Report All Fund Revenues by Source in Budget Overview and Revenue Estimates Narrative

Information is currently provided for revenues by fund and for Corporate Fund revenues by source. It would be useful to follow the practice employed by many other governments and also present revenue information by source for all funds, including grant funds, in the narrative section contained the Revenue Estimates portion of the budget book. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.

Report all Property Taxes Levied Including Levies for Other Governments

The City of Chicago levies property taxes on behalf of the City Colleges and the Chicago Public Schools. These levies are legal, but the transactions are not transparent. The City provides no narrative information about the levies in its budget.

The Civic Federation believes that it is important for taxpayers to clearly understand what public services they are paying for and which governments receive and spend their monies. Governments must clearly present a complete picture of their revenues and expenses. We urge the City of Chicago to improve the public disclosure of its arrangements with the City Colleges and the Chicago Public Schools in future budget documents.

ACKNOWLEDGMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Lois Scott, Comptroller Amer Ahmad and Office of Budget and Management (OBM) Director Alexandra Holt and their staffs to answer our questions about the budget.

FY2012 BUDGET HIGHLIGHTS

The City proposes a FY2012 budget of nearly $6.3 billion for all local funds (excluding grants). This is a 2.1% increase from the FY2011 adopted appropriation of nearly $6.2 billion across all local funds. The Corporate Fund budget proposal is $3.1 billion, which is a 5.4% decrease from FY2011 adopted appropriations and a 6.9% decrease from FY2011 year-end revenue estimates. Such a significant decrease in the Corporate Fund has not occurred in at least the past ten years.

The City proposes to reduce budgeted positions by 2,299 positions or 7.0% to 30,623 positions. Corporate Fund positions will decline by 2,186, an 8.2% decline from the FY2011 proposed budget.

Including grant funding, the City's total FY2012 proposed budget is $8.2 billion. The City anticipates $1.9 billion in grant funds for FY2012, which represent 22.3% of the total budget.

City of Chicago All Local Funds: FY2011 & FY2012 (in $ millions)

	FY2011	FY2012	$ Change	% Change
Net Total Appropriations	**Adopted**	**Proposed**		
Corporate Fund	$ 3,263.7	$ 3,086.6	$ (177.1)	-5.4%
All Local Funds	$ 6,152.7	$ 6,283.6	$ 130.9	2.1%
Total Resources*	**Year-End Estimate**	**Proposed**		
Corporate Fund	$ 3,314.2	$ 3,086.6	$ (227.6)	-6.9%
All Local Funds	$ 6,599.9	$ 6,283.6	$ (316.3)	-4.8%
Budgeted Positions	**Proposed**	**Proposed**		
Corporate Fund	26,820	24,634	-2,186	-8.2%
All Local Funds	32,922	30,623	-2,299	-7.0%

*Resources include revenues, proceeds and transfers in and unreserved fund balance.

Source: City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Overview, pp. 25 and 162-168.

At nearly $2.6 billion, the FY2012 Corporate Fund appropriation for personnel costs represents 83.7% of the Corporate Fund budget. Personnel costs will decline by $28.8 million, or 1.6%, for public safety departments and by $103.2 million, or 11.0%, for non-safety departments from FY2011. Contractual services in both areas decline by $36.9 million, or by 12.2%.

In the past five years, public safety expenditures have constituted between 57.5% and 60.8% of Corporate Fund spending.

Over the past five years, tax revenues in the Corporate Fund have decreased by $215.4 million, or 10.4%, while non-tax revenues have increased by $160.7 million, or 19.7%. This trend reflects a shift away from economically-sensitive tax revenues and towards targeted revenue enhancements such as fees and fines.

Unfunded liabilities for the City's four pension funds have grown by $12.1 billion, or 449.3%, from $2.6 billion in FY2001 to $14.8 billion in FY2010. Between the U.S. Census years of 2000 and 2010, total unfunded liabilities per resident of Chicago grew from $827 per capita to $5,473 per capita. This is an increase of 662.1%.

FY2012 BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago projected a $635.7 million budget deficit for FY2012 in its 2011 Annual Financial Analysis released on July 29, 2011.[42] The deficit was the result of a projected $609.3 million or 18.6% decline in Corporate Fund resources and a $91.0 million, or 2.8%, increase in Corporate Fund expenditures compared to the FY2011 year-end estimates.[43]

The projected decline in Corporate Fund revenues is due primarily to the loss of one-time revenue sources that were used for operating expenses in the FY2011 budget. These sources totaled roughly $500 million and included the use of over $330 million in the proceeds of long-term asset lease agreements (see page 63 of this report).[44] The repeated use of one-time revenue sources has created very large projected budget gaps for several years, often filled by more one-time sources. The Preliminary Budget Estimate for FY2011 stated that the then-projected $447.9 million decrease in resources available for FY2011 was "predominantly due to the loss of non-recurring revenue streams that were applied in prior years."[45]

Besides the loss of one-time revenue sources, other revenues are assumed to decline somewhat. The City projects that income tax revenue will continue to fall due to the reduced population recorded in the 2010 U.S. Census and to changes in the State of Illinois' income tax distribution formula. Other revenue reductions include the multi-year phase-out of the employer head tax proposed by Mayor Emanuel and expected declines in personal property replacement tax revenues from the State.[46]

The FY2012 Corporate Fund expenditures projection was based on known changes such as collective bargaining agreement wage increases and the elimination of furlough days and unpaid holidays. It reflects cost savings implemented for FY2011 but no further savings that may be implemented as part of the FY2012 budget.[47]

The $64.6 million surplus shown below for the FY2011 year-end estimate is primarily the result of expenditures that were projected to be $57.0 million less than budgeted appropriations for FY2011, largely due to a hiring freeze.[48]

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[42] The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap annually calculated by the City each summer. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.
[43] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 33.
[44] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 32 and Civic Federation, *City of Chicago FY2011 Proposed Budget: Analysis and Recommendations*, November 3, 2010, pp. 8-9.
[45] City of Chicago, FY2011 Preliminary Budget Estimates, July 30, 2010, p. 5.
[46] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 32.
[47] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 33.
[48] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 33.

City of Chicago FY2012 Projected Budget Deficit (in $ millions)				
	FY2011 Year-End Estimate	FY2012 Projected	$ Change	% Change
Corporate Fund Revenues	$ 3,271.3	$ 2,662.0	**$ (609.3)**	**-18.6%**
Corporate Fund Expenditures	$ 3,206.7	$ 3,297.7	**$ 91.0**	**2.8%**
Budget Surplus (Deficit)	**$ 64.6**	**$ (635.7)**	**-**	**-**

Note: Revenue does not include prior year fund balance.

Source: City of Chicago, 2011 Annual Financial Analysis, pp. 5 and 33.

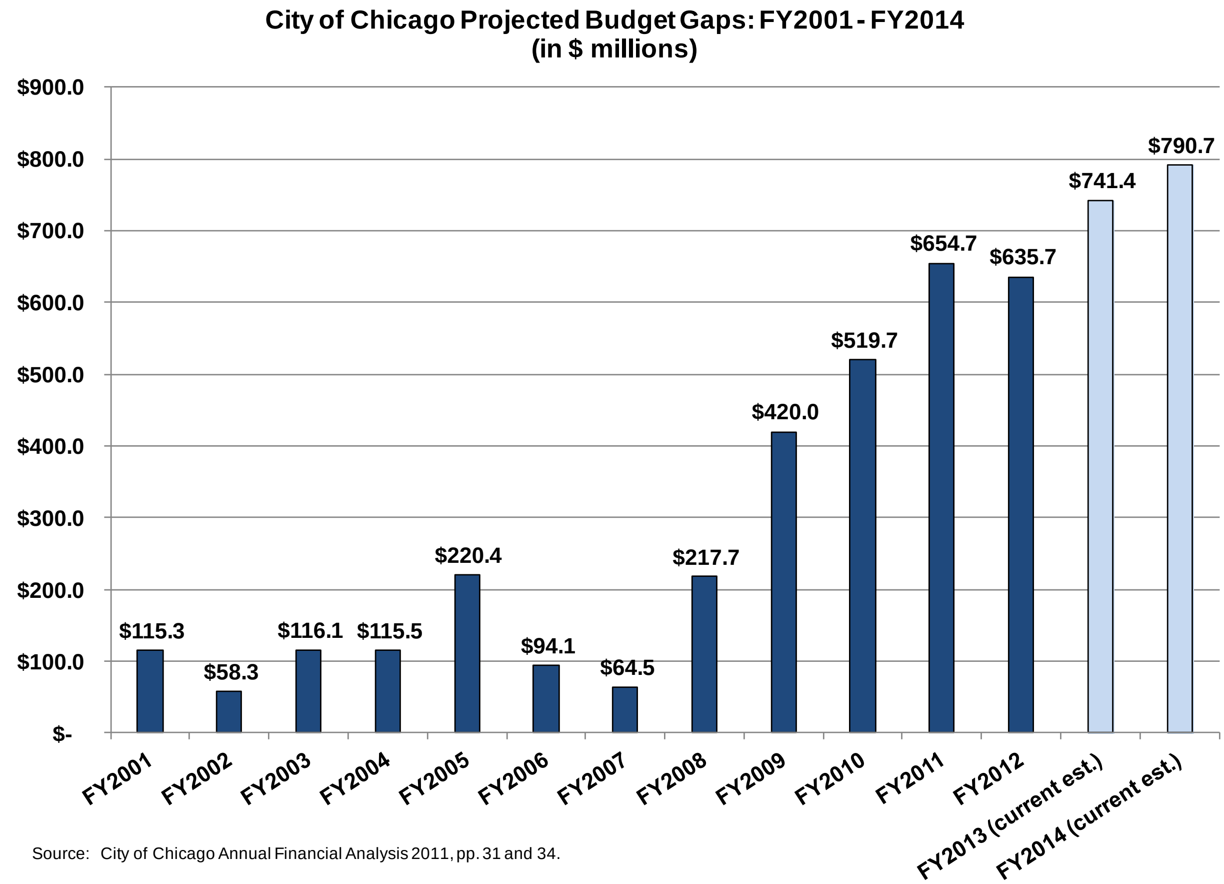
Lack of Information on Gap-Closing Measures

The City's proposed Budget 2012 Overview book includes a summary on page six that states the projected Corporate Fund budget gap will be closed with $417.4 million in spending reductions and reforms, $88.0 million in financing and innovation actions, $78.8 million in revenue enhancements, $39.0 million in moderate existing revenue growth and a $32.5 million Chicago Public Schools reimbursement for City pension contributions for its employees. These amounts total $655.7 million from which $20 million is subtracted as a deposit into a reserve fund.

The Civic Federation was unable to find detailed evidence in the budget documents for the specific actions proposed in the general categories described above or the Corporate Fund dollar amounts associated with each gap-closing measure. As a result, the Federation cannot evaluate the proposed gap-closing package, projected savings and revenues or proportion of one-time versus structural actions.

Historical Trend of Projected Budget Gaps

The City of Chicago's projected budget gaps have grown from $115.3 million for FY2001 to $635.7 million for FY2012, including a low of $58.3 million for FY2002 and a high of $654.7 million for FY2011. In its *Annual Financial Analysis 2011* document, the City projects that its Corporate Fund deficit will grow to $741.4 million in FY2013 and $790.7 million in FY2014 under a continuation of current revenue and expenditure trends. These projections assume that expenditures grow at the 10-year historical average rate of 2.3% and that revenue would grow at 1.3% in 2013 and 1.1% in 2014. The City also includes two alternative projections with slightly higher or lower revenue growth estimates.[49] These projections demonstrate that if nothing is done in FY2012 to change the structural gap between ongoing revenues and expenditures, the City will face larger gaps in the future.



Source: City of Chicago Annual Financial Analysis 2011, pp. 31 and 34.

[49] City of Chicago, 2011 Annual Financial Analysis, July 29, 2011, p. 34.

RECOMMENDATIONS FOR A FINANCIALLY SUSTAINABLE CITY OF CHICAGO

On June 30, 2011 the Civic Federation released *Recommendations for a Financially Sustainable City of Chicago*.[50] The report offered a comprehensive set of forty recommendations to improve the City's long-term fiscal condition. The reforms could be implemented over the next few fiscal years and covered a wide array of functions from pensions to public safety.

The following section provides an update to the Federation's report by analyzing the City of Chicago's progress on each recommendation. The section includes an updated index and matrix of all forty recommendations and their current status, an overview of areas where the City has failed to take action and details on the City's progress for each recommendation where some action has been taken. Each recommendation is identified with one of the following status designations:

- *No Action*: The administration and/or City Council may have indicated support for the recommendation, but have not identified or initiated a plan or action;
- *Some Progress*: Some aspects of the recommendation have been completed, but more needs to be done in order to ensure successful implementation;
- *Significant Progress:* Major aspects of the recommendation have been completed but more needs to be done in order to ensure successful implementation; or
- *Implemented*: The recommendation has largely been adopted and no further action is needed.

During approximately 170 days, Mayor Rahm Emanuel has proposed initiatives and produced a budget that reflects significant progress on recommendations made by the Civic Federation. Some reforms include major expenditure reductions in personnel, identifying inefficiencies in public safety and proposing revenue enhancements to address the City's aging water infrastructure. However, the Mayor has failed to implement or provide leadership on plans to address a number of critical issues related to the City's financial sustainability.

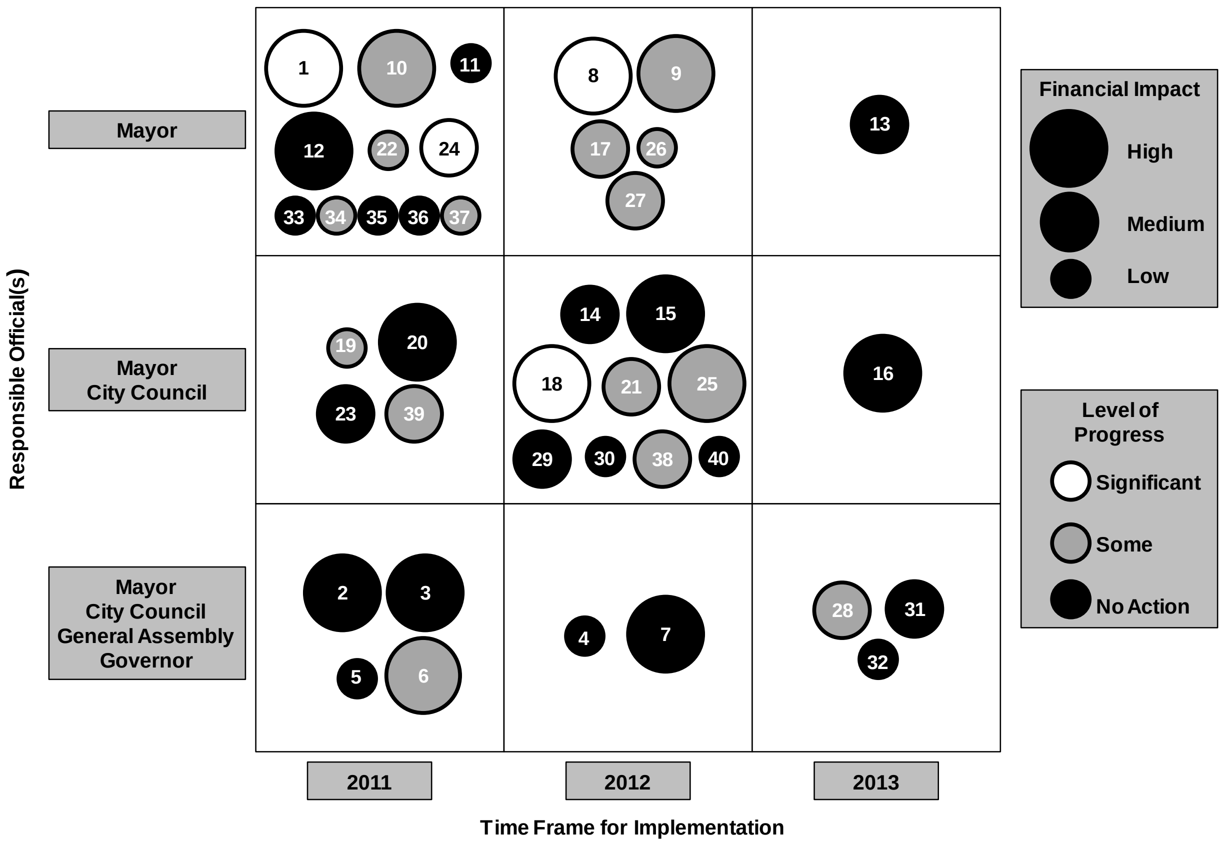
The City faces enormous financial challenges with its long-term liabilities, and the Civic Federation is deeply concerned with the lack of action taken to address this pending fiscal crisis. The sustainability of the City's four employee pension funds is an immediate concern for the City and can only be resolved through strong leadership and engagement with the Illinois General Assembly.

Despite a reduction in personnel costs of $131.9 million, or 4.9%, in the Corporate Fund, personnel costs for public safety departments are collectively down only 1.6%. This is due in part to a $33.9 million increase in personnel costs for the Fire Department. The Civic Federation strongly urges the City to thoroughly examine the Fire Department's staffing structure and deployment with the goal of reducing personnel costs.

[50] See the Civic Federation's website for the full report at http://www.civicfed.org/civic-federation/financiallysustainablechicago

The Mayor has proposed increases in parking taxes and vehicle fees to pay for street maintenance and potholes. But unplanned or uncoordinated work within the public right-of-way and general lack of accountability by the numerous public and private entities performing cuts to the street contribute greatly to rapid degradation of the pavement and road bed. With a lack of adequate planning and right-of-way management, the City will continue to see degraded pavement conditions and increased lifecycle costs of streets. Although the City has made efforts to consolidate inspection services, the Mayor should examine the public works departments as a whole for structural reorganization and further consolidations. By eliminating work jurisdictions that lead to unnecessarily large crews and duplicative tasks and by implementing proper right-of-way management, the City may be able to realize significant cost savings.

	Civic Federation Recommendation	Status
Personnel		
1	Develop a Plan to Reduce Personnel Count and Expenses	Significant Progress
Pension Funds		
2	Reduce Pension Benefits Not Yet Earned By Current Employees	No Action
3	Increase Employer and Employee Pension Contributions	No Action
4	Pursue Pension Fund Consolidation	No Action
5	Reform Pension Board Governance	No Action
6	End the City Subsidy of CPS' Employer Contribution to the Municipal Pension Fund	Some Progress
Retiree Health Care		
7	Create an Independent Retiree Health Care Trust Fund	No Action
Police and Fire Departments		
8	Conduct an Evaluation of the Police Department for Potential Cost Savings	Significant Progress
9	Conduct an Evaluation of the Fire Department Staffing Structure and Deployment	Some Progress
Procurement		
10	Pursue Strategic Sourcing	Some Progress
11	Improve Procurement Performance Metrics	No Action
12	Standardize Contracts	No Action
13	Improve Bill Payment Procedures and Incorporate E-Procurement	No Action
14	Pursue the Previously Proposed Waste Franchising Initiative	No Action
Infrastructure		
15	Reorganize the City's Infrastructure Departments	No Action
16	Implement a Comprehensive Right-of-Way Management Program	No Action
17	Centralize Inspection Services	Some Progress
Water and Sewer Enterprise Funds		
18	Develop a Water Management Plan	Significant Progress
Alternative Service Delivery		
19	Create an Alternative Service Delivery Policy	Some Progress
20	Restart Bidding Process to Implement a Public Private Partnership for Midway Airport	No Action
21	Pursue Revenue Collection and Enforcement Opportunities with Cook County	Some Progress
Tax Increment Financing (TIF)		
22	Enhance TIF Reporting	Some Progress
23	Limit Declaration of TIF Surplus	No Action
24	Complete a Comprehensive Review of Chicago's TIF Program	Implemented
25	Develop a Formal Policy on Tax Increment Financing	Some Progress
Public Health Department		
26	Re-evaluate the Clinical Services of the Department of Public Health	Some Progress
Surplus Vacant Property and Assets		
27	Create a Strategic Plan to Manage Surplus Vacant Property and Assets	Some Progress
Chicago City Council		
28	Eliminate Ward Based Service Delivery	Some Progress
29	Reduce the Size of the City Council	No Action
30	Create a Policy Analysis Office for the City Council	No Action
Chicago Board of Elections Commissioners		
31	Transfer the City of Chicago's Election Function to Cook County	No Action
Chicago City Clerk and City Treasurer		
32	Reform the Offices of the City Clerk and the City Treasurer	No Action
Budget Process and Format		
33	Measure and Budget the Full Cost of City Programs	No Action
34	Expand the City's Online Data Portal	Some Progress
35	Add Additional Expenditure and Revenue Data in the Budget	No Action
36	Increase Transparency of Property Taxes Controlled by the City and Provided to the City Colleges and Chicago Public Schools	No Action
37	Improve Budgeting of Grant Funds	Some Progress
38	Reform the Capital Budgeting Process and CIP	Some Progress
39	Develop a Long-Term Financial Plan	Some Progress
40	Enhance City's Budget Process	No Action



Key
Time Frame for Implementation:
- **Within FY2011**
- **Within FY2012**
- **Within FY2013**

Responsible Official(s):
- **Mayor: Direction of Mayor or Executive Order and Departmental Implementation**
- **City Council: Passage of Ordinance**
- **General Assembly: Passage of State Legislation**
- **Governor: Signature of Governor**

Financial Impact* (5-year Projection):
- **Low: Less than $5 million**
- **Medium: $5-25 million**
- **High: More than $25 million**

*Most recommendations reflect budgetary savings but in the case of pensions, the financial impact reflects a reduction in liabilities for the City.

Personnel

With personnel expenses comprising nearly 83.7% of the FY2012 Corporate Fund appropriations, it is necessary to examine the City's workforce in order to identify any significant savings in operating expenses. The Civic Federation commends the Mayor's efforts to restructure the workforce, reform work orders and cut waste. The Civic Federation identifies the following actions announced by the City as of November 2, 2011:

- *Reduction in Workforce and Elimination of Vacancies*: The proposed FY2012 budget includes a reduction of 2,299 positions, or 7.0% of the workforce from the FY2011 proposed budget. Total personnel services appropriations in the Corporate Fund are down $131.9 million, or 4.9%, from the FY2011 approved budget. The most significant cuts are 1,252 eliminated sworn officer vacancies in the Police Department. These cuts are reflected in a $56.1 million decline in Corporate Fund personnel services appropriations for the Police Department. However, personnel services appropriations for all public safety departments are collectively down only 1.6% due to a $33.9 million increase for the Fire Department.[51]
- *Cuts in Management Payroll and Board and Commission Compensation*: Approximately $30 million in savings will be realized in FY2011 with cuts to middle and senior management payrolls and a 50% reduction in compensation for members of City boards and commissions.[52]
- *Merge Overlapping Functions Across Departments*: With the elimination of redundant positions (and non-personnel costs), $3.5 million will be saved in FY2011.[53]
- *Vacation Rule Changes*: Non-represented employees will be allowed to carry over a maximum of 5 vacation days from one year to the next, reducing the monetary compensation of unused vacation days for retiring employees.[54]
- *New Reimbursement Policies*: The City implemented new credit card and travel reimbursement policies aimed at increasing accountability and efficiency, which have reduced the number of citywide credit cards from more than 500 to 8 and is projected to save approximately $1 million in travel expenditures in 2012.[55]

Pension Funds

It is imperative that the City immediately develop a comprehensive plan to address its pension liabilities and present that plan to the Illinois General Assembly. The Municipal and Laborers' pension funds are on a path to deplete their assets within twenty years if reform measures are not implemented. The Police and Fire funds require an increase in statutory employer contribution that will require an enormous additional expenditure beginning in 2015 pursuant to Public Act

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[51] City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.

[52] City of Chicago, Office of the Mayor, "2011 Savings Update at First 100 Days," press release, August 22, 2011; "Mayor Emanuel Announces Additional $25 million in Savings Through Middle and Senior Management Cuts," press release, October 3, 2011; and "Mayor Emanuel Announces Reduction in City Board and Commission Compensation," press release, August 29, 2011.

[53] City of Chicago, Office of the Mayor, "2011 Savings Update at First 100 Days," press release, August 22, 2011.

[54] City of Chicago, Office of the Mayor, "City Council Adopts City Employee Vacation Reform," press release, October 5, 2011.

[55] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces New City Employee Mileage Reimbursement and Local Transportation Policy to Increase Efficiency and Accountability," press release, October 8, 2011.

96-1495. The pension liabilities have grown so large and the contributions needed to rescue the funds are so substantial that the City will have great difficulty funding the current pension promises it has made to its employees. The Federation believes that the problem has now become so severe that solving it will require a combination of reducing benefits not yet earned by current employees and increasing City and employee contributions. Further delay in addressing the crisis will only increase the severity of the actions that must be taken.

The City has, however, taken action on the following recommendation:

- *Reduced Subsidy of CPS' Employer Contribution to the Municipal Pension Fund*: Beginning with the FY2012 City budget, CPS will begin reimbursing the City for part of the statutory employer contribution for its employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 is $32.5 million.[56]

Police and Fire Departments

The public safety departments, including the Office of Emergency Management, comprise 59.8% of the City's FY2012 proposed Corporate Fund budget. As such, the Civic Federation has long recommended that these departments be thoroughly examined for potential cost savings. The Federation commends the efforts of Mayor Emanuel and Police Superintendent Garry McCarthy, including:

- *Reorganizing the Command Structure of the Police Department*: Superintendent McCarthy's reorganization of the Chicago Police Department (CPD) eliminates two assistant superintendent and four deputy superintendent positions, creating a management system more similar to police departments in other major U.S. cities.[57]
- *Re-deployment of Additional Officers to the Beat*: The Mayor and CPD have deployed more than 881 officers (138 additional officers by year-end) previously assigned as Mobile Strike Force and Targeted Response Unit officers, administrative positions and detention aides to patrol higher crime areas.[58]
- *Consolidation of Space and Increased Coordination*: The FY2012 budget proposes to close three police stations and consolidate the Police and Fire headquarters. The City anticipates savings in administrative expenses, better coordination between the public safety departments and combined strength of special units such as helicopter and marine operations.[59]
- *Reduction in Expenses*: The FY2012 proposed budget includes a significant reduction in the City's workforce, including the elimination of 1,252 sworn officer vacancies in the Police

[56] City of Chicago, FY2012 Budget Overview, pp. 6 and 15.
[57] See Chicago Police Department website for Organization Chart available at https://portal.chicagopolice.org/portal/page/portal/ClearPath/About%20CPD/CPD%20Organization (last visited on October 4, 2011).
[58] City of Chicago, Office of the Mayor, "Mayor Emanuel and Superintendent Garry McCarthy Announce the Deployment of Additional Police Officers to Communities Across Chicago," press release, July 17, 2011. FY2012 Budget Overview, p. 3.
[59] City of Chicago, FY2012 Budget Overview, p. 3.

Department. The vacancy eliminations are reflected in a $56.1 million decline in Corporate Fund personnel services appropriations for the Police Department.[60]

Procurement

The Civic Federation commends Mayor Emanuel for seeking a comprehensive review of the City's procurement process with the Procurement Modernization Initiative. The Federation urges the City to address the underlying structural issues that contribute to costly inefficiencies and a lack of accountability, including excessively complex contracts and slow procurement processes.

- *Procurement Modernization Initiative*: Mayor Emanuel has hired Accenture to perform a complete evaluation of citywide procurement services, which includes identifying contracts to be renegotiated or re-bid and working with City staff to redefine contracts and reduce costs, for a projected savings of up to $25 million by 2013.[61]
- *Intergovernmental Joint Purchasing*: The City Council approved an intergovernmental agreement to increase the City's ability to work with other governments on procurement agreements, allowing the City to save an estimated $2.8 million for FY2012 with increased coordination, efficiency and purchasing power.[62]
- *Reform Competitive Bidding Process with Reverse Auction*: The Mayor's Reverse Auction initiative will operate an open and competitive bidding process online, where vendors will have more than one chance to bid on a contract.[63]

Infrastructure

The City has yet to take action on recommendations related to the City's large and decentralized public works departments. The Federation strongly urges the City to address the inefficiencies within its infrastructure management which include numerous overlapping functions in project management, maintenance, procurement, construction and compliance services.

- *Consolidation of Inspection Services*: The City Council approved an ordinance that will eliminate 16 unnecessary inspections across five departments, reducing on-site required inspections for businesses, improving inspector efficiency and increasing the City's focus on safety and areas of need.[64]

Water and Sewer Enterprise Funds

- *Increased Revenues for Water Infrastructure Maintenance*: The FY2012 proposed budget includes increases in water rates for residents and modifications of the water service fee

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[60] City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.
[61] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Unprecedented City Procurement Modernization Initiative that Will Find Up to $25 Million in Savings by 2013," press release, August 18, 2011.
[62] City of Chicago, Office of the Mayor, "City Council Approves Resolution that Allows Joint Procurement with Other Governments," press release, October 5, 2011.
[63] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces New Reforms to Ensure More Fairness, Competitiveness in City Contracting," press release, July 21, 2011.
[64] City of Chicago, Office of the Mayor, "City Council Passes Mayor Emanuel's New Reforms for Businesses and Reduces the Time it Takes to Obtain Business Licenses," press release, October 5, 2011.

waiver system. The increased rates are reflected in a revenue increase of $147.8 million, or 21.9%, from FY2011 year-end estimates. The increased revenues will help fund the Mayor's plan to replace 100% of the City's century-old water pipes, re-line or replace over half of the City's sewer lines, re-line 140,000 sewer catch-basins and upgrade the four pumping stations in the next decade.[65]

- *Multi-year Water Management Plan*: The Mayor and Department of Water Management have made progress in the development of a comprehensive water plan which will focus on water meter installation, overhauling the water main replacement program and developing green infrastructure incentives.[66]
- *Collection of Past-Due Water Services from Suburbs*: The Mayor has developed plans to recover nearly $15 million owed to the City from neighboring suburban municipalities, of which two-thirds will be recovered by 2013.[67]

Alternative Service Delivery

- *Managed Competition with Blue Cart Recycling*: As of October 3, 2011, public and private crews will both collect blue cart residential recycling in different areas of the City. The City will evaluate the different teams' performance and identify ways to improve service and lower costs for the City in the future. The FY2012 budget proposes introducing a similar managed competition model to other City services in 2012.[68]
- *City-County Collaboration on Revenue Collection*: The Joint Committee on City-County Collaboration identified possible increased revenues that would result from sharing tax enforcement data and resources to increase compliance with similar City and County taxes, such as the cigarette tax.[69]

Tax Increment Financing (TIF)

- *TIF Task Force*: Mayor Emanuel created the TIF Task Force, which included Civic Federation President Laurence Msall, to craft TIF policy and guidelines and make recommendations on how to improve the performance, transparency and accountability of the City's TIF program.[70] The Task Force produced a report that provides summaries of TIF revenues and expenditures and recommends that the City Council develop a multi-year economic development plan that includes coordination of TIF with the City's capital budget.[71]

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[65] City of Chicago, FY2012 Budget Recommendations, Summary F; FY2012 Budget Overview, pp. 4-5; Mayor Rahm Emanuel's 2012 Budget Address, October 12, 2011.

[66] City of Chicago, Office of the Mayor, "The First 30 Days of the Emanuel Administration," press release, June 16, 2011.

[67] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Plans to Recover Nearly $15 Million in Past-Due Water Services from Suburban Municipalities," press release, October 2, 2011.

[68] See the Blue Cart Recycling Program on the City of Chicago's website at http://www.cityofchicago.org/city/en/depts/doe/supp_info/recycling1/blue_cart_recycling.html (last visited October 6, 2011). City of Chicago, FY2012 Budget Overview, p. 3.

[69] City of Chicago, Joint Committee on City-County Collaboration, June 2011, p. 81.

[70] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Formation of Task Force on TIF," press release, May 19, 2011.

[71] See the TIF Reform Panel's "Findings and Recommendations for Reforming the Use of Tax Increment Financing in Chicago: Creating Greater Efficiency, Transparency and Accountability," available at

- *TIF Data*: The Mayor made more TIF data available online to download or embed, including individual TIF district plans and projection reports, annual reports, redevelopment agreements and recent news.[72]

Public Health Department

- *Transfer of Primary Care Clinics*: FY2012 budget proposes to transfer seven primary health care clinics to community-based federally qualified health clinics by July 2012, allowing the Chicago Department of Public Health to focus on citywide health policy.[73]

Surplus Vacant Property and Assets

- *Ordinance Addressing Vacant Buildings*: The Mayor and City Council worked together to pass an ordinance that passes the financial burden of maintaining foreclosed-upon properties from the City to the banks, including routine maintenance issues such as boarding entrances, responding to complaints related to the building, cutting grass and shoveling snow.[74]

Chicago City Council

- *Grid-Based Garbage Collection*: The Department of Streets and Sanitation will implement a new program to pick up residential garbage on a grid-based rather than a ward-based system in 2012.[75]

Budget Process and Format

- *Executive Order for Long-Term Financial Analysis*: The Mayor signed an executive order to create an Annual Financial Analysis that includes a trend analysis of all City funds, a three-year baseline and alternative financial forecast and analyses of the City's reserves, capital program and financial policies.[76]
- *Data Portal*: The Mayor has made efforts to increase the amount of data available on the City's website by including information on city contracts, salaries, crime data, lobbyist disclosures, vacant properties and TIF data.[77] Some data related to the FY2012 budget was released on the portal, including line-item budget recommendations.

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http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2011/august_2011/tax_increment_financingfinalreport.html (last visited on October 7, 2011).

[72] See City of Chicago's Tax Increment Financing website at http://www.cityofchicago.org/city/en/depts/dcd/provdrs/tif.html (last visited on October 7, 2011).

[73] City of Chicago, FY2012 Budget Overview, p. 75.

[74] City of Chicago, Office of the Mayor, "Mayor Emanuel Commends City Council and Alderman Pat Dowell for Passing Ordinance Addressing Vacant Buildings and Lender Responsibility," press release, July 28, 2011. An amendment to the original ordinance was passed by the City Council Committee on Housing and Real Estate on October 17, 2011 following the threat of legal action from affected banks. Hal Dardick, "Watered down vacant house measure passes City Council panel," *Chicago Tribune*, October 17, 2011.

[75] City of Chicago, FY2012 Budget Overview, p. 114.

[76] City of Chicago, Office of the Mayor, "Mayor Emanuel Signs Executive Order Creating a Long-Term Budgeting and Financial Planning Process for the City of Chicago," press release, May 20, 2011.

[77] City of Chicago, Office of the Mayor, "Mayor Emanuel Continues Commitment to Transparency, Posts Over 90,000 City Contracts Online," press release, August 3, 2011.

- *Performance Metrics and ROI Standards for Capital Spending*: The Office of Budget and Management finalized a long-term capital planning process that will use performance metrics and return-on-investment (ROI) standards.[78]
- *Grant Funding Reforms*: The newly created Grant Management Unit within the Office of Budget and Management will oversee management, coordination and expenditures of all state and federal grant funding, creating a centralized process of identifying, pursuing, collecting and analyzing grant funds.[79]

[78] City of Chicago, Office of the Mayor, "The First 100 Days of the Emanuel Administration," press release, August 22, 2011.
[79] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Grant Funding Reforms to Prevent City from Leaving Millions on the Table, Saving $20 Million in 2012," press release, October 6, 2011.

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2012 as compared to adopted appropriations for FY2011 and FY2008 and actual expenditures, when available. Appropriations are compared by fund, object and program area across all local funds. The program area analysis includes grant appropriations as well. Local funds include the Corporate Fund, Water Fund, Vehicle Tax Fund, Motor Fuel Tax Fund, Sewer Fund, Airport Funds (Chicago Midway and Chicago O'Hare Airport Funds), Pension Funds and All Other Local Funds.[80] Local funds do not include grant funds.

Two-Year and Five-Year Appropriation Trends by Fund

The FY2012 proposed budget projects that appropriations for all local funds will increase by 2.1% from FY2011 appropriations. Appropriations for the City's Corporate Fund will decrease by 5.4%, or $177.1 million, falling from $3.3 billion in FY2011 to $3.1 billion in FY2012.

Recommended appropriations for all other local funds will increase from FY2011 appropriations. Increases range from 5.5% in the Airport Funds to 21.2% in the Sewer Fund. This differs from last year's budget when almost all of the funds' FY2011 appropriations were below FY2010 appropriations. Pension Funds will rise by $25.8 million, or 5.7%. Pension fund appropriations typically reflect changes in payroll from two years prior. Per state statute, the City's pension contributions are a multiple of employee payroll deductions made two years prior.

City of Chicago All Local Funds Appropriations by Fund: FY2011 & FY2012 (in $ millions)

	FY2011 Adopted	FY2012 Proposed	$ Change	% Change
Corporate Fund	$ 3,263.7	$ 3,086.6	$ (177.1)	-5.4%
Water Fund	$ 493.1	$ 569.4	$ 76.3	15.5%
Vehicle Tax Fund	$ 143.7	$ 160.0	$ 16.2	11.3%
Motor Fuel Tax Fund	$ 66.1	$ 71.7	$ 5.6	8.5%
Sewer Fund	$ 209.3	$ 253.8	$ 44.5	21.2%
Airport Funds	$ 1,120.2	$ 1,182.2	$ 62.0	5.5%
Pension Funds	$ 450.5	$ 476.3	$ 25.8	5.7%
All Other Local Funds	$ 820.8	$ 884.6	$ 63.8	7.8%
Total	**$ 6,567.4**	**$ 6,684.4**	**$ 117.0**	**1.8%**
Less Internal Transfers	$ (344.4)	$ (330.3)	$ 14.1	-4.1%
Less Proceeds of Debt	$ (70.4)	$ (70.5)	$ (0.1)	0.1%
Net Total	**$ 6,152.6**	**$ 6,283.6**	**$ 131.0**	**2.1%**

Source: City of Chicago FY2011 Appropriations Ordinance, Summary D and FY2012 Budget Recommendations, Summary D.

Note: All Other Local Funds for FY2011 and FY2012 include: Tax Increment Financing Administration, CTA Real Property Transfer Tax, Housing Revenue, City Colleges Bond Redemption and Interest Fund, Emergency Communication Fund/Bond Redemption and Interest Fund, Library Funds, Bond Redemption and Interest Series, Sales Tax Bond Redemption Fund and Special Events and Municipal Hotel Operators' Occupation Tax Fund.

80 See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2011 & FY2012* and *City of Chicago All Local Fund Appropriations by Fund: FY2008-FY2012* for further detail.

Net appropriations are projected to rise by 16.4% from actual expenditures in FY2008.[81] In FY2012, Corporate Fund appropriations will increase by just 0.2%, or $6.6 million, from FY2008 expenditures. Appropriations for the Motor Fuel Tax Fund and for All Other Local Funds will decline by 16.1% and 7.8%, respectively over the five-year period. Appropriations for the Airport Funds will rise by the greatest amount: $593.5 million or 100.8%. The Sewer Fund will increase by $100.6 million, or 65.7%, with FY2012 appropriations helping to fund the City's overhaul of its sewer system.[82] The increase in Airport Funds appropriations over the last five years primarily reflects increased costs for repair and maintenance especially related to the O'Hare Modernization Project.[83]

City of Chicago All Local Funds Appropriations by Fund: FY2008-FY2012 (in $ millions)

	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted	FY2012 Proposed	FY2008-FY2012 $ Change	FY2008-FY2012 % Change
Corporate Fund	$ 3,080.0	$ 2,992.0	$ 2,993.2	$ 3,263.7	$ 3,086.6	$ 6.6	0.2%
Water Fund	$ 370.5	$ 365.5	$ 368.7	$ 493.1	$ 569.4	$ 198.8	53.7%
Vehicle Tax Fund	$ 129.1	$ 137.6	$ 124.0	$ 143.7	$ 160.0	$ 30.8	23.9%
Motor Fuel Tax Fund	$ 85.5	$ 50.3	$ 65.3	$ 66.1	$ 71.7	$ (13.8)	-16.1%
Sewer Fund	$ 153.1	$ 136.0	$ 134.2	$ 209.3	$ 253.8	$ 100.6	65.7%
Airport Funds	$ 588.7	$ 903.6	$ 483.5	$ 1,120.2	$ 1,182.2	$ 593.5	100.8%
Pension Funds	$ 413.7	$ 430.9	$ 458.9	$ 450.5	$ 476.3	$ 62.6	15.1%
All Other Local Funds	$ 959.0	$ 722.6	$ 715.5	$ 820.8	$ 884.6	$ (74.4)	-7.8%
Total	**$ 5,779.6**	**$ 5,738.5**	**$ 5,343.3**	**$ 6,567.4**	**$ 6,684.4**	**$ 904.8**	**15.7%**
Less Internal Transfers	$ (311.3)	$ (302.2)	$ (315.5)	$ (344.4)	$ (330.3)	$ (19.0)	6.1%
Less Proceeds of Debt	$ (70.4)	$ (70.4)	$ (70.4)	$ (70.4)	$ (70.5)	$ (0.1)	0.2%
Net Total	**$ 5,397.9**	**$ 5,365.9**	**$ 4,957.4**	**$ 6,152.6**	**$ 6,283.6**	**$ 885.7**	**16.4%**

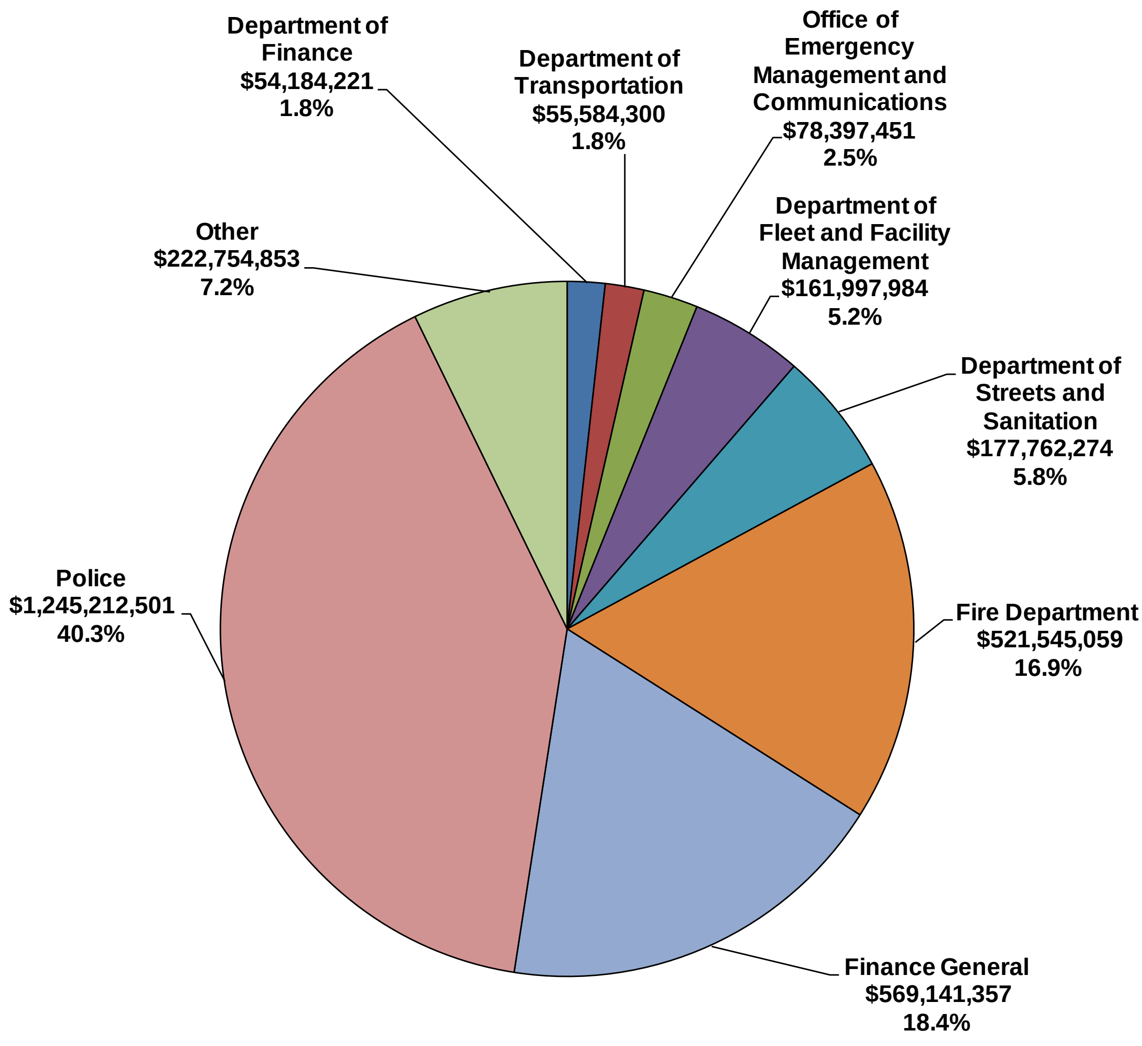
Source: City of Chicago FY2008-FY2009 Appropriation Ordinances, Summaries D; FY2010-FY2012 Budget Recommendations, Summaries F.

Notes: Less Internal Transfers and Less Proceeds of Debt are taken from Appropriation Ordinances. All Other Local Funds for FY2008-FY2010 includes: Library Fund-Buildings and Sites, Library Fund-Maintenance and Operation, Bond Redemption and Interest Fund, Library Bond Redemption Fund*, Library Note Redemption Fund, City Colleges Bond Redemption/Interest Fund, Municipal Hotel Operators' Occupation Tax Fund, Special Events Fund, Sales Tax Bond Redemption Fund, Emergency Communication Fund and Emergency Communication Bond Redemption Fund**. All Other Local Funds for FY2011 and FY2012 include: Tax Increment Financing Administration, CTA Real Property Transfer Tax, Housing Revenue, City Colleges Bond Redemption and Interest Fund, Emergency Communication Fund/Bond Redemption and Interest Fund, Library Funds, Bond Redemption and Interest Series, Sales Tax Bond Redemption Fund and Special Events and Municipal Hotel Operators' Occupation Tax Fund. *Actual expenditures were not available for FY2008; used adopted appropriation figure from FY2008 Appropriation Ordinance, Summary D. **Actual expenditures not available for FY2008-FY2010; used adopted appropriation figures from FY2010-FY2011 Budget Recommendations, Summaries F and FY2008 Appropriation Ordinance, Summary D.

[81] Actual expenditures from prior years are available in the budget documents for expenditures by fund but not for expenditures by object or program area.
[82] City of Chicago, FY2012 Budget Overview, pp. 126-134.
[83] City of Chicago, 2011 Annual Financial Analysis, pp. 20-21.

The following chart illustrates FY2012 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of Corporate Fund appropriations.[84] Public Safety, which consists of the Police and Fire departments and the Office of Emergency Management and Communications represent 59.8% of the Corporate Fund. Finance General appropriations in the Corporate Fund consist primarily of employee health insurance benefit costs shared by all departments.

City of Chicago FY2012 Proposed Corporate Fund Appropriations by Department



Source: City of Chicago, FY2012 Budget Recommendations, Summary D.
Note: Police includes Department of Police, Police Board and Independent Police Review Authority. Other includes License Appeal Commission, City Council, Board of Ethics, Mayor's Office for People with Disabilities, Commission on Human Relations, Office of Budget and Management, City Treasurer, Office of Inspector General, City Clerk, Commission on Animal Care and Control, Office of the Mayor, Board of Election Commissioners and Departments of Procurement Services, Human Resources, Administrative Hearings, Business Affairs and Consumer Protection, Family and Support Services, Innovation and Technology, Buildings, Housing and Economic Development, Law and Public Health. Departments in Other each represent less than 1.0% of total Corporate Fund appropriations.

[84] See note in figure *City of Chicago FY2012 Proposed Corporate Fund Appropriations by Department* for complete list of the departments included in Other category.

The chart below depicts the five-year trend of the percentage of Corporate Fund appropriations that have been allocated for Public Safety. Between FY2008 and FY2012, funding for Public Safety will increase by 0.8 percentage points as a share of Corporate Fund appropriations. In the five-year span, appropriations for the Fire Department will increase by 9.8%, while appropriations for Police and the Office of Emergency Management and Communications will decrease by 0.5% and 13.9%, respectively.

Public Safety as % of Total Corporate Fund Appropriations: FY2008-FY2012
(in $ millions)

Department	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted	FY2012 Proposed	FY2008 - FY2012 $ Change	FY2008 - FY2012 % Change
Police	$ 1,252.1	$ 1,243.8	$ 1,233.6	$ 1,304.6	$ 1,245.2	$ (6.9)	-0.5%
Office of Emergency Management and Communications	$ 91.0	$ 90.7	$ 78.1	$ 89.3	$ 78.4	$ (12.6)	-13.9%
Fire Department	$ 474.8	$ 485.9	$ 478.7	$ 483.4	$ 521.5	$ 46.7	9.8%
All Other Departments	$ 1,262.1	$ 1,171.5	$ 1,202.7	$ 1,386.3	$ 1,241.4	$ (20.7)	-1.6%
Total Corporate Fund Appropriations	**$ 3,218.5**	**$ 3,186.5**	**$ 3,179.7**	**$ 3,263.7**	**$ 3,086.6**	**$ (131.9)**	**-4.1%**
Public Safety as % of Total	**59.0%**	**60.8%**	**59.8%**	**57.5%**	**59.8%**	**-**	**0.8%**
All Other Department as % of Total	**41.0%**	**39.2%**	**40.2%**	**42.5%**	**40.2%**	**-**	**-0.8%**

Source: City of Chicago, FY2010-FY2010 Budget Recommendations, Summaries F.

Note: Police includes Police Board, Independent Police Review Authority and Department of Police.

Two-Year and Five-Year Appropriation Trends by Object

The FY2012 City of Chicago budget proposes a net appropriation of $6.284 billion, which does not include projected grant funds. This is an increase of 2.1% or $130.9 million from the FY2011 adopted appropriation of $6.153 billion. Personnel Services appropriations will decrease over the two-year period by 3.1%, or $104.1 million, due primarily to lay-offs and vacancy eliminations totaling approximately 2,200 budgeted positions.[85] Contractual Services appropriations will decrease by $111.5 million, or 14.6%. While the City projects at least a 10% reduction in vehicle fuel and utility costs from 2011 appropriations, overall appropriations for Commodities will increase by 61.2%, or $87.9 million, in FY2012.[86] Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies. A significant part of the commodities increase appears to be in the Water, Motor Fuel Tax and Vehicle Tax Funds for the Department of Fleet and Facilities Management.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2011 & FY2012 (in $ millions)

Object	FY2011 Adopted	FY2012 Proposed	$ Change	% Change
Personnel Services	$ 3,305.6	$ 3,201.5	$ (104.1)	-3.1%
Contractual Services	$ 763.3	$ 651.7	$ (111.5)	-14.6%
Travel	$ 2.7	$ 2.1	$ (0.7)	-23.9%
Commodities	$ 143.5	$ 231.4	$ 87.9	61.2%
Equipment	$ 14.6	$ 14.6	$ 0.1	0.5%
Permanent Improvements	$ 2.9	$ 2.9	$ (0.1)	-2.6%
Specific Items/Contingencies	$ 2,334.9	$ 2,580.2	$ 245.3	10.5%
Subtotal	**$ 6,567.5**	**$ 6,684.4**	**$ 116.9**	**1.8%**
Less Internal Transfers	$ (344.4)	$ (330.3)	$ 14.1	-4.1%
Less Proceeds of Debt	$ (70.4)	$ (70.5)	$ (0.1)	0.1%
Total	**$ 6,152.7**	**$ 6,283.6**	**$ 130.9**	**2.1%**

Source: City of Chicago FY2011 Appropriation Ordinance, p. 11 and FY2012 Budget Recommendations, p. 11.

[85] City of Chicago, FY2012 Budget Overview, p. 22.
[86] City of Chicago, FY2012 Budget Overview, p. 24.

Over the five-year period from FY2008 to FY2012, net appropriations have risen by 6.2%, or approximately $365.3 million. Personnel Services appropriations have increased by 1.3%, or $40.6 million. Commodities appropriations will increase by 75.5%, from $131.9 million in FY2008 to $231.4 million in FY2012. Appropriations for equipment will increase by 49.0%, or $4.8 million. Conversely, travel appropriations will decrease by 48.1%, or $1.9 million, falling from $4.0 million in FY2008 to $2.1 million in FY2012. Specific Items/Contingencies will experience the greatest increase in dollar amount, rising by $352.6 million, or 15.8%. This category includes payments for torts and non-tort judgments, outside counsel expenses and expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers Compensation Act and for physical exams.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2008-FY2012 (in $ millions)

Object	FY2008 Adopted	FY2009 Adopted	FY2010 Adopted	FY2011 Adopted	FY2012 Proposed	FY2008-FY2012 $ Change	FY2008-FY2012 % Change
Personnel Services	$ 3,160.9	$ 3,189.2	$ 3,187.9	$ 3,305.6	$ 3,201.5	$ 40.6	1.3%
Contractual Services	$ 762.9	$ 753.8	$ 761.5	$ 763.3	$ 651.7	$ (111.2)	-14.6%
Travel	$ 4.0	$ 3.1	$ 3.0	$ 2.7	$ 2.1	$ (1.9)	-48.1%
Commodities	$ 131.9	$ 162.7	$ 149.4	$ 143.5	$ 231.4	$ 99.5	75.5%
Equipment	$ 9.8	$ 12.8	$ 15.8	$ 14.6	$ 14.6	$ 4.8	49.0%
Permanent Improvements	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ (0.0)	-0.2%
Specific Items/Contingencies	$ 2,227.6	$ 2,213.7	$ 2,373.1	$ 2,334.9	$ 2,580.2	$ 352.6	15.8%
Subtotal	**$ 6,300.0**	**$ 6,338.3**	**$ 6,493.6**	**$ 6,567.5**	**$ 6,684.4**	**$ 384.4**	**6.1%**
Less Internal Transfers	$ (311.3)	$ (302.2)	$ (317.0)	$ (344.4)	$ (330.3)	$ (19.0)	6.1%
Less Proceeds of Debt	$ (70.4)	$ (70.4)	$ (70.4)	$ 70.4	$ (70.5)	$ (0.1)	0.2%
Total	**$ 5,918.3**	**$ 5,965.7**	**$ 6,106.1**	**$ 6,293.6**	**$ 6,283.6**	**$ 365.3**	**6.2%**

Source: City of Chicago FY2008 Appropriations Ordinance, p. IX; FY2009-FY2011 Appropriations Ordinances, Summaries D; and FY2012 Budget Recommendations, p. 11.

Note: Adopted appropriations were used because actual expenditures by object were not available.

Two- and Five-Year Appropriation Trends by Program Area

In the City of Chicago budget, City agencies are organized into nine functional program areas. These areas are as follows:

- **Finance and Administration** departments manage the City's finances, personnel, legal functions and day-to-day operations. These departments include the Office of the Mayor and the Departments of Finance, Law, Procurement Services and Human Resources. The FY2012 proposed budget consolidates several departments:
    - Department of Revenue ➔ Department of Finance;
    - Department of Fleet Management ➔ Department of General Services; and
    - Office of Compliance ➔ other Finance and Administration departments.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections and administer appropriations for the City Council and its various committees.
- **City Development** departments, including the City's Department of Housing and Economic Development, handle community, economic, cultural and infrastructure development in the City.
- **Community Services** departments include the Department of Public Health and the Mayor's Office for People with Disabilities, and these departments provide services such as home

heating assistance programs, assistance for the disabled, affordable housing and homeowner programs and Chicago's Plan to End Homelessness.

- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include the Department of Buildings, the Department of Business Affairs and Consumer Protection and the Office of the Inspector General.
- **Infrastructure Services** departments are responsible for the reconstruction of streets, sidewalks and bridges and the issuance of permits. These departments include Transportation and Streets and Sanitation.
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, which manages O'Hare and Midway Airports.
- **General Financing Requirements** are pension benefits, long-term debt payments, and other cross-departmental expenses.

Appropriations by program area, including grant funding, between the FY2011 appropriations and the FY2012 proposed budget will decrease by 1.0%. Appropriations for most program areas will decline, but appropriations for Public Services Enterprises and General Financing Requirements will increase by 5.1% and 6.1%, respectively. Estimated grant fund appropriations will fall from $2.1 billion in FY2011 to $1.9 billion in FY2012. In both years, grants account for the majority of funding for City Development, Community Services and Infrastructure Services.

City of Chicago Appropriations by Program Area: FY2011 & FY2012 (in $ millions)

	FY2011 Adopted	FY2012 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 482.3	$ 467.4	$ (14.9)	-3.1%
Grants	$ 121.0	$ 55.1	$ (65.9)	-54.5%
Subtotal Finance and Administration	**$ 603.3**	**$ 522.5**	**$ (80.8)**	**-13.4%**
Legislative and Elections				
Local Fund	$ 45.0	$ 40.7	$ (4.3)	-9.5%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 45.0**	**$ 40.7**	**$ (4.3)**	**-9.5%**
City Development				
Local Fund	$ 62.3	$ 60.6	$ (1.8)	-2.9%
Grants	$ 308.6	$ 284.8	$ (23.8)	-7.7%
Subtotal City Development	**$ 370.9**	**$ 345.4**	**$ (25.5)**	**-6.9%**
Community Services				
Local Fund	$ 109.3	$ 89.9	$ (19.3)	-17.7%
Grants	$ 597.5	$ 515.6	$ (81.9)	-13.7%
Subtotal Community Services	**$ 706.7**	**$ 605.5**	**$ (101.2)**	**-14.3%**
Public Safety				
Local Fund	$ 1,929.0	$ 1,902.6	$ (26.3)	-1.4%
Grants	$ 297.3	$ 283.6	$ (13.7)	-4.6%
Subtotal Public Safety	**$ 2,226.3**	**$ 2,186.2**	**$ (40.0)**	**-1.8%**
Regulatory				
Local Fund	$ 55.1	$ 49.2	$ (5.9)	-10.7%
Grants	$ 57.9	$ 7.9	$ (50.1)	-86.4%
Subtotal Regulatory	**$ 113.0**	**$ 57.1**	**$ (56.0)**	**-49.5%**
Infrastructure Services				
Local Fund	$ 367.4	$ 363.9	$ (3.5)	-1.0%
Grants	$ 511.3	$ 512.5	$ 1.2	0.2%
Subtotal Infrastructure Services	**$ 878.7**	**$ 876.4**	**$ (2.3)**	**-0.3%**
Public Services Enterprises				
Local Fund	$ 616.0	$ 632.3	$ 16.3	2.7%
Grants	$ 235.7	$ 262.7	$ 27.0	11.5%
Subtotal Public Services Enterprises	**$ 851.7**	**$ 895.1**	**$ 43.4**	**5.1%**
General Financing Requirements				
Local Fund	$ 2,901.1	$ 3,077.7	$ 176.6	6.1%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 2,901.1**	**$ 3,077.7**	**$ 176.6**	**6.1%**
Subtotal All Program Areas	**$ 8,696.8**	**$ 8,606.6**	**$ (90.2)**	**-1.0%**
Less Internal Transfers	$ (344.4)	$ (330.3)	$ 14.1	-4.1%
Less Proceeds of Debt	$ (70.4)	$ (70.5)	$ (0.1)	0.1%
Less Grant Funds	$ (2,129.3)	$ (1,922.2)	$ 207.1	-9.7%
Total	**$ 6,152.7**	**$ 6,283.6**	**$ 130.9**	**2.1%**

Source: City of Chicago FY2011 Appropriation Ordinance, pp. 447-448 and FY2012 Budget Recommendations, pp. 581-582.

Note: Adopted appropriated figures were used because actual expenditures were not available by program area.

Between FY2008 and FY2012, appropriations by program area, including grant funds, will increase overall by 9.4%, or by $741.8 million. Only Community Service and Regulatory will experience decreases in appropriations while the rest of the program areas will increase in amounts ranging from 2.2% to 18.1%. Grant funding for all program areas will rise by 22.8%, or $357.3 million, over the five-year span. In FY2008 and FY2012, grants make up the majority of funding for City Development and Community Services. In FY2008 grant funds accounted for approximately 38% of Infrastructure Services, but in FY2012, grants represent approximately 58% of Infrastructure Services.

City of Chicago Appropriations by Program Area: FY2008 & FY2012 (in $ millions)

	FY2008 Adopted	FY2012 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 493.3	$ 467.4	$ (25.9)	-5.3%
Grants	$ 12.1	$ 55.1	$ 42.9	353.4%
Subtotal Finance and Administration	**$ 505.5**	**$ 522.5**	**$ 17.0**	**3.4%**
Legislative and Elections				
Local Fund	$ 39.9	$ 40.7	$ 0.9	2.2%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 39.9**	**$ 40.7**	**$ 0.9**	**2.2%**
City Development				
Local Fund	$ 99.5	$ 60.6	$ (38.9)	-39.1%
Grants	$ 209.4	$ 284.8	$ 75.4	36.0%
Subtotal City Development	**$ 308.9**	**$ 345.4**	**$ 36.5**	**11.8%**
Community Services				
Local Fund	$ 124.9	$ 89.9	$ (35.0)	-28.0%
Grants	$ 536.6	$ 515.6	$ (21.0)	-3.9%
Subtotal Community Services	**$ 661.5**	**$ 605.5**	**$ (56.0)**	**-8.5%**
Public Safety				
Local Fund	$ 1,829.2	$ 1,902.6	$ 73.5	4.0%
Grants	$ 245.7	$ 283.6	$ 37.9	15.4%
Subtotal Public Safety	**$ 2,074.9**	**$ 2,186.2**	**$ 111.4**	**5.4%**
Regulatory				
Local Fund	$ 70.2	$ 49.2	$ (21.0)	-29.9%
Grants	$ 56.7	$ 7.9	$ (48.9)	-86.1%
Subtotal Regulatory	**$ 126.9**	**$ 57.1**	**$ (69.8)**	**-55.0%**
Infrastructure Services*				
Local Fund	$ 462.6	$ 363.9	$ (98.7)	-21.3%
Grants	$ 279.3	$ 512.5	$ 233.2	83.5%
Subtotal Infrastructure Services	**$ 741.9**	**$ 876.4**	**$ 134.5**	**18.1%**
Public Services Enterprises				
Local Fund	$ 568.2	$ 632.3	$ 64.2	11.3%
Grants	$ 225.0	$ 262.7	$ 37.7	16.8%
Subtotal Public Services Enterprises	**$ 793.2**	**$ 895.1**	**$ 101.9**	**12.8%**
General Financing Requirements				
Local Fund	$ 2,612.3	$ 3,077.7	$ 465.4	17.8%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 2,612.3**	**$ 3,077.7**	**$ 465.4**	**17.8%**
Subtotal All Program Areas	**$ 7,864.8**	**$ 8,606.6**	**$ 741.8**	**9.4%**
Less Internal Transfers	$ (311.3)	$ (330.3)	$ (19.0)	6.1%
Less Proceeds of Debt	$ (70.2)	$ (70.5)	$ (0.3)	0.4%
Less Grant Funds	$ (1,564.8)	$ (1,922.2)	$ (357.3)	22.8%
Total	**$ 5,918.5**	**$ 6,283.6**	**$ 365.1**	**6.2%**

Source: City of Chicago FY2008 Appropriation Ordinance, pp. 421-422 and FY2012 Budget Recommendations, pp. 581-582.

*Includes Transportation and Streets and Sanitation, which was consolidated with Infrastructure Services in FY2009. Infrastructure Services was formerly called the Department of Transportation.

Note: Adopted appropriated figures were used because actual expenditures were not available by program area.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources including an analysis of all local funds, Corporate Fund revenue trends and the property tax levy. "All local funds" are the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. It excludes grant funds.[87]

This analysis examines 2011 year-end revenue estimates and prior year actual revenues when available.

All Local Funds Resources Trends

The City of Chicago's total resources are projected to increase by 1.3%, or $84.6 million, in FY2012 from the FY2011 year-end estimate of $6.6 billion. Across all local funds, the top five sources of FY2012 revenue are the aviation fees, property taxes, sewer and water fees, sales taxes and utility taxes and fees. Together, these five sources total $3.9 billion, or 57.9% of total resources. Until this year, Proceeds and Transfers In was one of the top five revenue sources since the City had been transferring proceeds from the asset leases into the Corporate Fund to balance the City's operating budget. In FY2012 Proceeds and Transfers In will decrease by $375.6 million, or by 75.5%, from the FY2011 approved amount to $122.0 million. The proposed amount includes $20 million in interest earnings from the Skyway long-term reserve fund and parking meter long-term reserve fund, $50 million in general obligation debt restructuring and $40 million in other financial initiatives.[88]

The two-year trend between FY2011 year-end estimates and the proposed budget reflects a number of initiatives proposed by Mayor Rahm Emanuel including:

- Sewer and Water revenues will increase by $147.8 million, or 21.9%, to $823.1 million in FY2012 reflecting the Mayor's proposal to eliminate discounted water and sewer services for some non-profits and to increase water rates by 25%;[89]
- Vehicle, Transportation and Motor Fuel Taxes will increase by $35.9 million, or 9.6%, to $410.2 million in FY2012 due in part to increased rates for heavier vehicles and trucks;[90]
- Fines, Forfeitures and Penalties will increase by $20.2 million, or 7.7%, to $281.1 million in FY2012 reflecting higher fines for neighborhood safety violations and the City's efforts to improve collection of outstanding debt;[91]
- Licenses and Permits will increase by $23.0 million, or 22.8%, to $123.9 million in FY2012 due to increased fees for valet and loading zones, growth in revenue from alcohol dealer licenses and increased fees for owners who fail to register their vacant buildings;[92]

[87] City of Chicago, FY2012 Budget Overview, pp. 6, 108-121.
[88] City of Chicago, FY2012 Budget Overview, p. 15 and communication between the Civic Federation and the Office of Budget and Management, October 11, 2011.
[89] City of Chicago, FY2012 Budget Overview, p. 18.
[90] City of Chicago, FY2012 Budget Overview, p. 16.
[91] City of Chicago, FY2012 Budget Overview, p. 15.
[92] City of Chicago, FY2012 Budget Overview, p. 15.

- Overall, business taxes are increasing by 17.3%, or $13.9 million, despite the proposed initial phase out of the Employer's Expense Tax. The City's one percentage point increase in its home rule hotel tax rate from 3.5% to 4.5% is reflected in hotel tax revenue growth of $18.7 million, while the Employers' Expense Tax decreases by $4.9 million.[93]

  The total hotel tax rate is expressed as an effective rate because three levels of government tax gross hotel operator receipts while two levels tax net receipts. The State, Municipal and Illinois Sports Facilities Authority hotel taxes are all taxes on gross receipts including tax receipts. In order to compensate for this structure and not double-tax, the rates are expressed a fraction of total receipts, excluding the receipts from collecting the Metropolitan Pier and Exposition Authority tax and the City of Chicago home rule hotel tax. The latter two taxes are applied to net receipts or base charges paid by guests. The breakdown of the current effective rate of 15.4% is shown in the table below. The City's proposed increase in its home rule rate from 3.50% to 4.50% would raise the composite rate from 15.4% to 16.4%.

Hotel Operators' Tax: Effective Rates			
State	(6% of 94%) x (1% Municipal + 2% ISFA) + 6%	=	6.17%
Municipal	(1% of 99%) x (6% State + 2% ISFA) + 1%	=	1.08%
ISFA	(2% of 98%) x (6% State + 1% Municipal) + 2%	=	2.14%
MPEA			2.50%
City of Chicago			3.50%
Total			**15.39%**

Source: Illinois Legislative Research Unit Tax Handbook for Legislators, 26th Edition March 2010, page 52.

[93] City of Chicago, FY2012 Budget Overview, pp. 13 and 162.

City of Chicago Resources All Local Funds: FY2011 & FY2012 (in $ millions)				
Revenue	**FY2011 Year-End Estimates**	**FY2012 Proposed Budget**	**$ Change**	**% Change**
Aviation	$ 1,134.1	$ 1,182.1	$ 48.0	4.2%
Property Taxes	$ 827.8	$ 828.9	$ 1.1	0.1%
Sewer & Water	$ 675.3	$ 823.1	$ 147.8	21.9%
Sales Taxes	$ 548.8	$ 561.8	$ 13.0	2.4%
Utility Taxes & Fees	$ 474.9	$ 475.3	$ 0.4	0.1%
Vehicle, Transportation & Motor Fuel Taxes	$ 374.3	$ 410.2	$ 35.9	9.6%
Internal Service Earnings	$ 284.3	$ 362.4	$ 78.1	27.5%
Income Taxes/PPRT	$ 365.9	$ 336.0	$ (29.9)	-8.2%
Other Resources*	$ 254.6	$ 308.1	$ 53.5	21.0%
Fines, Forfeitures & Penalties	$ 260.9	$ 281.1	$ 20.2	7.7%
Transaction Taxes	$ 194.0	$ 192.2	$ (1.8)	-0.9%
Recreation Taxes	$ 157.8	$ 161.0	$ 3.2	2.0%
Charges for Services	$ 135.0	$ 127.6	$ (7.4)	-5.5%
Licenses & Permits	$ 100.9	$ 123.9	$ 23.0	22.8%
Proceeds & Transfers In	$ 497.6	$ 122.0	$ (375.6)	-75.5%
Business Taxes	$ 80.2	$ 94.1	$ 13.9	17.3%
Emergency Communications Surcharge	$ 94.1	$ 93.9	$ (0.2)	-0.2%
Special Events	$ 29.9	$ 34.9	$ 5.0	16.7%
Lease, Rentals & Sales	$ 16.8	$ 9.7	$ (7.1)	-42.3%
Municipal Utilities (Parking)	$ 8.5	$ 8.7	$ 0.2	2.4%
Revenue Subtotal	**$ 6,515.7**	**$ 6,537.0**	**$ 21.3**	**0.3%**
Prior Year Unreserved Corporate Fund Balance	**$ 81.2**	**$ 143.5**	**$ 62.3**	**76.7%**
Prior Year Unreserved Other Fund Balance	**$ 2.8**	**$ 3.8**	**$ 1.0**	**35.7%**
Total	**$ 6,599.7**	**$ 6,684.3**	**$ 84.6**	**1.3%**

Note: Totals may differ due to rounding.

Sources: City of Chicago FY2012 Budget Overview, pp. 108-115.

*Other = Other Debt Service Funds Revenue, Other Corporate Fund Revenue and Intergovernmental Reimbursements, Interest Income, Hotel Operator's Tax, CTA Real Estate Transfer Taxes and Library Funds.

Over the five-year period between FY2008 and FY2012, all local fund resources are projected to increase by 10.0%, or $607.8 million. Revenues alone will increase by $416.6 million, or 6.8%.

City of Chicago Resources All Local Funds: FY2008 & FY2012 (in $ millions)				
Revenue	**FY2008 Actual**	**FY2012 Proposed Budget**	**$ Change**	**% Change**
Aviation	$ 1,012.7	$ 1,182.1	$ 169.4	16.7%
Property Taxes	$ 725.0	$ 828.9	$ 103.9	14.3%
Sewer & Water	$ 595.8	$ 823.1	$ 227.3	38.2%
Sales Taxes	$ 547.0	$ 561.8	$ 14.8	2.7%
Utility Taxes & Fees	$ 524.8	$ 475.3	$ (49.5)	-9.4%
Vehicle, Transportation & Motor Fuel Taxes	$ 381.8	$ 410.2	$ 28.4	7.4%
Internal Service Earnings	$ 300.2	$ 362.4	$ 62.2	20.7%
Income Taxes/PPRT	$ 435.3	$ 336.0	$ (99.3)	-22.8%
Other Resources*	$ 206.2	$ 308.1	$ 101.9	49.4%
Fines, Forfeitures & Penalties	$ 257.5	$ 281.1	$ 23.6	9.2%
Transaction Taxes	$ 245.1	$ 192.2	$ (52.9)	-21.6%
Recreation Taxes	$ 148.0	$ 161.0	$ 13.0	8.8%
Charges for Services	$ 76.9	$ 127.6	$ 50.7	65.9%
Licenses & Permits	$ 114.7	$ 123.9	$ 9.2	8.0%
Proceeds & Transfers In	$ 259.2	$ 122.0	$ (137.2)	-52.9%
Business Taxes	$ 92.3	$ 94.1	$ 1.8	2.0%
Emergency Communications Surcharge	$ 105.1	$ 93.9	$ (11.2)	-10.7%
Special Events	$ 50.2	$ 34.9	$ (15.3)	-30.5%
Lease, Rentals & Sales	$ 13.8	$ 9.7	$ (4.1)	-29.7%
Municipal Utilities (Parking)	$ 28.8	$ 8.7	$ (20.1)	-69.8%
Revenue Subtotal	**$ 6,120.4**	**$ 6,537.0**	**$ 416.6**	**6.8%**
Prior Year Unreserved Corporate Fund Balance	**$ 1.1**	**$ 143.5**	**$ 142.4**	**12945.5%**
Prior Year Unreserved Other Fund Balance	**$ (45.0)**	**$ 3.8**	**$ 48.8**	**-108.4%**
Total	**$ 6,076.5**	**$ 6,684.3**	**$ 607.8**	**10.0%**

Note: Totals may differ due to rounding.
Sources: City of Chicago, FY2010 Budget Overview and Revenue Estimates, p. 114 and FY2012 Budget Overview, pp. 108-115.
*Other = Other Debt Service Funds Revenue, Other Corporate Fund Revenue and Intergovernmental Reimbursements, Interest Income, Hotel Operator's Tax, CTA Real Estate Transfer Taxes, Library Funds and City Relief Fund.

The exhibit that follows presents the City of Chicago's FY2011 proposed resources, FY2011 year-end estimates and the City's FY2012 proposed resources for all local funds. The FY2011 year-end estimate for total resources is approximately $30 million higher than the proposed budget, due in part to the timing of State of Illinois income tax receipts which resulted in a larger than expected Corporate Fund fund balance at the end of 2010.[94] The property tax levy will be increased by $1.1 million in order to capture revenue from three expiring TIF districts.[95] Details of the property tax levy will be discussed on page 55. Some of the resource highlights by fund include:

- Aviation revenues for O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase by $48.0 million or 4.2%.

[94] City of Chicago, 2011 Annual Financial Analysis, p. 32.
[95] City of Chicago, FY2012 Budget Overview, p. 20. The three TIFs were Chatham-Ridge, Chinatown Basin and West Ridge/Peterson. They all expired per their redevelopment plans on December 31, 2010.

- Corporate Fund tax revenues are projected to rise by 0.1% or $2.2 million from the FY2011 year-end estimates. The proposed $1.8 billion in tax revenues for FY2012 is $2.3 million below the FY2011 proposed budget.
- Corporate Fund non-tax revenues are projected to increase by $83.5 million, or 9.4%, from FY2011 estimates to $974.7 million. The increase is due to increased fees and fines and efforts to improve collection by the City.[96]
- The City is projecting an increase of $147.8 million, or 21.9%, in Water and Sewer revenues for a total of $823.1 million in FY2012. The increase is due to reforms of the water fee waiver system and water rate increases.[97]
- The City is projecting to use $143.5 million of unreserved Corporate Fund fund balance. The fund balance reflects an uptick in revenues in 2010, savings in FY2011 to carry over and additional savings projected for FY2012.[98]
- Corporate Fund Proceeds and Transfers-In are projected to decline by 75.5%, from $497.6 million estimated in FY2011 to $122.0 million in FY2012. This reduction reflects the fact that no non-recurring asset lease reserves will be transferred to the Corporate Fund, other than those used for human infrastructure programs. The proposed $122.0 million is comprised of revenues from general obligation debt restructuring and other financial initiatives including monetizing bus shelter advertisements.[99]

[96] City of Chicago, FY2012 Budget Overview, pp. 14 and 15.
[97] City of Chicago, FY2012 Budget Overview, p. 18 and "Mayor Rahm Emanuel Outlines 2012 Budget Proposal to Secure Chicago's Future," press release, October 12, 2011.
[98] Communication between the Civic Federation and Office of Budget and Management, October 20, 2011.
[99] City of Chicago, FY2012 Budget Overview, p. 15 and communication between the Civic Federation and the Office of Budget and Management, October 20, 2011.

City of Chicago All Local Funds Resources: FY2011 & FY2012 (in $ millions)	FY2011 Proposed Budget	FY2011 Year-End Estimates	FY2012 Proposed Budget	Year-End to FY2012 $ Change	Year-End to FY2012 % Change
Corporate Fund					
Tax Revenues	$ 1,848.7	$ 1,844.2	$ 1,846.4	$ 2.2	0.1%
Non-Tax Revenues	$ 907.6	$ 891.2	$ 974.7	$ 83.5	9.4%
Total Corporate Fund Revenue	**$ 2,756.3**	**$ 2,735.4**	**$ 2,821.1**	**$ 85.7**	**3.1%**
Special Revenue Funds					
Vehicle & Motor Fuel Taxes	$ 231.2	$ 224.7	$ 232.5	$ 7.8	3.5%
Library	$ 89.6	$ 87.4	$ 82.4	$ (5.0)	-5.7%
Emergency Communication	$ 71.8	$ 71.8	$ 72.4	$ 0.6	0.8%
Special Events and Hotel Tax	$ 41.1	$ 29.9	$ 34.9	$ 5.0	16.7%
CTA Real Estate Transfer Tax	$ 26.1	$ 31.3	$ 29.4	$ (1.9)	-6.1%
TIF Administration	$ 5.9	$ 5.9	$ 7.5	$ 1.6	27.1%
Housing Revenue	$ -	$ -	$ 7.5	$ 7.5	-
Total Special Revenue Funds Revenue	**$ 465.7**	**$ 451.0**	**$ 466.6**	**$ 15.6**	**3.5%**
Enterprise Funds					
Water and Sewer	$ 702.4	$ 675.3	$ 823.1	$ 147.8	21.9%
Aviation	$ 1,120.2	$ 1,134.1	$ 1,182.1	$ 48.0	4.2%
Total Enterprise Funds Revenue	**$ 1,822.6**	**$ 1,809.4**	**$ 2,005.2**	**$ 195.8**	**10.8%**
Pension Funds					
Municipal Employees	$ 161.3	$ 161.3	$ 164.1	$ 2.8	1.7%
Laborers and Retirement Board Employees	$ 15.6	$ 15.6	$ 14.9	$ (0.7)	-4.5%
Policemen and Firemen	$ 279.1	$ 273.6	$ 297.3	$ 23.7	8.7%
Total Pension Funds Revenue	**$ 456.0**	**$ 450.5**	**$ 476.3**	**$ 25.8**	**5.7%**
Debt Service Funds					
Bond Redemption and Interest	$ 572.0	$ 572.0	$ 645.8	$ 73.8	12.9%
Total Debt Service Funds Revenue	**$ 572.0**	**$ 572.0**	**$ 645.8**	**$ 73.8**	**12.9%**
Total Revenues	**$ 6,072.6**	**$ 6,018.3**	**$ 6,415.0**	**$ 396.7**	**6.6%**
Corporate Fund Proceeds & Transfers In	**$ 494.6**	**$ 497.6**	**$ 122.0**	**$ (375.6)**	**-75.5%**
Corporate Fund Prior Year Unreserved Fund Balance	**$ 9.4**	**$ 81.2**	**$ 143.5**	**$ 62.3**	**76.7%**
Other Funds Prior Year Unreserved Fund Balance	**$ (7.1)**	**$ 2.8**	**$ 3.9**	**$ 1.1**	**39.3%**
Total Resources	**$ 6,569.5**	**$ 6,599.9**	**$ 6,684.4**	**$ 84.5**	**1.3%**

Note: Minor differences may appear due to rounding.

Source: City of Chicago FY2011 Budget Overview and Revenue Estimates, pp. 42 and 108-115; Budget 2012 Overview, pp. 12 and 162-168.

Tax revenues in the Corporate Fund have decreased by $215.4 million, or 10.4%, since FY2008 reflecting sensitivity to the economic recession. During the same time period, non-tax revenues will increase by 19.7%, or $160.7 million due in part to increased fines and fees. The largest five-year increase in resources will occur in the Water and Sewer funds, which collectively will increase by $227.3 million, or 38.2%. From FY2008 to FY2010, revenues for these funds increased moderately. However, the most significant increase occurs in the FY2012 proposed budget due to reforms of the fee waiver system and increased rates.[100]

City of Chicago All Local Funds Resources: FY2008 & FY2012 (in $ millions)				
	FY2008 Actual	FY2012 Proposed	$ Change	% Change
Corporate Fund				
Tax Revenues	$ 2,061.8	$ 1,846.4	$ (215.4)	-10.4%
Non-Tax Revenues	$ 814.0	$ 974.7	$ 160.7	19.7%
Total Corporate Fund Revenue	**$ 2,875.8**	**$ 2,821.1**	**$ (54.7)**	**-1.9%**
Special Revenue Funds				
Vehicle & Motor Fuel Taxes	$ 228.7	$ 232.5	$ 3.8	1.7%
Library	$ 92.0	$ 82.4	$ (9.6)	-10.4%
Emergency Communication	$ 82.8	$ 72.4	$ (10.4)	-12.6%
Special Events and Hotel Tax	$ 50.2	$ 34.9	$ (15.3)	-30.5%
CTA Real Estate Transfer Tax	$ 30.4	$ 29.4	$ (1.0)	-3.3%
TIF Administration	$ -	$ 7.5	$ 7.5	-
Housing Revenue	$ -	$ 7.5	$ 7.5	-
City Relief	$ 10.0	$ -	-	-
Total Special Revenue Funds Revenue	**$ 494.1**	**$ 466.6**	**$ (27.5)**	**-5.6%**
Enterprise Funds				
Water and Sewer	$ 595.8	$ 823.1	$ 227.3	38.2%
Aviation	$ 1,012.7	$ 1,182.1	$ 169.4	16.7%
Total Enterprise Funds Revenue	**$ 1,608.5**	**$ 2,005.2**	**$ 396.7**	**24.7%**
Pension Funds				
Municipal Employees	$ 148.7	$ 164.1	$ 15.4	10.4%
Laborers and Retirement Board Employees	$ 16.1	$ 14.9	$ (1.2)	-7.5%
Policemen and Firemen	$ 249.0	$ 297.3	$ 48.3	19.4%
Total Pension Funds Revenue	**$ 413.8**	**$ 476.3**	**$ 62.5**	**15.1%**
Debt Service Funds				
Bond Redemption and Interest	$ 468.6	$ 645.8	$ 177.2	37.8%
Total Debt Service Funds Revenue	**$ 468.6**	**$ 645.8**	**$ 177.2**	**37.8%**
Total Revenues	**$ 5,860.8**	**$ 6,415.0**	**$ 554.2**	**9.5%**
Corporate Fund Proceeds & Transfers In	**$ 259.2**	**$ 122.0**	**$ (137.2)**	**-52.9%**
Corporate Fund Prior Year Unreserved Fund Balance	**$ 1.1**	**$ 143.5**	**$ 142.4**	**12945.5%**
Other Funds Prior Year Unreserved Fund Balance	**$ (45.0)**	**$ 3.9**	**$ 48.9**	**-108.7%**
Total Resources	**$ 6,076.1**	**$ 6,684.4**	**$ 608.3**	**10.0%**

Note: Minor differences may appear due to rounding.

Source: City of Chicago FY2010 Budget Overview and Revenue Estimates, pp. 46 and 114; Budget 2012 Overview, pp. 12 and 162-168.

[100] City of Chicago, FY2012 Budget Overview, pp. 18 and 168.

Corporate Fund Revenue Trends

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 6.9% or $227.6 million decrease in Corporate Fund resources in FY2012 from FY2011 year-end estimates.

The Corporate Fund's tax revenues are projected to increase by 0.1% in FY2012, rising $2.2 million to $1.8 billion in FY2012. The slight increase is due to a mix of increasing sales and use taxes ($13.1 million), which includes both the City's own home rule sales tax and its share of sales taxes collected by the State, and transportation taxes ($28.0 million). Those increases are offset by a $54.7 million decline in income taxes, which include the personal property replacement taxes (PPRT) levied on corporations and utilities. The growth in transportation taxes can be attributed to the proposed non-metered parking tax increase on downtown parking lots.[101] The City expects income tax revenues to decline due to a weakened labor market, the decline in population and the subsequent decrease in state distributions for the City and the federal depreciation bonus rule which reduced the corporate income tax base.[102]

Non-tax Corporate Fund revenues will increase by 9.4%, or $83.5 million, rising from $891.2 million in FY2011 to $974.7 million in FY2012. The growth is driven by a $23.0 million, or 22.8%, increase in license and permit revenues and a $20.2 million, or 7.7%, increase in fine and forfeiture revenues. The anticipated growth reflects a number of reform measures proposed by Mayor Emanuel including increased registration fees for those who fail to register vacant buildings, improved collection of outstanding debt and the revaluation of valet space and loading zone fees to better reflect the underlying real estate value and impact on traffic and parking in the city.[103]

[101] City of Chicago, FY2012 Budget Overview, p. 12.
[102] City of Chicago, FY2012 Budget Overview, p. 14.
[103] City of Chicago, FY2012 Budget Overview, p. 15.

City of Chicago Corporate Fund Resources: FY2011 & FY2012 (in $ millions)					
Tax Revenue	**FY2011 Approved Budget**	**FY2011 Year-End Estimates**	**FY2012 Proposed Budget**	**Year-End to FY2012 $ Change**	**Year-End to FY2012 % Change**
Sales & Use Taxes	$ 496.6	$ 522.1	$ 535.2	$ 13.1	2.5%
Utility Tax & Franchise Fees	$ 479.5	$ 474.9	$ 475.3	$ 0.4	0.1%
Income Taxes (Incl. PPRT)	$ 309.9	$ 264.1	$ 209.4	$ (54.7)	-20.7%
Transaction Taxes	$ 175.9	$ 194.0	$ 192.2	$ (1.8)	-0.9%
Transportation Taxes	$ 149.6	$ 146.3	$ 174.3	$ 28.0	19.1%
Recreation Taxes	$ 155.1	$ 157.8	$ 161.0	$ 3.2	2.0%
Business Taxes	$ 77.0	$ 80.2	$ 94.1	$ 13.9	17.3%
Other	$ 4.9	$ 4.8	$ 4.9	$ 0.1	2.1%
Total Tax Revenue	**$ 1,848.5**	**$ 1,844.2**	**$ 1,846.4**	**$ 2.2**	**0.1%**
Non-Tax Revenue					
Fines & Forfeitures	$ 254.4	$ 260.9	$ 281.1	$ 20.2	7.7%
Licenses & Permits	$ 95.4	$ 100.9	$ 123.9	$ 23.0	22.8%
Charges for Services	$ 152.0	$ 135.0	$ 127.6	$ (7.4)	-5.5%
Leases, Rentals & Sales	$ 16.5	$ 16.8	$ 9.7	$ (7.1)	-42.3%
Municipal Utilities (Parking)	$ 6.8	$ 8.5	$ 8.7	$ 0.2	2.4%
Reimbursement,Interest,Other	$ 386.1	$ 369.1	$ 423.7	$ 54.6	14.8%
Total Non-Tax Revenue	**$ 911.2**	**$ 891.2**	**$ 974.7**	**$ 83.5**	**9.4%**
Prior Year Unreserved Fund Balance	**$ 9.4**	**$ 81.2**	**$ 143.5**	**$ 62.3**	**76.7%**
Proceeds & Transfers In	**$ 494.6**	**$ 497.6**	**$ 122.0**	**$ (375.6)**	**-75.5%**
Total Corporate Resources	**$ 3,263.7**	**$ 3,314.2**	**$ 3,086.6**	**$ (227.6)**	**-6.9%**

Source: City of Chicago Budget 2012 Overview, p. 12.

The category of Proceeds and Transfers In will decrease by 75.5%, declining from $497.6 million in FY2011 to $122.0 million in FY2012 due primarily to reduced use of asset lease proceeds. The category includes $20.0 million in interest revenue derived from the City's Skyway and Parking Meter asset lease transactions. Currently, the City is required by ordinance to transfer $20 million annually to the Corporate Fund to replace parking meter revenue lost from the lease. The FY2012 budget notes that the City intends to amend the ordinance so that only interest generated from the reserve funds may be transferred to the City's operating budget.[104]

[104] City of Chicago, FY2012 Budget Overview, p. 15.

A category within Proceeds and Transfers In called "other" will decline from $206.9 million in FY2011 to $102.0 million for FY2012. This category includes non-recurring revenues from debt restructuring, interest rate swap restructuring and some additional transfers from asset-lease proceeds.

City of Chicago Corporate Fund "Proceeds and Transfers In Other:" FY2011 & FY2012 (in $ millions)		
	FY2011 Year-End Estimates	FY2012 Proposed Budget
Refinancing Long-Term Debt	$ 91.9	$ 50.0
Restructuring Interest Rate Swaps	$ 35.0	$ 10.0
Monetizing Future Payments For Advertising on City Street Furniture and Bus Stops (JC Decaux Contract)*	$ 20.0	$ 30.0
Transfer from Parking Meter Human Infrastructure Fund for Human Infrastructure Programs	$ 32.0	$ 5.0
Transfer from Midway Lease Termination Payment	$ 20.0	$ -
Transfer from Skyway Human Infrastructure Fund (Remaining Interest)	$ 5.0	$ -
Reimbursements from Other Governments (e.g., from Chicago Transit Authority for police services)	$ 3.0	$ -
Interest Income Earned on Bond Proceeds	$ -	$ 7.0
Total	**$ 206.9**	**$ 102.0**

* The FY2011 amount will be transferred not in 2011 by in 2012 and will seed a revolving Innovation Loan Fund to make loans to City departments for initiatives that will achieve cost savings, revenue gains or service improvements. See City of Chicago, FY2012 Budget Overview, p. 3.

Source: Information provided by City of Chicago Office of Budget and Management, November 1, 2011.

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2008 and FY2012, Corporate Fund revenues will decrease by 1.7%, or $52.9 million. During this period, Corporate Fund tax revenues will decrease by 10.4% and non-tax revenues will increase by 19.7%.

Economically sensitive revenues income tax and transaction tax receipts are expected decrease over the five-year period of this analysis, reflecting the economic downturn. Sales tax revenues will increase modestly from FY2008.

- Income tax receipts, which include personal property replacement tax revenues, will decrease significantly by 44.7%, or $169.1 million, falling from $378.5 million in FY2008 to $209.4 million in FY2012;
- Transaction taxes, which include the real estate transfer tax, will fall by 21.6%, or $52.9 million.
- Sales tax revenues will increase modestly by $17.1 million, or 3.3%, to $535.2 million;

Recreation taxes have increased 8.8%, driven by increases in amusement tax, liquor tax and non-alcoholic beverage tax combined with decreased cigarette tax revenue. The increases are largely the result of the following tax rate and base increases: (1) effective January 1, 2009 the amusement tax was increased by 1% for both live performances and other events,[105] (2) in 2008 a new bottled water tax was added to the non-alcoholic beverage tax,[106] and (3) the State's definition of soft drinks was expanded in September 2009 impacting non-alcoholic beverage tax collections.[107]

The most significant non-tax revenue increase is in the Reimbursement, Interest and Other category. The five-year increase of $101.4 million, or 31.5%, can be attributed to growing anticipated reimbursements from Chicago Public Schools for pension contributions and public safety services, as well as growth in other revenue sources such as Tax Increment Financing (TIF) surplus.[108]

City of Chicago Corporate Fund Revenues: FY2008 & FY2012 (in $ millions)

Tax Revenue	FY2008 Actual	FY2012 Proposed Budget	$ Change	% Change
Sales & Use Taxes	$ 518.1	$ 535.2	$ 17.1	3.3%
Utility Tax & Franchise Fees	$ 524.8	$ 475.3	$ (49.5)	-9.4%
Income Taxes (Incl. PPRT)	$ 378.5	$ 209.4	$ (169.1)	-44.7%
Transaction Taxes	$ 245.1	$ 192.2	$ (52.9)	-21.6%
Transportation Taxes	$ 148.7	$ 174.3	$ 25.6	17.2%
Recreation Taxes	$ 148.0	$ 161.0	$ 13.0	8.8%
Business Taxes	$ 92.3	$ 94.1	$ 1.8	2.0%
Other Governmental	$ 6.2	$ 4.9	$ (1.3)	-21.0%
Total Tax Revenue	**$ 2,061.7**	**$ 1,846.4**	**$ (215.3)**	**-10.4%**
Non-Tax Revenue				
Fines & Forfeitures	$ 257.5	$ 281.1	$ 23.6	9.2%
Licenses & Permits	$ 114.7	$ 123.9	$ 9.2	8.0%
Charges for Services	$ 76.9	$ 127.6	$ 50.7	65.9%
Leases, Rentals & Sales	$ 13.8	$ 9.7	$ (4.1)	-29.7%
Municipal Utilities (Parking)	$ 28.8	$ 8.7	$ (20.1)	-69.8%
Reimbursement, Interest, Other	$ 322.3	$ 423.7	$ 101.4	31.5%
Total Non-Tax Revenue	**$ 814.0**	**$ 974.7**	**$ 160.7**	**19.7%**
Prior Year Unreserved Fund Balance	**$ 4.6**	**$ 143.5**	**$ 138.9**	**3019.6%**
Proceeds & Transfers In	**$ 259.2**	**$ 122.0**	**$ (137.2)**	**-52.9%**
Total Corporate Revenue	**$ 3,139.5**	**$ 3,086.6**	**$ (52.9)**	**-1.7%**

Source: City of Chicago FY2010 Budget Overview and Revenue Estimates, p. 46; FY2012 Budget Overview, p. 12.

Property Tax Revenues

The City of Chicago's proposed 2012 property tax levy for City government purposes is $798.0 million, which is an increase of $1.1 million from the FY2011 proposed levy.

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105 City of Chicago, FY2009 Overview and Revenue Estimates, p. 55, City of Chicago Municipal Code Chapter 4-156.
106 City of Chicago, FY2008 Overview and Revenue Estimates, p. 55, City of Chicago Municipal Code Chapter 3-43.
107 City of Chicago, FY2011 Overview and Revenue Estimates, p. 50.
108 City of Chicago, FY2011 Overview and Revenue Estimates, p. 61; FY2012 Budget Overview, p. 15.

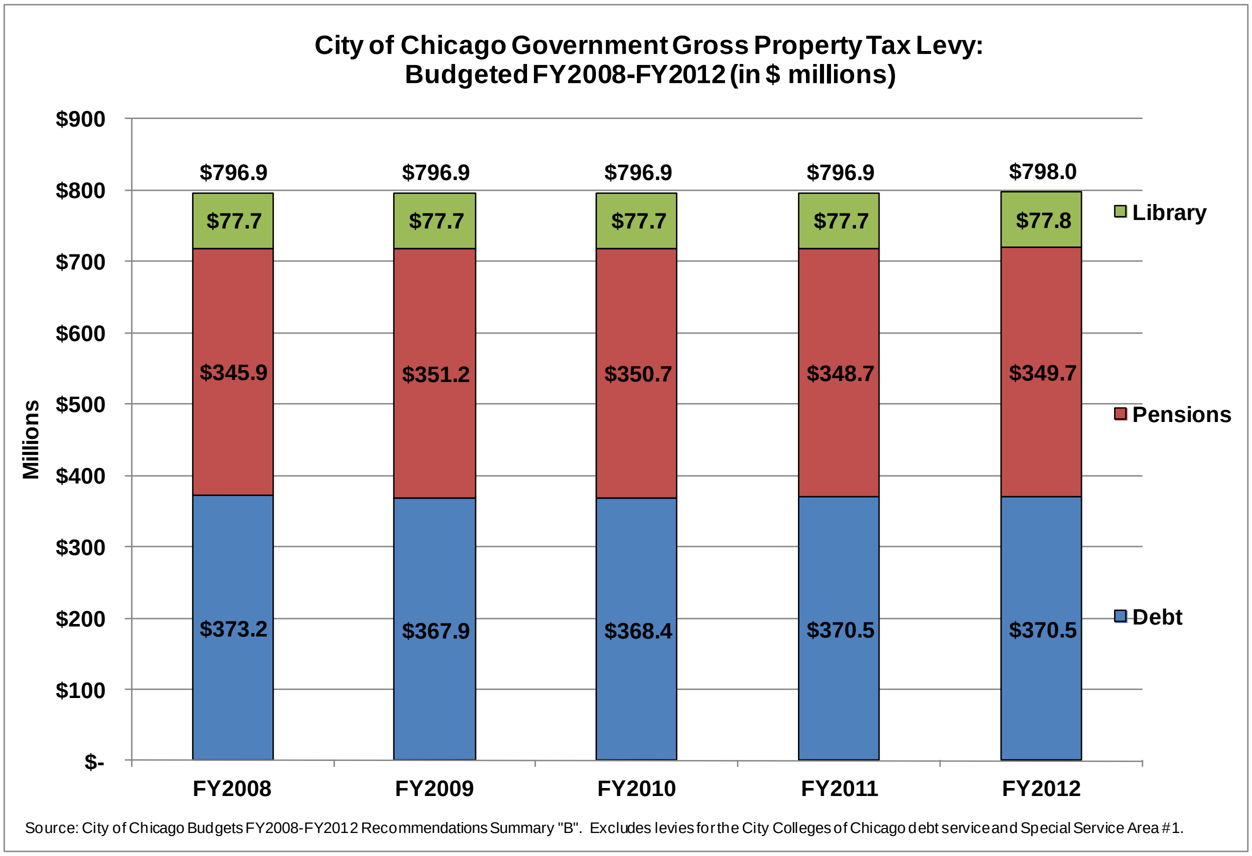
The proposed 2012 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[109] A portion of the library levy funds debt service on bonds issued for the library's capital program, but some of the levy pays for short-term borrowing to fund library operating expenses. The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of an increase in taxes. Taxes levied for FY2012 will not begin to be collected until 2013 and any increase appears on second installment of tax bills sent in the fall of 2013.

The other two City government purposes for which the City levies property taxes are pension contributions and debt service. Property taxes levied for pensions are a direct result of payroll increases, including retroactive increases, since the City's employer contributions to pensions are set in state statute as a multiple of employee contributions made two years prior. Employee contributions are a percentage of pay. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule. None of the property tax levy is used for Corporate Fund operating purposes.[110]

The levy for City government purposes was maintained at $713.5 million between FY2003 and FY2007. In FY2008 the levy was increased by 11.7% or $83.4 million to $796.9 million.[111] The 2008 levy increase was paid by taxpayers in the fall of 2009, as there is a one-year lag in Cook County between the approval of a levy and the time it is reflected in a new tax rate. The 2008 levy increase exceeded the City's self-imposed limit on property tax increases. As a home rule unit of government, the City of Chicago is exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[112] The levy remained at $796.9 million from FY2008 to FY2011.

[109] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[110] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[111] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[112] The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the library levy from the definition of "aggregate extension."

The figure below shows the components of the property tax levy for the past five years. The proposed 2012 levy will be raised by a $1.1 million in order to capture revenue from three expiring TIF districts. The FY2012 proposed budget notes that going forward, as TIF districts expire, the City intends to shift property taxes from the districts back to the general property tax levy. These additional property tax revenues will be allocated to the pension fund levies, thus freeing up for general Corporate Fund use the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments.[113]



Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed 2012 property tax levy for City government purposes, including the library, is $798.0 million. The City has proposed to capture property tax revenue from expiring TIF districts, resulting in a $1.1 million increase in 2012. Aside from the slight increase in 2012, there has been no significant change in the levy since 2008. However, this figure does not represent the full amount of property tax revenues collected by the City of Chicago.

There are at least three significant additional uses of property tax revenue by the City: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools and Tax Increment Financing (TIF) district revenue. The City Colleges and Chicago Public Schools are

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[113] Information provided by City of Chicago Office of Budget and Management, November 1, 2011.

separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

These three additional property tax uses are described here because it is important for property taxpayers to have an accurate description of which governments receive their property tax dollars and for what purpose. Without accurate descriptions, it is impossible for the public to hold elected officials responsible for the level of property taxation they impose and for the uses of those dollars.

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[114]

The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC). Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995.[115] At that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O & M) levy. When these obligations were fulfilled, the O & M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[116] This arrangement results in no net increase for property taxpayers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[117] It has remained at $36.6 million from FY2008 through FY2012.

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is absent from the budget narrative and budget totals where the City's property tax levy is described.[118] When City Colleges $36.6 million levy is added to the $798.0 million total listed it brings the total levy to $834.6 million, which is the amount reflected in the City's property tax rate.

[114] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php
[115] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[116] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[117] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf
[118] The City Colleges levy appears in the City's FY2012 Budget Recommendations book (p. 33) but is absent from the property tax discussion on page 20 of the Budget Overview book.

Chicago Public Schools

There is an intergovernmental agreement between the City of Chicago and the Chicago Public Schools through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[119] The City has taken on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[120] The SFA levied its final property tax in tax year 2007, payable in 2008.

According to the debt service schedule for bonds covered by this intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and will remain at $91.0 million through 2018.[121]

The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates.[122] The City's financial statements refer to it only in the property tax statistics, from which the property taxes for the "School Building and Improvement Fund" are explicitly excluded.[123]

The City also issued new bonds to finance its "Modern Schools Across Chicago" school construction program. The bonds amounted to over $356 million in 2007and $150 million in 2010.[124]

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[119] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.

[120] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution

[121] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf.

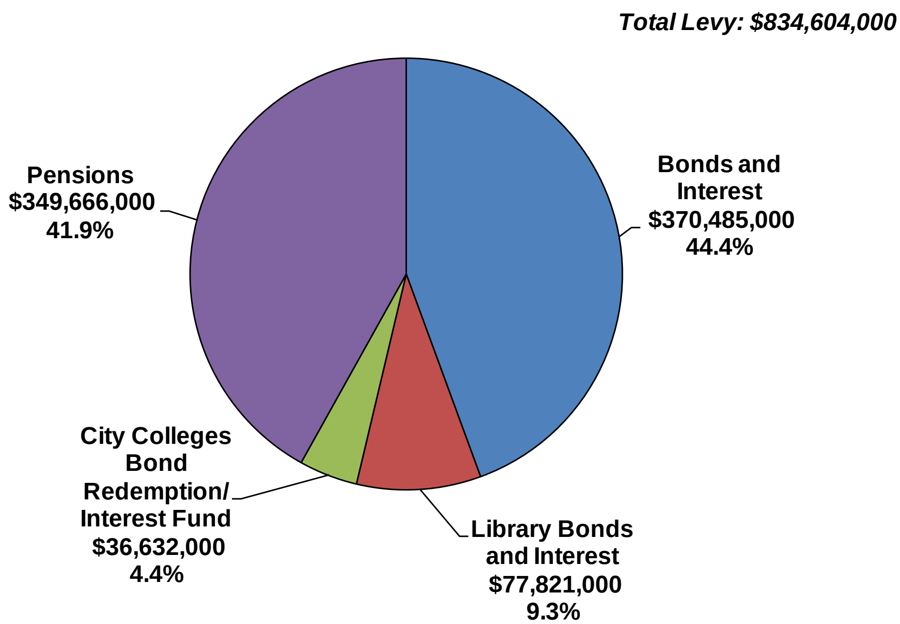
[122] City of Chicago, FY2012 Budget Recommendations, pp. 26-35.

[123] City of Chicago, FY2010 Comprehensive Annual Financial Report, p. 144.

[124] City of Chicago, FY2007 Comprehensive Annual Financial Report, p. 26 and FY2010 Comprehensive Annual Financial Report, p. 69.

The following pie chart illustrates the distribution of the City's total proposed property tax levy for 2012 (taxes payable in 2013). Approximately 4.4% of the City's proposed FY2012 property tax levy is for City Colleges bonds, and 9.3% is for the library. Roughly 41.9% is dedicated to pension payments and 44.4% of the levy is for the debt service on City bonds. The bonds issued per the intergovernmental agreement with the Chicago Public Schools are included in this latter amount but are not itemized. The total City levy is $834.6 million.

City of Chicago 2012 Gross Property Tax Levy Distribution



Source: City of Chicago FY2012 Budget Recommendations Summary

Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for Tax Increment Financing districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There are currently 165 active TIFs in Chicago according to the City's Housing and Economic Development web site,[125] although three are expected to expire in 2012.[126] The City plans to move property taxes from the expired districts to the general property tax levy.[127]

[125] City of Chicago Housing and Economic Development website, TIF District FAQ's, navigate from www.cityofchicago.org, visited October 24, 2011.
[126] City of Chicago, FY2012 Budget Overview, p. 20.
[127] City of Chicago, FY2012 Budget Overview, p. 20.

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[128] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2010 rates, paid in 2011.[129] For tax year 2010, the City of Chicago will collect $510 million in TIF revenue, down 2.0% from the $520 million collected in 2009. The decline in overall TIF revenue is the result of TIF closings and the real estate decline which impacted the incremental value.[130]

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[131] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[132]

When TIF revenue is added to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs), the City's 2010 property tax revenues totaled over $1.3 billion. This was an increase of $123.9 million over FY2006.

City of Chicago FY2006 - FY2010 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund #	Fund Name	FY2006	FY2007	FY2008	FY2009	FY2010
	City Government Funds	$ 713,452	$ 713,452	$ 796,862	$ 796,862	$ 796,862
549	City Colleges Bond Redemption/Interest Fund	$ 5,729	$ 33,509	$ 36,632	$ 36,632	$ 36,632
	TIF Property Tax Revenues	$ 500,369	$ 555,311	$ 495,590	$ 519,716	$ 509,971
	GRAND TOTAL	**$ 1,219,550**	**$ 1,302,272**	**$ 1,329,084**	**$ 1,353,210**	**$ 1,343,465**

Source: City of Chicago, FY2006-FY2010 Appropriations Ordinance, Summary "B" and Cook County Clerk TIF reports 2006-2010.

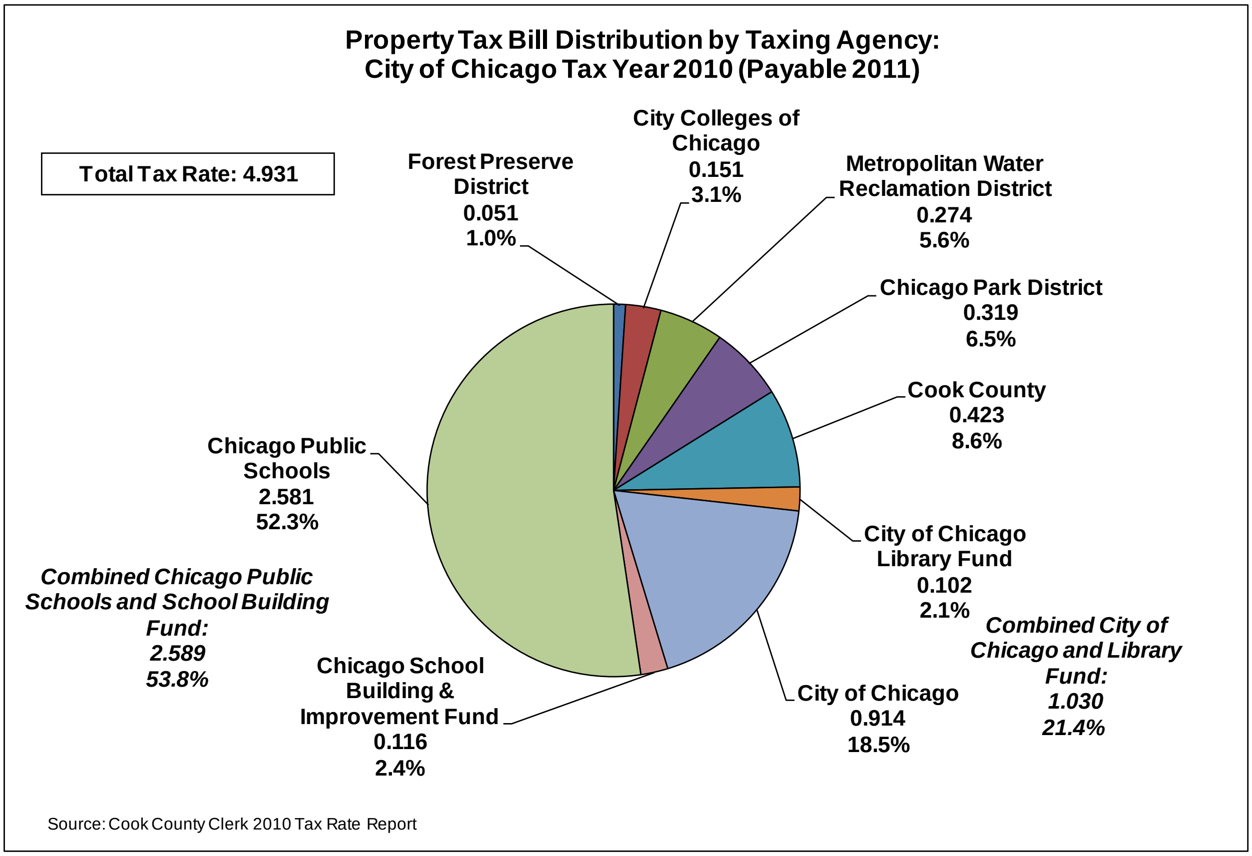
Transparency and Accountability Issues

It is important for property taxpayers to have an accurate picture of which governments receive their property tax dollars and for what purpose so that taxpayers may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on property tax bills does not provide an accurate picture of property tax distribution.

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes a pie chart showing the distribution of

[128] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
[129] Available on the Cook County Clerk's website at www.cookcountyclerk.com.
[130] Cook County Clerk, "2010 TIF revenue down 4% countywide," press release, October 13, 2011.
[131] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[132] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

the City of Chicago tax bill among the different governments.[133] The 2010 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 21.4% of a typical City property tax bill is for the City of Chicago, including the library, and 53.8% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments.



133 Cook County Clerk 2010 Tax Rate Report, p. v., available at http://www.cookcountyclerk.com/tsd/extensionsandrates/Pages/default.aspx

There has been a discrepancy in some years between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The two tables below show the City's 2006-2010 levies as reported by City Budget Appropriation Ordinances and by the Cook County Clerk. Some of the differences may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports.

City of Chicago Gross Property Tax Levy: Tax Year 2006-2010
As Reported in the Cook County Clerk Agency Tax Rate Reports

Fund #	Fund Name	2006	2007	2008	2009	2010
3	Bonds & Interest	$ 335,910,594	$ 400,728,571	$ 411,108,080	$ 404,269,309	$ 405,045,033
120	Police Pension	$ 135,528,000	$ 141,080,000	$ 139,640,000	$ 141,741,000	$ 140,165,000
121	Fire Pension	$ 69,500,000	$ 65,242,000	$ 65,426,000	$ 66,140,000	$ 64,323,000
122	Municipal Pension	$ 137,228,000	$ 128,378,000	$ 125,644,000	$ 124,326,000	$ 126,831,000
125	Laborers Pension	$ -	$ -	$ 9,526,000	$ 13,327,000	$ 13,714,000
289	Note Redemption & Interest Fund	$ 12,715,000	$ 3,867,000	$ -	$ -	$ -
319	1998 Equipment Notes	$ 12,377,894	$ -	$ -	$ -	$ -
	Subtotal City	**$ 703,259,488**	**$ 739,295,571**	**$ 751,344,080**	**$ 749,803,309**	**$ 750,078,033**
3	Bonds & Interest	$ -	$ -	$ 3,049,661	$ 4,339,219	$ 4,338,906
128	Library Municipal Pension	$ -	$ -	$ 5,700,000	$ 5,700,000	$ 5,700,000
259	Library Note Redemption	$ 34,737,000	$ 29,103,000	$ 73,363,000	$ 73,363,000	$ 73,377,000
	Subtotal Library	**$ 34,737,000**	**$ 29,103,000**	**$ 82,112,661**	**$ 83,402,219**	**$ 83,415,906**
	GRAND TOTAL City + Library	**$ 737,996,488**	**$ 768,398,571**	**$ 833,456,741**	**$ 833,205,528**	**$ 833,493,939**

Note: Funds for which there were no levies in these years are excluded.

Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund

City of Chicago Gross Property Tax Levy: Tax Year 2006-2010
As Reported in the City of Chicago Appropriation Ordinances

Fund #	Fund Name	2006	2007	2008	2009	2010
509	Note Redemption and Interest Fund	$ 12,378,000	$ -	$ -	$ -	$ -
510	Bond Redemption and Interest Fund	$ 311,366,000	$ 345,782,000	$ 373,216,000	$ 367,918,000	$ 368,419,000
512	Note Redemption and Interest Fund	$ 12,715,000	$ 3,867,000	$ -	$ -	$ -
516	Library Bond Redemption Fund	$ -	$ -	$ 4,347,000	$ 4,347,000	$ 4,333,000
521	Library Note Redemption and Interest Fund	$ 34,737,000	$ 29,103,000	$ 73,363,000	$ 73,363,000	$ 73,377,000
681	Municipal Pension	$ 137,228,000	$ 128,378,000	$ 131,344,000	$ 130,026,000	$ 132,531,000
682	Laborers' Pension	$ -	$ -	$ 9,526,000	$ 13,327,000	$ 13,714,000
683	Police Pension	$ 135,528,000	$ 141,080,000	$ 139,640,000	$ 141,741,000	$ 140,165,000
684	Fire Pension	$ 69,500,000	$ 65,242,000	$ 65,426,000	$ 66,140,000	$ 64,323,000
	Subtotal City Government Funds	**$ 713,452,000**	**$ 713,452,000**	**$ 796,862,000**	**$ 796,862,000**	**$ 796,862,000**
549	City Colleges Bond Redemption/Interest Fund	$ 5,729,000	$ 33,509,000	$ 36,632,000	$ 36,632,000	$ 36,632,000
	GRAND TOTAL	**$ 719,181,000**	**$ 746,961,000**	**$ 833,494,000**	**$ 833,494,000**	**$ 833,494,000**

Source: City of Chicago, FY2006-FY2010 Appropriations Ordinances, Summary B. The levy for Special Service Area #1 is excluded.

Property taxpayers collectively owe the full amount as reported by the Cook County Clerk, not the amount reported by the City, and the final City tax rate is calculated based on the total levy reported by the Clerk.

LONG-TERM ASSET LEASE PROCEEDS

In 2005 the City of Chicago leased the Skyway toll road to a private operator for 99 years for $1.83 billion. In 2009 the City completed a similar deal that leased its parking meters to a private operator for 75 years for $1.15 billion. These proceeds were a principal method the City used to balance its budget in recent years. At the end of 2011, the aggregate principal balance in the Skyway and parking meter asset lease reserve funds will be approximately $624.0 million.[134]

[134] City of Chicago, 2011 Annual Financial Analysis, pp. 36-40.

This section describes the use of proceeds from these two lease transactions as well as transactions involving municipal parking garages and Midway airport.

Skyway Lease

In 2005 the City leased the Chicago Skyway for $1.83 billion to a private operator for 99 years. The City deposited $500.0 million of the proceeds into a long-term reserve account, and $855.0 million was used to retire debt associated with the Skyway itself, along with other debt accrued by the City. The remaining $475.0 million was set aside for operating expenses: $100.0 million for a Human Infrastructure Fund and $375.0 million in a Mid-Term Reserve Fund.[135]

The Human Infrastructure Fund was fully drawn down by the end of 2009, as scheduled. The 2011 Annual Appropriation included a $5.0 million transfer of interest earnings to the Corporate Fund, after which the Human Infrastructure Fund will be closed out.[136] By the end of 2011, the Mid-Term Reserve Fund will also be fully drawn down after a year-end total of $50.0 million is transferred to the Corporate Fund.[137]

The following chart shows Skyway lease revenues and expenditures. The Mid-Term Reserve Fund has been depleted as it was used to balance the Corporate Fund budget from 2005 through 2011. The Skyway Human Infrastructure Fund has also been exhausted; it funded a variety of programs primarily focused on human service, job training and housing programs. The Parking Meter Human Infrastructure Fund described in the next section has taken its place and is being used to continue and expand the number of programs originally supported by Skyway funds. The Skyway Long-Term Reserve Fund principal of $500.0 million remains intact and is legally restricted per the Skyway lease transaction. Investment earnings from the account are transferred to the Corporate Fund. These annual earnings have ranged from $18.3 million to $29.4 million. The 2011 appropriation ordinance calls for $15.0 million in investment earnings to be transferred to the Corporate Fund by the end of 2011. The Fund had earned $10.9 million in interest as of June 30, 2011.[138]

As of June 30, 2011 there were $538.2 million of Skyway lease proceeds remaining.

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[135] The term "fund" is used loosely in this discussion and in the concession agreements. The remaining Skyway and parking meter lease proceeds that have not been expended or allocated to the Corporate Fund are held in one accounting entity called the "Reserve Fund" (see City of Chicago FY2010 CAFR, p. 49 for a description of this fund).

[136] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

[137] $25.0 million from the Mid-Term Reserve Fund was transferred to the Corporate Fund as of June 30, 2011. City of Chicago, 2011 Annual Financial Analysis, Long-Term Asset Lease and Reserve Funds.

[138] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

Skyway Lease Proceeds: As of June 30, 2011 (in $ thousands)					
	Debt Retirement	Long-Term Reserve Fund	Mid-Term Reserve Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/11)					
Proceeds	$ 855,000	$ 500,000	$ 375,000	$ 100,000	$ 1,830,000
Interest Earnings	$ -	$ 163,165	$ 49,945	$ 12,271	$ 225,381
Total	**$ 855,000**	**$ 663,165**	**$ 424,945**	**$ 112,271**	**$ 2,055,381**
Expenses, Transfers and Disbursements					
2005	$ 855,000	$ 18,244	$ 100,000	$ 34,000	$ 1,007,244
2006	$ -	$ 27,400	$ 50,000	$ 25,505	$ 102,905
2007	$ -	$ 26,497	$ 75,000	$ 19,058	$ 120,555
2008	$ -	$ 28,857	$ 50,000	$ 15,025	$ 93,882
2009	$ -	$ 25,079	$ 50,000	$ 12,198	$ 87,277
2010	$ -	$ 26,204	$ 50,000	$ 1,209	$ 77,413
2011 as of June 30	$ -	$ -	$ 25,000	$ 2,908	$ 27,908
Total	**$ 855,000**	**$ 152,281**	**$ 400,000**	**$ 109,903**	**$ 1,517,184**
Balance	**$ -**	**$ 510,884**	**$ 24,945**	**$ 2,368**	**$ 538,197**

Source: Historical Data from City of Chicago, Asset Lease Agreements

http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
Note: 2011 Appropriations for the Long-Term Reserve Fund total $15.0 million and $50.0 million for the Mid-Term Reserve Fund. Debt Retirement includes $463.0 million in Skyway Associated Debt Retired and $392.0 million in Other Debt Retired.

Parking Garage Lease

In 2006 the City leased its downtown underground parking garage system and three garages owned by the Chicago Park District to a private operator for 99 years. The City received a net payment of $215.2 million, which it used to pay transaction fees and retire parking garage debt. The total payment from the lessee was $563.0 million, of which the City used $347.8 million to purchase the Park District's garages as part of the transaction.[139] There are no City reserve funds associated with the parking garage lease transaction.

Midway Airport Lease

In 2008 the City signed a 99-year lease agreement with a private vendor to operate Midway airport. The vendor was ultimately unable to secure sufficient financing and withdrew from the agreement, forfeiting a $126.1 million security deposit in 2009. The deposit was used to pay $13.1 million of fees associated with the terminated transaction, $33 million of existing debt and $40 million was transferred to the Corporate Fund for use in the FY2009 budget. The remaining $40 million was placed in a short-term reserve fund from which $20 million was transferred to the Corporate Fund in 2010 and the final $20 million is to be transferred during 2011.[140] There will be no further reserves associated with this terminated lease transaction after 2011.

[139] City of Chicago FY2010 Comprehensive Annual Financial Report, p. 91.
[140] City of Chicago, 2011 Annual Financial Analysis, p. 37.

Parking Meter Lease

In 2009 the City leased its parking meters for $1.15 billion to a private operator for 75 years. The City allocated $400.0 million of the parking meter proceeds into a Long-Term Reserve Fund and set aside the remaining $751.4 million for operating expenses in the following funds:

- Mid-Term Reserve Fund – $325.0 million intended to be transferred to the Corporate Fund over five fiscal years ($25 million initially, $100 million to cover 2008 carried forward obligations, $50 million for 2009, $50 million for 2010, $50 million for 2011 and $100 million for 2012).[141]
- Budget Stabilization Fund – $326.3 million for largely discretionary purposes with no specified time period for transfer.
- Human Infrastructure Fund - $100 million intended to replace Skyway Human Infrastructure Fund.

The Mid-Term Reserve Fund will be depleted at the end of 2011. The Budget Stabilization Fund was drawn down in 2010 and $670,000 in interest remained in the fund as of June 30, 2011.[142] The Human Infrastructure Fund is expected to end 2011 with a balance of approximately $44 million after a $32 million budgeted transfer to the Corporate Fund in 2011.[143]

As illustrated in the following chart, the parking meter proceeds have been utilized at a rapid rate. The City will have spent over one billion dollars in parking meter revenue (combined Budget Stabilization, Mid-Term Reserve, and Long-Term Reserve) funds in just three years, leaving the Budget Stabilization and Mid-Term Reserve funds essentially depleted.[144]

While the Skyway Long-Term Fund principal is required to stay intact at $500 million with only the earned interest transferred to the Corporate Fund, the parking meter Long-Term Reserve fund must transfer at least $20 million in interest earnings per year to the Corporate Fund. If $20 million is not earned then the balance comes from the principal. As funds are borrowed from the principal there are less funds available on which to earn interest, and therefore even more must be taken from principal to meet the $20 million annual requirement, perpetuating a downward spiral. The FY2012 budget proposes to amend the ordinance authorizing the parking meter lease agreement so, like the Skyway Long-Term Reserve Fund, the amount transferred annually to the Corporate Fund can only come from interest earnings and not from the principal balance.[145] The FY2012 budget proposal includes a projected $2.0 million in interest earnings from the Parking Meter Revenue Replacement Fund and $18.0 million in projected interest earnings from the Skyway Long-Term Reserve Fund.[146]

Unlike the Skyway Long-Term Reserve Fund, the parking meter Long-Term Reserve Fund principal has been used to close the Corporate Fund deficits, as detailed in the Corporate Fund Fund Balance section of this report. Amounts transferred to the Corporate Fund in excess of the

[141] These amounts total more than $325 million because interest income was also anticipated.
[142] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html
[143] City of Chicago, 2011 Annual Financial Analysis, pp. 36-40.
[144] City of Chicago, 2011 Annual Financial Analysis, pp. 36-40.
[145] City of Chicago FY2012 Budget Overview, p. 15.
[146] City of Chicago FY2012 Budget Overview, p. 162.

$20 million annual transfer prescribed in the ordinance are considered borrowing and must be paid back. These borrowed amounts were $190 million in 2010 and $119.9 million budgeted for 2011.

As of June 30, 2011 there were $276.0 million of parking meter lease proceeds remaining.

Parking Meter Lease Proceeds: As of June 30, 2011 (in $ thousands)

	Long-Term Reserve Fund*	Mid-Term Reserve Fund	Budget Stabilization Fund	Human Infrastructure Fund	Total
Revenues (through 6/30/11)					
Proceeds	$ 400,000	$ 325,000	$ 326,355	$ 100,000	$ 1,151,355
Interest Earnings	$ 17,636	$ 4,546	$ 2,863	$ 704	$ 25,749
Total	**$ 417,636**	**$ 329,546**	**$ 329,218**	**$ 100,704**	**$ 1,177,104**
Expenses, Transfers and Disbursements					
2009	$ 20,000	$ 150,000	$ 224,753	$ -	$ 394,753
2010	$ 210,000	$ 100,000	$ 103,795	$ 23,516	$ 437,311
2011 as of June 30	$ 9,950	$ 41,400	$ -	$ 17,653	$ 69,003
Total	**$ 239,950**	**$ 291,400**	**$ 328,548**	**$ 41,169**	**$ 901,067**
Balance	**$ 177,686**	**$ 38,146**	**$ 670**	**$ 59,535**	**$ 276,037**

Note: The 2011 Annual Appropriations include total transfers to the Corporate Fund of $139.9 million transfer from Long-Term Reserve Fund, $82.8 million transfer from the Mid-Term Reserve Fund, and $32.0 million from the Human Infrastructure Fund.

*Referred to as Revenue Replacement Fund in 2011 Annual Financial Analysis.
Source: City of Chicago, Asset Lease Agreements,
http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

Summary: Use of Long-Term Lease Proceeds

The following two tables summarize the use of proceeds from the four lease transactions described above: the Skyway, parking garage, Midway airport (terminated) and parking meter lease agreements. For simplicity, it compares the original principal expenditures and budgeted allocations to the projected remaining balances at the end of FY2011. It does not include interest revenues generated and spent.

The proceeds from the four transactions totaled $3.3 billion, of which $1.6 billion or 48.4% has been or is budgeted to be spent by the end of FY2011 on operating expenses including human infrastructure programs and closing Corporate Fund budget gaps. Over $1.1 billion or 33.8% was spent on retiring debt and paying transaction costs related to the agreements.

Chicago Asset Lease Proceeds: Projected Use and Balance of Principal through FY2011 Year-End (in $ millions)

	Skyway	Parking Garages	Midway Security Deposit	Parking Meters	Total
Retire Debt and Closing Costs	$ 855.0	$ 215.2	$ 46.1	$ 7.1	$ 1,123.4
Budgeted or Spent for Operating Expenses	$ 475.0	$ -	$ 80.0	$ 1,053.1	$ 1,608.1
Remaining Balance Long-Term Reserves	$ 500.0	$ -	$ -	$ 47.7	$ 547.7
Remaining Balance Allocated for Operating Expenses	$ -	$ -	$ -	$ 43.5	$ 43.5
Total Projected Distribution	**$ 1,830.0**	**$ 215.2**	**$ 126.1**	**$ 1,151.4**	**$ 3,322.7**

Note: The projected use of proceeds through FY2011 year-end is based on the 6/30/11 balance and assumes that the full amount appropriated for 2011 will be transferred out of the fund by year-end. It does not account for any interest that may be earned between 7/1/11 and 12/31/11.

Source: City of Chicago 2011 Annual Financial Analysis, p. 37 and City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html .

Chicago Asset Lease Proceeds: Projected Use and Balance of Principal through FY2011 Year-End

	Skyway	Parking Garages	Midway Security Deposit	Parking Meters	Total
Retire Debt and Closing Costs	46.7%	100.0%	36.6%	0.6%	33.8%
Budgeted or Spent for Operating Expenses	26.0%	0.0%	63.4%	91.5%	48.4%
Remaining Balance Long-Term Reserves	27.3%	0.0%	0.0%	4.1%	16.5%
Remaining Balance Allocated for Operating Expenses	0.0%	0.0%	0.0%	3.8%	1.3%
Total Projected Distribution	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: The projected use of proceeds through FY2011 year-end is based on the 6/30/11 balance and assumes that the full amount appropriated for 2011 will be transferred out of the fund by year-end. It does not account for any interest that may be earned between 7/1/11 and 12/31/11.
Source: City of Chicago 2011 Annual Financial Analysis, p. 37 and City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html .

All of the parking garage lease proceeds were spent on retiring debt and closing costs. In contrast, 91.5% of the $1.15 billion in parking meter proceeds were spent on operating expenses including amounts borrowed from parking meter Long-Term Reserve to bridge Corporate Fund budget gaps in recent years.

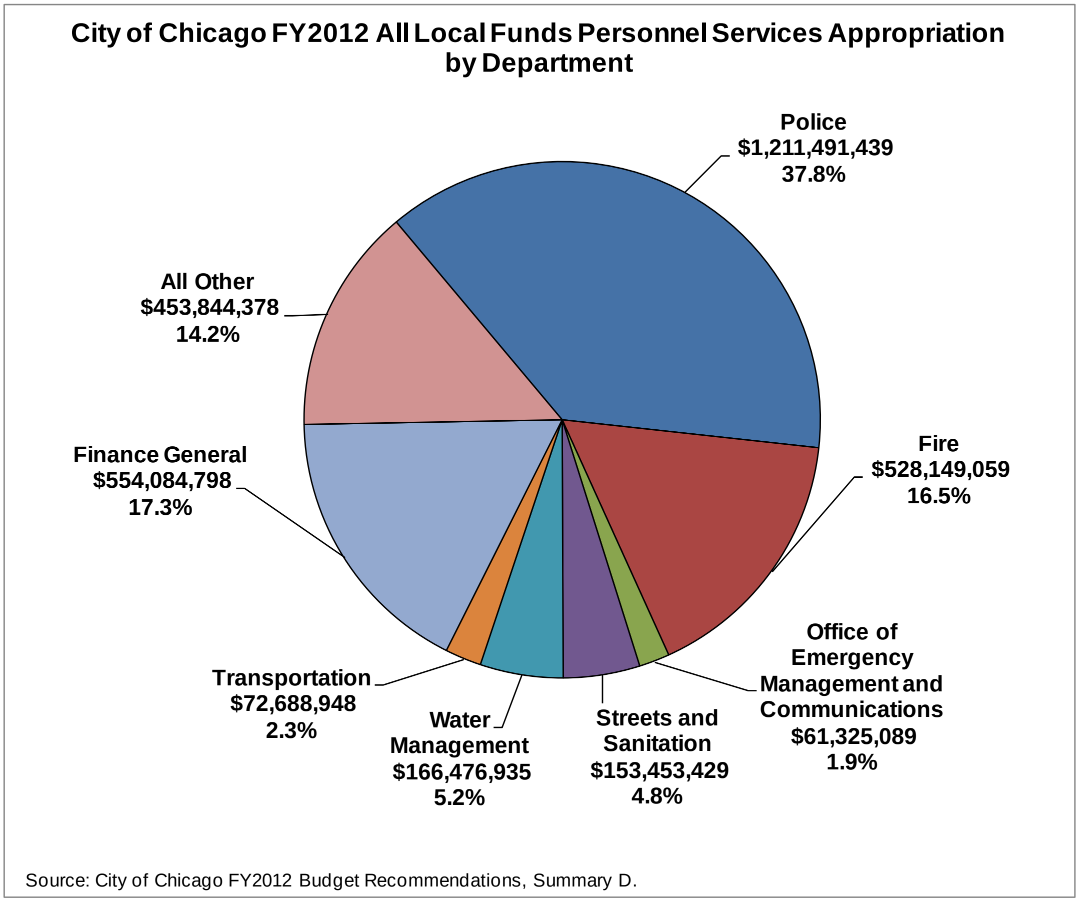
PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations and full-time position count and Corporate Fund personnel services. The FY2012 Budget Recommendations, which will be voted on by the City Council to become the FY2012 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count is represented by full-time positions only, though personnel services appropriations reflect expenses for full-time equivalent positions,[147] including personnel related expenses such as pension and healthcare costs. Since the accurate number of full-time equivalent positions is not provided in the proposed Budget Recommendations or past approved Appropriations Ordinances, for the purposes of this report, the Civic Federation compares personnel count by full-time position counts from the proposed budgets.

All Local Funds Personnel Services and Full-Time Positions

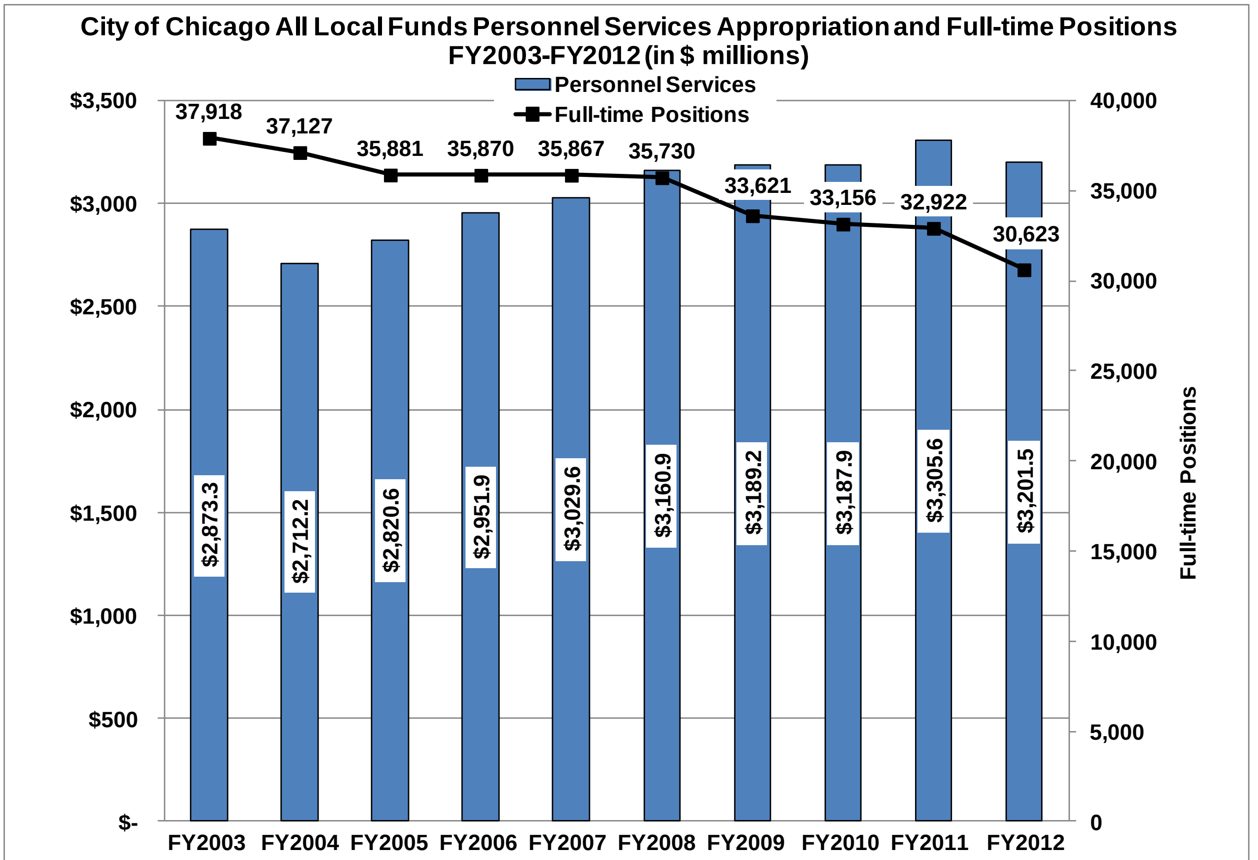
The personnel summaries in the *City of Chicago FY2012 Budget Overview* book describe personnel for all "local" funds, which include the Corporate Fund, special revenue funds and enterprise funds, but exclude grant funds.

The City of Chicago proposes to appropriate $3.2 billion to personnel services across all local funds in FY2012. Approximately $1.8 billion, or 56.2% of all local funds personnel services appropriations, will be allocated to public safety. The next largest percentage is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee healthcare for employees across all departments. Finance General represents 17.3%, or $554.1 million, of all local funds for FY2012.



[147] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position. The FTE count includes full-time, part-time, seasonal and hourly wage earners.

From FY2003 to FY2012, the City proposes to reduce its budgeted workforce by 7,295 full-time positions or 19.2% from 37,918 proposed in FY2003 to 30,623 proposed in FY2012. During the same time period, approved local fund appropriations for personnel services, which include salaries, health care, overtime pay, workers' compensation, pension payments and other benefits, increased by 11.4% from nearly $2.9 billion to a proposed $3.2 billion. The FY2012 proposed appropriation is the first significant decline in personnel expenditures since FY2004. From FY2004 to FY2011, personnel services appropriations across all local funds increased by $593.4 million or 21.9% despite a reduction of 4,205 full-time positions or 11.3%.



Source: City of Chicago FY2003-FY2011 Appropriation Ordinance, Summary D; FY2011 Budget Overview and Revenue Estimates, p. 73; FY2012 Budget Recommendations, Summary D; FY2012 Budget Overview, p. 25.

The City proposes to reduce budgeted positions from 32,922 proposed in FY2011 to 30,623 in FY2012 across all local funds. This is a decline of 2,299 positions or 7.0%. The most significant reduction in workforce occurs in the public safety departments. The City's payroll reductions include 517 layoffs and the elimination of more than 2,100 budgeted vacant positions including 1,252 vacant sworn officer positions from the Police Department.[148]

City of Chicago All Local Funds Full-Time Positions by Function FY2011 & FY2012				
Function	FY2011 Proposed	FY2012 Proposed	# Change	% Change
Public Safety	21,850	20,213	(1,637)	-7.5%
Public Service Enterprises	3,417	3,317	(100)	-2.9%
Infrastructure Services	2,768	2,613	(155)	-5.6%
Finance and Administration	2,502	2,409	(93)	-3.7%
Community Services	1,169	944	(225)	-19.2%
Regulatory	627	534	(93)	-14.8%
Legislative and Elections	358	360	2	0.6%
City Development	231	233	2	0.9%
Total	**32,922**	**30,623**	**(2,299)**	**-7.0%**

Note: The full-time positions presented above do not include grant-funded positions.

Source: City of Chicago FY2012 Budget Overview, p. 25.

From FY2008 to FY2012, the proposed personnel count has decreased by 5,107 full-time positions. This represents a 14.3% decline in the workforce. Over the five-year period the most significant decrease in personnel count occurred in the Public Safety departments, primarily due to the current proposed budget.

City of Chicago All Local Funds Full-Time Positions by Function FY2008-FY2012							
Function	FY2008 Proposed	FY2009 Proposed	FY2010 Proposed	FY2011 Proposed	FY2012 Proposed	5-Year # Change	5-Year % Change
Public Safety	22,517	22,136	22,044	21,850	20,213	(2,304)	-10.2%
Public Service Enterprises	3,715	3,452	3,420	3,417	3,317	(398)	-10.7%
Infrastructure Services	3,589	3,046	2,806	2,768	2,613	(976)	-27.2%
Finance and Administration	2,926	2,555	2,509	2,502	2,409	(517)	-17.7%
Community Services	1,503	1,196	1,163	1,169	944	(559)	-37.2%
Regulatory	873	717	716	627	534	(339)	-38.8%
Legislative and Elections	370	357	358	358	360	(10)	-2.7%
City Development	237	148	140	231	233	(4)	-1.7%
Total	**35,730**	**33,607**	**33,156**	**32,922**	**30,623**	**(5,107)**	**-14.3%**

Note: The full-time positions presented above do not include grant-funded positions.

Source: City of Chicago FY2009 Proposed Budget, Overview and Revenue Estimates, p. 78; FY2011 Overview and Revenue Estimates, p. 74; FY2012 Budget Overview, p. 25

Corporate Fund Personnel Services: Two-Year and Five-Year Trends

Personnel service appropriations in the Corporate Fund are projected to decrease by $131.9 million, or 4.9%, in FY2012 to nearly $2.6 billion. The FY2012 appropriation represents 83.7% of the Corporate Fund budget of $3.1 billion. Personnel service appropriations by department include salaries and wages, but personnel-related benefits such as health care, overtime pay,

[148] City of Chicago, FY2012 Budget Overview, p. 2.

workers' compensation and unemployment compensation are appropriated in the Finance General department. Pension contributions are also categorized as Finance General, but are not paid for by the Corporate Fund.[149]

The most significant decrease in personnel services is in the Finance General department, which will decline by $66.6 million, or 13.3%, from the FY2011 approved budget. This is due to projected FY2012 savings of $20 million in healthcare costs due to an employee wellness initiative and $15 million in reduced Workers' Compensation costs. It also reflects the fact that roughly $40 million for anticipated sworn Fire Department employee wage increases pursuant to collective bargaining was budgeted in Finance General for FY2011 because the exact amount was not known at the time the budget was passed. The amount was subsequently budgeted in the Fire Department.[150]

The Departments of Transportation and Streets and Sanitation will see a decline in Corporate Fund personnel appropriations for FY2012. However both departments receive personnel services appropriations from the Vehicle Tax Fund. Resources for the Vehicle Tax Fund are projected to increase due to the proposed increases in the vehicle sticker rates.[151] The proposed appropriation for public safety departments is nearly $1.8 billion in FY2012, which is a decline of $28.8 million, or 1.6%, from the FY2011 approved budget. The personnel appropriations for public safety will be discussed in more detail on page 73.

City of Chicago Corporate Fund Personnel Services: FY2011 & FY2012
(in $ thousands)

Department	FY2011 Approved	FY2012 Proposed	$ Change	% Change
Public Safety*	$ 1,780,690.1	$ 1,751,908.2	$ (28,781.9)	-1.6%
Streets and Sanitation	$ 135,890.5	$ 127,397.3	$ (8,493.1)	-6.2%
Fleet and Facility Management**	$ 59,828.2	$ 61,964.6	$ 2,136.4	3.6%
Transportation	$ 48,102.6	$ 31,799.3	$ (16,303.3)	-33.9%
City Council	$ 18,609.2	$ 19,679.3	$ 1,070.1	5.8%
Finance***	$ 32,419.6	$ 30,426.9	$ (1,992.7)	-6.1%
Office of the Mayor	$ 5,372.6	$ 5,142.2	$ (230.5)	-4.3%
Finance General	$ 500,244.8	$ 433,662.7	$ (66,582.1)	-13.3%
All Other	$ 133,302.4	$ 120,538.6	$ (12,763.8)	-9.6%
Total Personnel Services	**$ 2,714,460.1**	**$ 2,582,519.1**	**$ (131,940.9)**	**-4.9%**
Total Corporate Fund	**$ 3,263,673.0**	**$ 3,086,580.0**	**$ (177,093.0)**	**-5.4%**

*Public Safety includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

**Includes the Department of General Services and the Department of Fleet Management for FY2011, which merged to create the Department of Fleet and Facility Management in FY2012.

***Inclues the Department of Revenue for FY2011, which was absorbed by the Department of Finance in FY2012.

Source: City of Chicago FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.

Between FY2008 and FY2012, personnel services appropriations in the Corporate Fund will decrease by 0.6%, or approximately $16.3 million. During the same five-year period, the public safety departments and Finance General will experience the most growth. Finance General will

[149] City of Chicago, FY2012 Budget Overview, pp. 22 and 25.
[150] Information provided by the City of Chicago Office of Budget and Management, November 1, 2011.
[151] City of Chicago, FY2012 Budget Overview, p. 16.

increase by $26.6 million, largely due to a significant increase in employee healthcare benefits in FY2009.[152] The $106.4 million increase in public safety personnel expenditures from FY2008 to FY2011 is tied to the interest arbitration award for police unions which set a cumulative 10 percent wage increase from 2007 to 2012.

The percentage of Corporate Fund appropriations earmarked for personnel services increased from 80.7% in FY2008 to 83.7% in FY2012.

City of Chicago Corporate Fund Personnel Services: FY2008-FY2012 (in $ millions)

Department	FY2008 Approved	FY2009 Approved	FY2010 Approved	FY2011 Approved	FY2012 Proposed	5-Year $ Change	5-Year % Change
Public Safety*	$ 1,674.3	$ 1,678.0	$ 1,700.3	$ 1,780.7	$ 1,751.9	$ 77.6	4.6%
Streets and Sanitation	$ 197.6	$ 170.4	$ 136.8	$ 135.9	$ 127.4	$ (70.2)	-35.5%
Fleet and Facility Management**	$ 70.4	$ 62.7	$ 60.4	$ 59.8	$ 62.0	$ (8.4)	-11.9%
Transportation	$ 31.2	$ 26.3	$ 50.6	$ 48.1	$ 31.8	$ 0.6	2.0%
City Council	$ 18.7	$ 19.6	$ 18.6	$ 18.6	$ 19.7	$ 1.0	5.4%
Finance***	$ 33.9	$ 33.2	$ 32.6	$ 32.4	$ 30.4	$ (3.5)	-10.3%
Office of the Mayor	$ 6.0	$ 5.9	$ 5.5	$ 5.4	$ 5.1	$ (0.9)	-14.4%
Finance General	$ 407.1	$ 488.5	$ 486.1	$ 500.2	$ 433.7	$ 26.6	6.5%
All Other	$ 159.7	$ 142.0	$ 134.7	$ 133.3	$ 120.5	$ (39.2)	-24.5%
Total Personnel Services	**$ 2,598.8**	**$ 2,626.4**	**$ 2,625.6**	**$ 2,714.5**	**$ 2,582.5**	**$ (16.3)**	**-0.6%**
Total Corporate Fund	**$ 3,218.5**	**$ 3,186.5**	**$ 3,179.7**	**$ 3,263.7**	**$ 3,086.6**	**$ (131.9)**	**-4.1%**

*Public Safety includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

**Includes the Department of General Services and the Department of Fleet Management for FY2008-FY2011, which merged to create the Department of Fleet and Facility Management in FY2012.

***Inclues the Department of Revenue for FY2008-FY2011, which was absorbed by the Department of Finance in FY2012.

Source: City of Chicago FY2008-FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.

The following exhibits present Corporate Fund appropriations by object classification and are separated by public safety appropriations and non-public safety appropriations. Between FY2011 and FY2012, personnel services will decline by 1.6%, or $28.8 million, for public safety departments and by 11.0%, or $103.2 million, for non-public safety departments. Contractual services will also decline in both areas: by $3.5 million, or 9%, for public safety departments and by $33.4 million, or 12.7%, for non-safety departments.

[152] City of Chicago FY2009 Budget Overview and Revenue Estimates, p. 91.

City of Chicago Corporate Fund Appropriations by Object: FY2011 & FY2012 (in $ thousands)				
Object Classification	**FY2011 Approved**	**FY2012 Proposed**	**$ Change**	**% Change**
Public Safety*				
Personnel Services	$ 1,780,690.1	$ 1,751,908.2	$ (28,781.9)	-1.6%
Contractual Services	$ 39,454.8	$ 35,911.5	$ (3,543.3)	-9.0%
Travel, Commodities and Equipment	$ 10,092.1	$ 8,588.8	$ (1,503.4)	-14.9%
Specific Items and Contingencies**	$ 47,137.8	$ 48,746.5	$ 1,608.7	3.4%
Sub-Total Public Safety	**$ 1,877,374.8**	**$ 1,845,155.0**	**$ (32,219.8)**	**-1.7%**
Non-Public Safety				
Personnel Services	$ 933,769.9	$ 830,610.9	$ (103,159.0)	-11.0%
Contractual Services	$ 263,167.3	$ 229,809.3	$ (33,358.0)	-12.7%
Travel, Commodities and Equipment	$ 46,010.0	$ 50,432.4	$ 4,422.4	9.6%
Specific Items and Contingencies	$ 143,351.0	$ 130,572.3	$ (12,778.6)	-8.9%
Sub-Total Non-Public Safety	**$ 1,386,298.2**	**$ 1,241,425.0**	**$ (144,873.2)**	**-10.5%**
Total Corporate Fund	**$ 3,263,673.0**	**$ 3,086,580.0**	**$ (177,093.0)**	**-5.4%**

*Includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.

**Includes payments for tort and non-tort judments, outside counsel expenses and expert costs, as approved by the Corporation Counsel; for cost and administration of hospital and medical expenses for empoyees injured on duty who are not covered under Workers Compensation Act; and for physical exams.

Source: City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.

Over five years, only public safety appropriations for personnel services and specific items and contingencies, which include personnel-related legal and medical expenses, have increased. Public safety personnel services will increase by $77.6 million, or 4.6%, from FY2008. Non-safety personnel services will decrease by $93.9 million, or 10.2%. Appropriations for contractual services will decrease significantly in both areas: public safety contractual services will decline by $19.4 million, or 35.1%, and non-safety contractual services will decline by $50.8 million, or 18.1%.

City of Chicago Corporate Fund Appropriations by Object: FY2008 & FY2012 (in $ thousands)				
Object Classification	**FY2008 Approved**	**FY2012 Proposed**	**$ Change**	**% Change**
Public Safety*				
Personnel Services	$ 1,674,264.1	$ 1,751,908.2	$ 77,644.1	4.6%
Contractual Services	$ 55,350.4	$ 35,911.5	$ (19,438.9)	-35.1%
Travel, Commodities and Equipment	$ 12,612.6	$ 8,588.8	$ (4,023.9)	-31.9%
Specific Items and Contingencies**	$ 37,217.9	$ 48,746.5	$ 11,528.6	31.0%
Sub-Total Public Safety	**$ 1,779,445.0**	**$ 1,845,155.0**	**$ 65,710.0**	**3.7%**
Non-Public Safety				
Personnel Services	$ 924,528.0	$ 830,610.9	$ (93,917.1)	-10.2%
Contractual Services	$ 280,565.5	$ 229,809.3	$ (50,756.2)	-18.1%
Travel, Commodities and Equipment	$ 58,412.3	$ 50,432.4	$ (7,979.9)	-13.7%
Specific Items and Contingencies	$ 175,559.2	$ 130,572.3	$ (44,986.8)	-25.6%
Sub-Total Non-Public Safety	**$ 1,439,065.0**	**$ 1,241,425.0**	**$ (197,640.0)**	**-13.7%**
Total Corporate Fund	**$ 3,218,510.0**	**$ 3,086,580.0**	**$ (131,930.0)**	**-4.1%**

*Includes Police Board, Independent Police Review Authority, Department of Police, Office of Emergency Management and Communications and Fire Department.
**Includes payments for tort and non-tort judments, outside counsel expenses and expert costs, as approved by the Corporation Counsel; for cost and administration of hospital and medical expenses for empoyees injured on duty who are not covered under Workers Compensation Act; and for physical exams.
Source: City of Chicago, FY2008 Appropriation Ordinance, Summary D; FY2012 Budget Recommendations, Summary D.

CITY OF CHICAGO PENSION FUNDS

The Civic Federation analyzed four indicators of the fiscal health of the City of Chicago's pension funds: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the City's pension benefits.

Plan Descriptions

The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborer's Funds. Each plan is a single-employer defined benefit pension plan for a specific group of City employees. The provisions of the plans can be amended only by the Illinois General Assembly.

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[153] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

The Policemen's Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for police service employees of the City of

[153] Firemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2010, p. 8.

Chicago and their dependents.[154] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

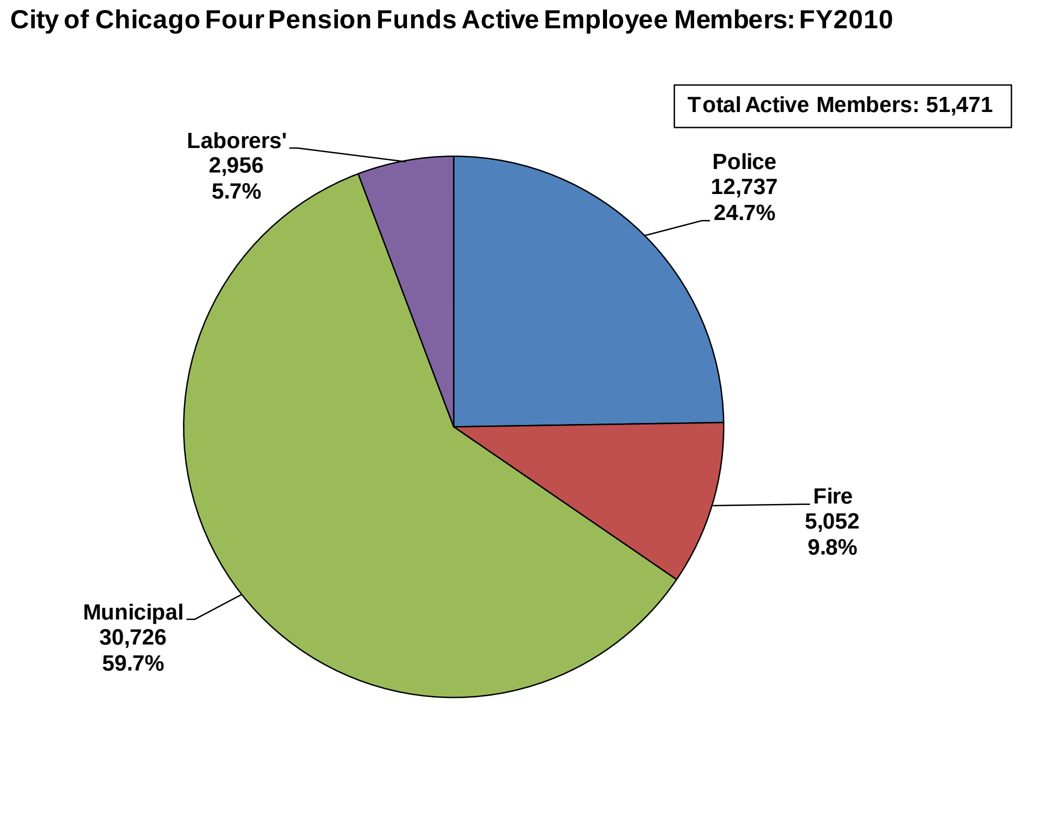
The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois state statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[155] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[156] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

[154] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2010, pp. 5 and 28.
[155] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2010, pp. 30 and 31. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.
[156] Laborers' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2010, p. 19.

Members

In FY2010 there were 51,471 employees participating in the four pension funds. The Municipal Fund constitutes 59.7% of total active employee membership. However, roughly half of the 30,726 active Municipal Fund members are not City employees, but are non-teacher employees of Chicago Public Schools.[157]



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: Actuarial Valuations for the Police, Fire, Municipal, and Laborers pension funds, FY2001-FY2010.

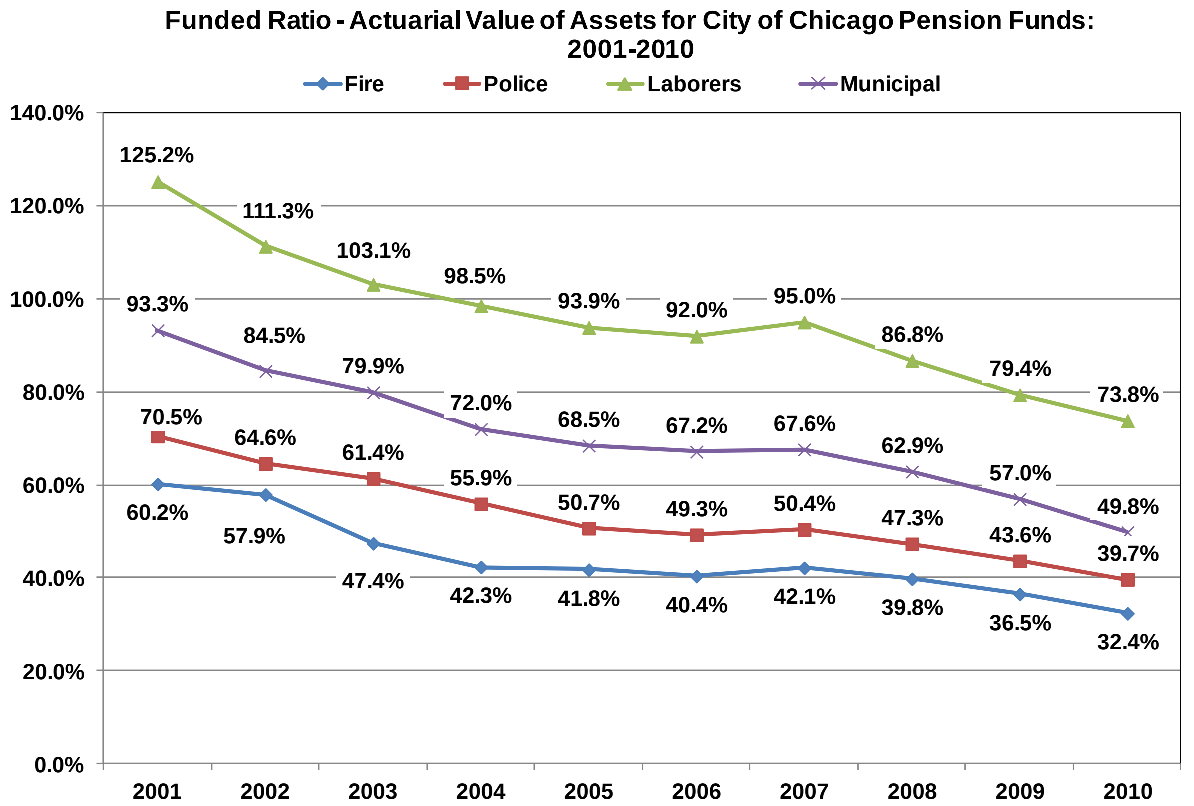
Funded Ratios – Actuarial Value of Assets

The following exhibit shows funded ratios for each of the four pension funds. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The actuarial value funded ratios of all four City pension funds declined again in FY2010. The Fire Fund fell to 32.4% and the Police Fund fell to 39.7%. The funded ratio for the Municipal Fund was 49.8% and the Laborers' Fund was 73.8%. These ratios are roughly half of what they

[157] In FY2009 52.2%, or 16,481, of the 31,586 active members of the Municipal Fund were employees of the Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010*, p. 73.

were for each fund in 2001. A funded ratio below 80% is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.



Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2001-Y2010

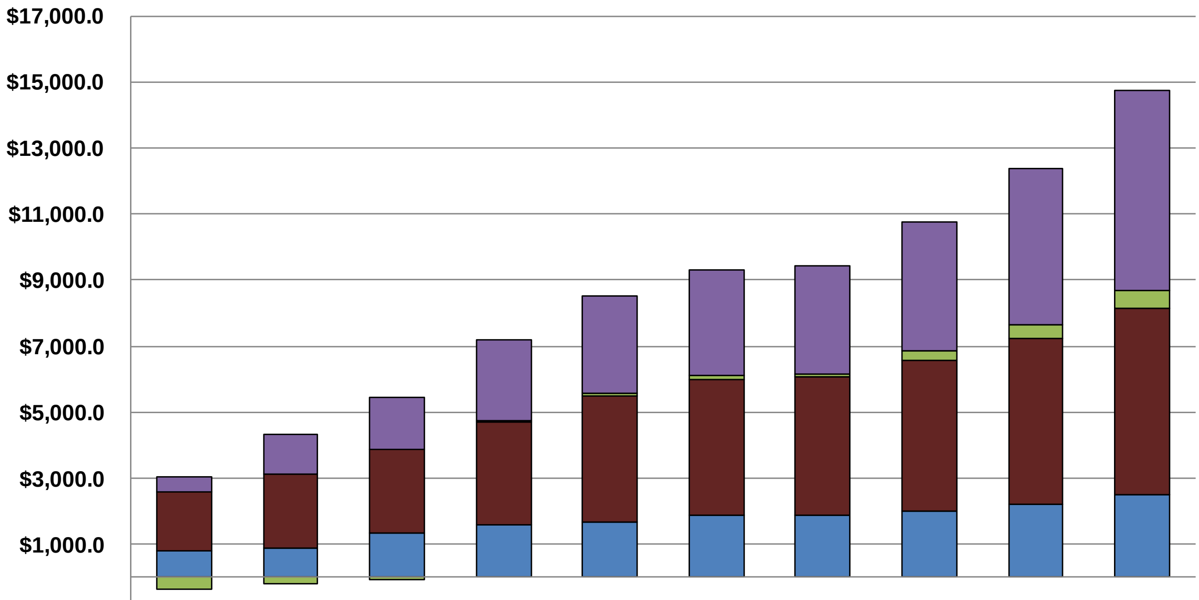
Unfunded Liabilities

Unfunded actuarial accrued liabilities are the dollar value of liabilities not covered by assets. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $12.1 billion or 449.3%. The total unfunded liabilities reached $14.8 billion in FY2010, of which $6.0 billion was in the Municipal Fund followed by the Police Fund at $5.7 billion.

A summary of the ten-year changes in unfunded liabilities by fund is shown below:

- Fire Pension Fund: 204.2% increase or $1.7 billion;
- Police Pension Fund: 223.4% increase or $3.9 billion;
- Laborers Pension Fund: 253.2% increase or $0.9 billion;[158] and
- Municipal Pension Fund: 1,194.2% increase or $5.6 billion.

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: 2001-2010 (in $ millions)



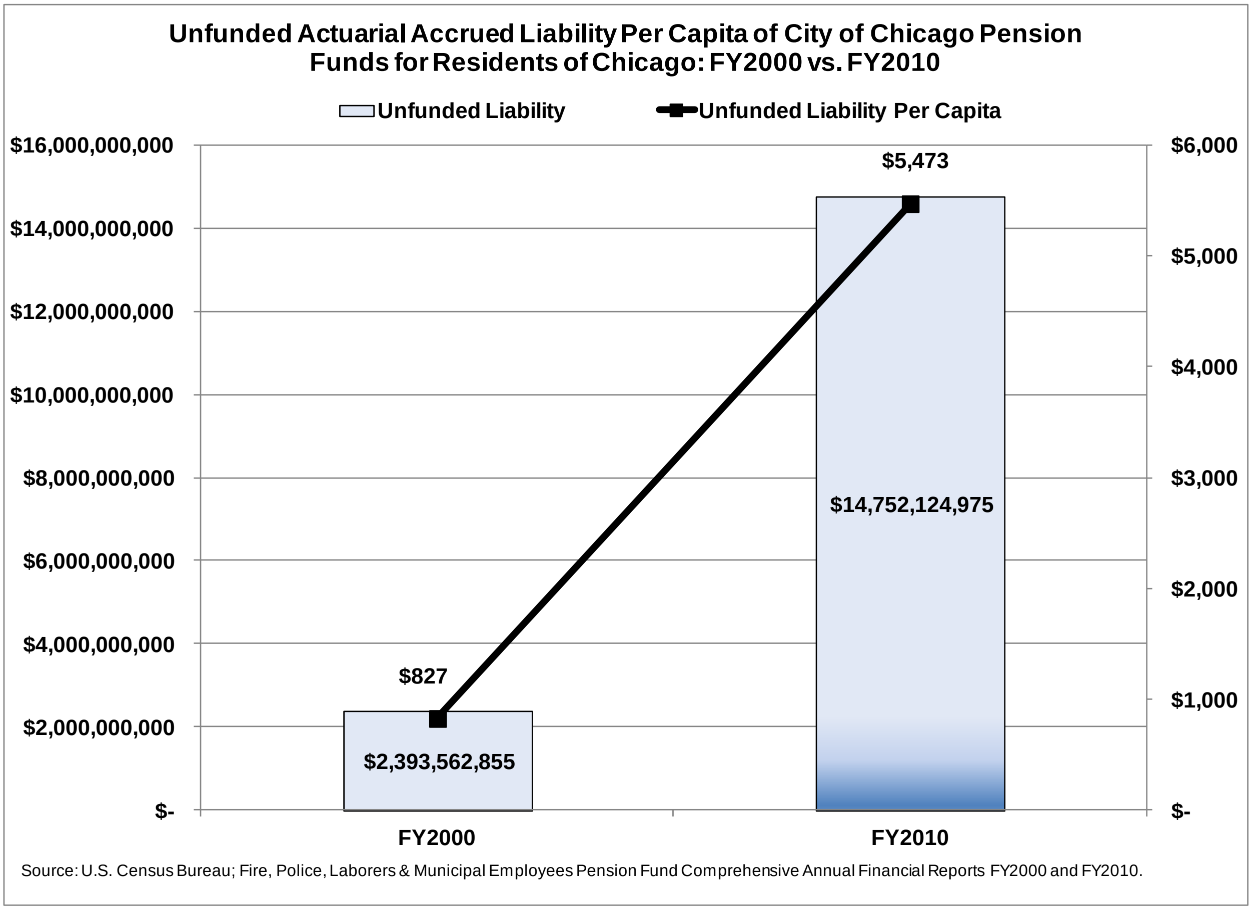
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Municipal	$467.4	$1,173.1	$1,604.5	$2,465.4	$2,917.8	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8
Laborers	$(353.9)	$(174.5)	$(51.2)	$24.7	$106.7	$145.2	$92.0	$259.0	$416.1	$542.3
Police	$1,748.7	$2,260.3	$2,541.7	$3,101.2	$3,808.3	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9
Fire	$823.6	$878.9	$1,323.3	$1,610.9	$1,679.3	$1,868.6	$1,888.0	$2,022.9	$2,207.5	$2,505.1
TOTAL	$2,685.7	$4,137.9	$5,418.3	$7,202.3	$8,512.1	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,752.1

Source: Fire, Police, Laborers & Municipal Employees Pension Fund Comprehensive Annual Financial Reports FY2001 -FY2010.

It is important to note that although the actuarial funded ratio of each fund increased slightly in 2007, the actuarial unfunded liabilities also increased that year. This occurred because the value of the actuarial assets increased at a faster rate than did liabilities.

[158] The Laborers Fund had a surplus, or negative unfunded liability, until FY2004.

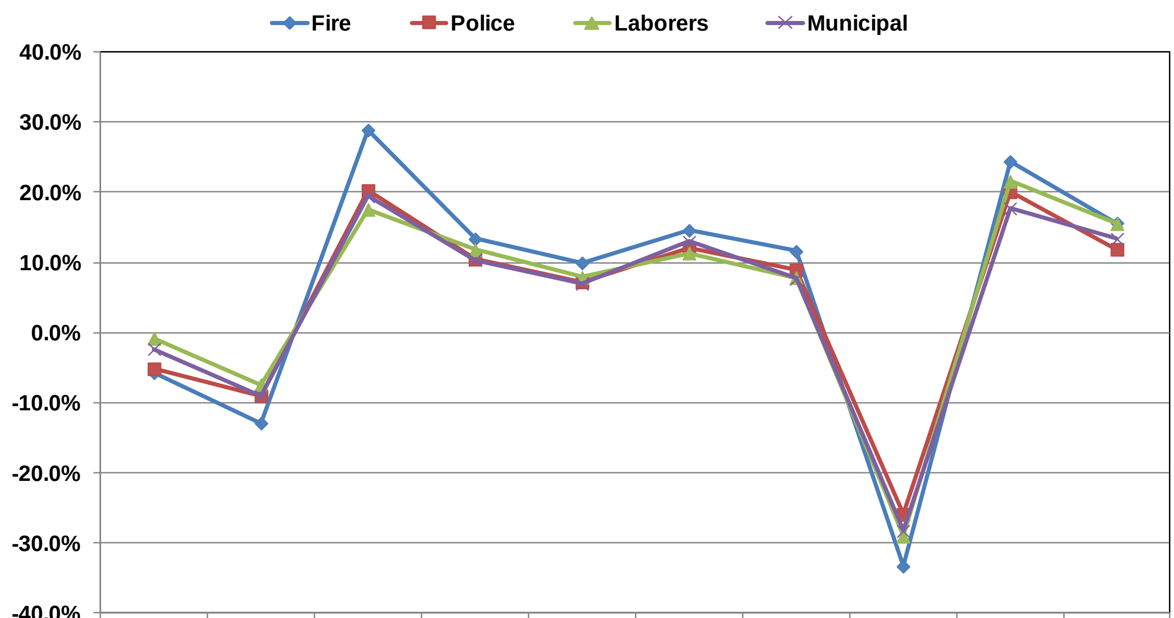
Between the U.S. Census years of 2000 and 2010, total unfunded liabilities per resident of Chicago grew from $827 per capita to $5,473 per capita. This is an increase of 662.1%.



Investment Rates of Return

In FY2010 all four City pension funds reported strong positive returns on their investments, ranging from 15.6% for the Fire Fund to 11.9% for the Police Fund. This followed on strong returns from FY2009 and was a recovery from negative FY2008 returns experienced as a result of the financial market crisis and sharp decline in equities.

Investment Rate of Return - City of Chicago Pension Funds: 2001-2010



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fire	-5.7%	-12.9%	28.9%	13.4%	10.0%	14.6%	11.6%	-33.3%	24.4%	15.6%
Police	-5.2%	-9.0%	20.3%	10.5%	7.2%	12.0%	9.0%	-25.9%	20.1%	11.9%
Laborers	-0.8%	-7.4%	17.6%	11.8%	7.9%	11.3%	7.8%	-29.1%	21.6%	15.5%
Municipal	-2.3%	-9.1%	19.5%	10.4%	7.0%	13.0%	7.7%	-28.3%	17.7%	13.4%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2001-FY2010

Pension Benefits

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Chicago Municipal and Laborers' pension funds.[159] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 hires" as those persons hired on or after January 1, 2011.

Tier 1 employees in the Municipal and Laborers funds are eligible for full retirement benefits once they reach age 60 and have at least 10 years of employment at the City, age 55 with 25 years, or age 50 with 30 years of service. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly

[159] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 62 year-old employee with 24 years of service and a $52,000 final average salary could retire with a $31,104 annuity: 24 x $54,000 x 2.4% = $31,104.[160] The annuity increases every year by an automatic compounded 3.0% adjustment. Employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% for each month they are under age 60.

The following table compares Tier 1 employee benefits to Tier 2 employee benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest 4 year average to the highest 8 year average; the $106,800 cap on pensionable salary; and the reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major City of Chicago Municipal and Laborers' Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, age 55 with 25 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 20 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.4% of final average salary for each year of service	
Early Retirement Formula Reduction	0.25% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at earlier of age 60 and first anniversary of retirement, or age 55 and third anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to aldermen, the City Clerk, and the City Treasurer. See 40 ILCS 5/8-243.2.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2010; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2010; and Public Act 96-0889.

Tier 1 members of the Chicago Police and Fire Funds are eligible for full retirement benefits once they reach age 50 with at least 20 years of service, or age 63 and 10 years of service. The amount of retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 75% of final average salary. For example, a 59 year-old firefighter with 30 years of service and a $95,000 final average salary could retire with a $71,250 annuity: 30 x $95,000 x 2.5% = $71,250.[161]

[160] The average FY2010 benefit at retirement for Municipal fund participants was $31,290; the average age at retirement was 62.2 and the average years of service at retirement was 24.25. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2010, p. 47.

[161] The average FY2010 annuity at retirement for Fire fund participants was $67,386; the average age at retirement was 59.0; the average years of service at retirement was 29.7; and the average final average salary at retirement was

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[162] The major benefit changes are an increase in full retirement age from 50 to 55, reduction of final average salary from the highest 4 year average to the highest 8 year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and change in the automatic annual increase from 1.5% not compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[163]

Major City of Chicago Police and Fire Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 years of service
Early Retirement Eligibility: Age & Service*	age 50 with 10 years of service	
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
Annuity Formula*	2.5% of final average salary for each year of service	
Early Retirement Formula*	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1955, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1955, starts at later of age 60 or retirement, with a limit of 30%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

* There are several variations and alternative benefit provisions for current employees. Benefits shown in this table are simplified descriptions of major benefit provisions.

**The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

Sources: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2010; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2010; Public Act 96-1495.

Public Act 96-1495 does not change employee contributions but it does change employer contributions for the Chicago police and fire funds. The City of Chicago will be required to begin making contributions in 2015 that will be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials have estimated that it will represent roughly a 60% contribution

$95,390. Firemen's Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2010, p. 35.

[162] Public Act 96-1495 also applies to members of the Illinois Municipal Retirement Fund's Sheriff's Law Enforcement Program, but not to Cook County sheriff's employees or university public safety employees. See http://www.civicfed.org/civic-federation/blog/senate-bill-3538-police-and-fire-pension-reforms.

[163] This is the change for Chicago Police and Fire Funds. Most other public safety funds' first tier benefits provide a 3% compounded automatic cost of living adjustment.

increase in 2015.[164] If the City fails to make its required contributions within 90 days of the due date, the Illinois Comptroller must deduct and deposit into the pension fund the certified amounts or a portion of these amounts from the following proportions of grants of State funds to the City (not to exceed total amount of delinquency): one-third of total State grants to the City in 2016, two-thirds of total State grants to the City in 2017, and 100% of State grants to the City in 2018 and thereafter.

Prior to the enactment of Public Act 96-1495, the Fire Fund was projected to run out of assets during 2021 and the Police Fund was projected to run out of assets during 2025.[165]

Public Act 96-1495 also requires that the Police and Fire Funds' actuarial value of assets be reset at market value on March 30, 2011 and will be calculated thenceforth using five-year smoothing.

Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years. Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required City of Chicago contributions to its pension funds are set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator how well a public entity is actually funding its pension plan.

The following four tables compare the ARC to the actual City of Chicago contribution over the last ten years for each of the pension funds. These tables do not include the ARC for the pension funds' subsidy of retiree healthcare (see OPEB section of this report), which has been reported

[164] Letter of December 8, 2010 from the Chicago City Council to Governor Pat Quinn. Last visited on January 4, 2011 at http://www.wttw.com/res/pdf/quinn_letter.pdf.
[165] Illinois Commission on Government Forecasting and Accountability, *Illinois Public Retirement Systems: A Report on the Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems of Illinois*, November 2010, pp. 46, 108.

separately since FY2005.[166] In FY2010 the Municipal Fund had the largest ARC, at $483.9 million, followed by the Police Fund at $363.6 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $329.2 million. The shortfall is the additional amount that should have been contributed in order to pay the normal cost for that year and amortize the unfunded liability over a period of 30 years. The Police, Municipal and Laborers' Funds employer contributions all exceeded the ARC for the years 2001 and 2002 (also 2003 for Laborers) but the shortfalls emerged and grew in subsequent years.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2001 the Municipal Fund ARC was 6.1% of payroll and the actual employer contribution was greater than the ARC, at 9.6% of payroll. The Fund had a strong 93.3% actuarial funded ratio at that time. Ten years later the ARC had risen to 31.4% of payroll while the actual employer contribution was only 10.0% of payroll.

Chicago Policemens' Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2001	$ 123,201,657	$139,675,766	$ (16,474,109)	113.4%	$ 763,352,475	16.1%	18.3%	70.5%
2002	$ 130,237,405	$141,989,027	$ (11,751,622)	109.0%	$ 866,531,789	15.0%	16.4%	64.6%
2003	$ 181,545,562	$140,807,354	$ 40,738,208	77.6%	$ 887,555,791	20.5%	15.9%	61.4%
2004	$ 203,757,534	$135,744,173	$ 68,013,361	66.6%	$ 874,301,958	23.3%	15.5%	55.9%
2005	$ 238,423,459	$178,278,371	$ 60,145,088	74.8%	$ 948,973,732	25.1%	18.8%	50.7%
2006*	$ 262,657,025	$150,717,705	$ 111,939,320	57.4%	$1,012,983,635	25.9%	14.9%	49.3%
2007	$ 312,726,608	$170,598,268	$ 142,128,340	54.6%	$1,038,957,026	30.1%	16.4%	50.4%
2008	$ 318,234,870	$172,835,805	$ 145,399,065	54.3%	$1,023,580,667	31.1%	16.9%	47.3%
2009	$ 339,488,187	$172,043,754	$ 167,444,433	50.7%	$1,011,205,359	33.6%	17.0%	43.6%
2010	$ 363,624,570	$174,500,507	$ 189,124,063	48.0%	$1,048,084,301	34.7%	16.6%	39.7%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2010 pp. 69 and 70.

[166] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a percent of payroll and 0-1% to Actual Employer Contribution as a Percent of Payroll. See Civic Federation, *Status of Local Pension Funding Fiscal Year 2009*, February 10, 2011 for more information.

Chicago Firemen's Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	**Employer Annual Required Contribution (1)**	**Actual Employer Contribution (2)**	**Shortfall (1-2)**	**% of ARC contributed**	**Payroll**	**ARC as % of payroll**	**Actual Employer Contribution as % of payroll**	**Actuarial Funded Ratio**
2001	$ 104,014,168	$ 60,399,909	$ 43,614,259	58.1%	$ 277,964,912	37.4%	21.7%	60.2%
2002	$ 105,106,367	$ 59,452,787	$ 45,653,580	56.6%	$ 277,053,144	37.9%	21.5%	57.9%
2003	$ 111,079,054	$ 60,234,206	$ 50,844,848	54.2%	$ 335,170,501	33.1%	18.0%	47.4%
2004	$ 134,762,334	$ 55,532,454	$ 79,229,880	41.2%	$ 334,423,753	40.3%	16.6%	42.3%
2005	$ 161,696,388	$ 90,128,915	$ 71,567,473	55.7%	$ 341,252,492	47.4%	26.4%	41.8%
2006*	$ 160,246,525	$ 76,763,308	$ 83,483,217	47.9%	$ 387,442,074	41.4%	19.8%	40.4%
2007	$ 188,201,379	$ 72,022,810	$ 116,178,569	38.3%	$ 389,124,547	48.4%	18.5%	42.1%
2008	$ 189,940,561	$ 81,257,754	$ 108,682,807	42.8%	$ 396,181,778	47.9%	20.5%	39.8%
2009	$ 203,866,919	$ 89,211,671	$ 114,655,248	43.8%	$ 400,912,173	50.9%	22.3%	36.5%
2010	$ 218,388,037	$ 80,947,311	$ 137,440,726	37.1%	$ 400,404,320	54.5%	20.2%	32.4%

*Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Chicago Firemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2001 p. 60 and Financial Statements For the year ended December 31, 2010, p. 29.

Chicago Municipal Employees' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	**Employer Annual Required Contribution (1)**	**Actual Employer Contribution* (2)**	**Shortfall (1-2)**	**% of ARC contributed**	**Payroll**	**ARC as % of payroll**	**Actual Employer Contribution as % of payroll**	**Actuarial Funded Ratio**
2001	$ 83,526,133	$131,470,133	$ (47,944,000)	157.4%	$1,375,048,892	6.1%	9.6%	93.3%
2002	$ 92,711,870	$131,001,872	$ (38,290,002)	141.3%	$1,377,909,441	6.7%	9.5%	84.5%
2003	$ 158,614,805	$141,960,250	$ 16,654,555	89.5%	$1,395,513,060	11.4%	10.2%	79.9%
2004	$ 198,199,001	$154,000,624	$ 44,198,377	77.7%	$1,303,127,528	15.2%	11.8%	72.0%
2005	$ 285,291,350	$155,057,116	$ 130,234,234	54.4%	$1,407,323,058	20.3%	11.0%	68.5%
2006**	$ 303,271,824	$157,062,769	$ 146,209,055	51.8%	$1,475,877,378	20.5%	10.6%	67.2%
2007	$ 343,123,106	$139,606,140	$ 203,516,966	40.7%	$1,564,458,835	21.9%	8.9%	67.6%
2008	$ 360,387,176	$146,803,250	$ 213,583,926	40.7%	$1,543,976,553	23.3%	9.5%	62.9%
2009	$ 413,508,622	$148,046,490	$ 265,462,132	35.8%	$1,551,973,348	26.6%	9.5%	57.0%
2010	$ 483,948,339	$154,752,320	$ 329,196,019	32.0%	$1,541,388,065	31.4%	10.0%	49.8%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so one w as computed from the % of ARC contributed.

**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Municipal Employees' Annuity and Benefit Fund of Chicago Comprehensive Annual Financial Report For the year ended December 31, 2004 p. 31 and Comprehensive Annual Financial Report For the year ended December 31, 2010, p. 43.

Chicago Laborers' Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25								
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution* (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll	Actuarial Funded Ratio
2001	$ -	$ 659,946	$ (659,946)	0.0%	$ 211,203,088	0.0%	0.3%	125.2%
2002	$ -	$ 82,865	$ (82,865)	0.0%	$ 207,403,973	0.0%	0.0%	111.3%
2003	$ -	$ 366,920	$ (366,920)	0.0%	$ 205,691,917	0.0%	0.2%	103.1%
2004	$ 8,513,018	$ 202,684	$ 8,310,334	2.4%	$ 171,476,937	5.0%	0.1%	98.5%
2005	$ 12,744,103	$ 40,435	$ 12,703,668	0.3%	$ 182,809,397	7.0%	0.0%	93.9%
2006**	$ 17,599,766	$ 106,270	$ 17,493,496	0.6%	$ 193,176,272	9.1%	0.1%	92.0%
2007	$ 21,725,805	$ 13,256,147	$ 8,469,658	61.0%	$ 192,847,482	11.3%	6.9%	95.0%
2008	$ 17,652,023	$ 15,232,804	$ 2,419,219	86.3%	$ 216,744,211	8.1%	7.0%	86.8%
2009	$ 33,517,429	$ 14,626,771	$ 18,890,658	43.6%	$ 208,626,493	16.1%	7.0%	79.4%
2010	$ 46,664,704	$ 15,351,944	$ 31,312,760	32.9%	$ 199,863,410	23.3%	7.7%	73.8%

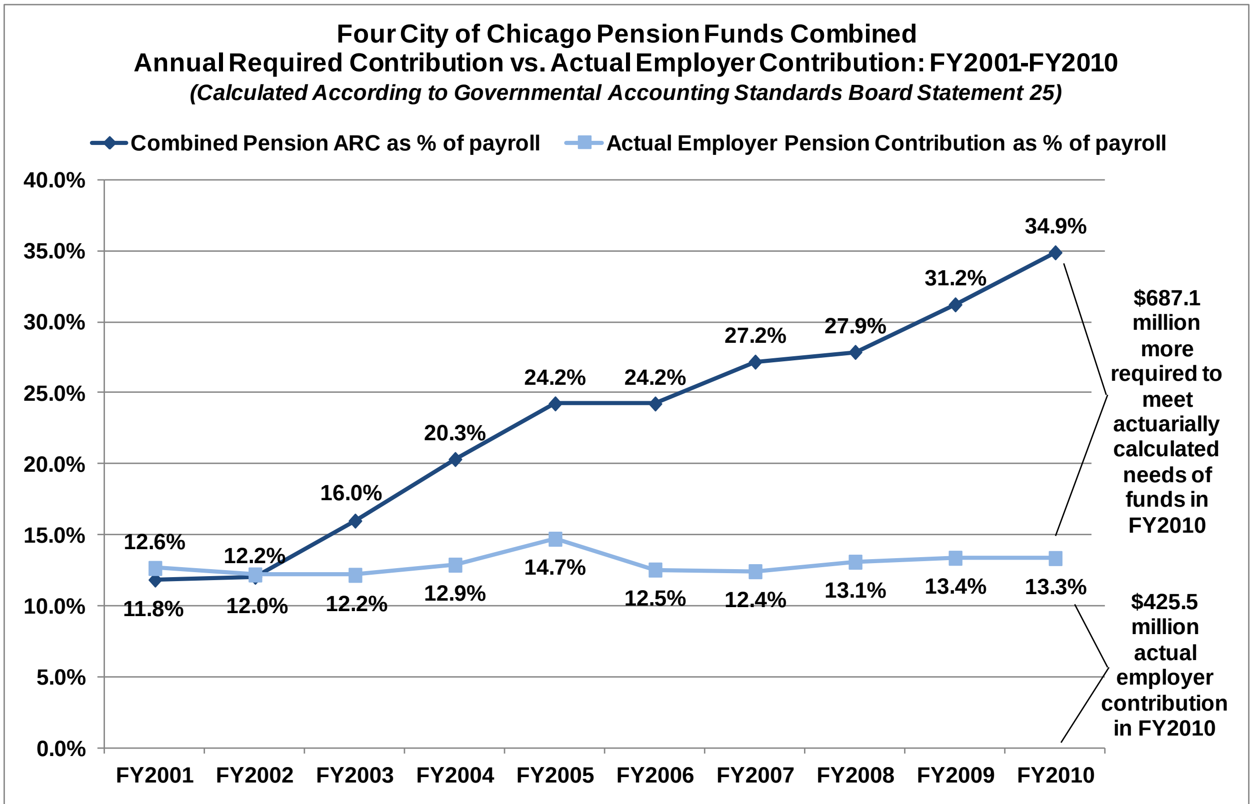
*The City did not levy a property tax for the Laborer's fund from 2001-2006 because it was over 100% funded, excluding the liabilities attributable to the Early Retirement Incentive. These amounts represent miscellaneous income and changes in reserves for tax loss and collections for prior years. The FY2005 funded ratio excluding the ERI was 96.3%, thus the City was required begin making regular employer contributions again in FY2007.

**Beginning in 2006, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Source: Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2001, p. 77, Actuarial Valuation for the year ended December 31, 2010, pp. 92-93.

The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $3.1 billion shortfall. In 2010 the combined ARC for the four funds was $1.1 billion or more than double the actual employer contribution of $425.5 million. The combined employer pension contribution shortfall in FY2010 was $687.1 million.

The graph below illustrates the growing gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from surplus in FY2001 of 0.8 percentage points, or $21.5 million, to a gap of 21.5 percentage points in FY2010. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years the City would have needed to contribute an additional 21.5% of payroll, or $687.1 million, in FY2010.[167]



Note: Beginning in FY2005, the ARC for the portion of OPEB paid for by the pension funds was calculated separately from the pension ARC. This graph shows only the pension ARC after FY2005. The OPEB ARC for the pension funds would add roughly 1-2% of payroll and the actual employer contribution was roughly 0-1% of payroll.
Sources: Actuarial Valuations for the Police, Fire, Municipal, and Laborers pension funds, FY2001-FY2010.

The City of Chicago has consistently contributed its statutorily required amounts of 2.26 times the employee contribution made two years prior for the Fire Fund, 2.0 for the Police Fund, 1.25 for the Municipal Fund and 1.00 for the Laborers Fund. However, these amounts have been less

167 This $687.1 million FY2010 figure is calculated according to the reporting requirement of Governmental Accounting Standards Board Statement 25. The assumptions are different from those that were used by the 2010 Commission to Strengthen Chicago's Pension Funds to project the $710 million additional contribution needed in FY2012. The GASB ARC assumptions are described beginning on page 84 of this report and represent the contribution needed to fund normal cost and a 30-year rolling amortization of the unfunded liabilities *after the employee contributions have been made*. The Commission's estimates were made assuming a schedule to reach 90% funded by December 31, 2061 and the $710 million figure is the total additional amount needed for that schedule without designating whether the employer or the employee makes the additional contribution. Page 55 of the Commission report shows that if the additional contribution were split such that the employer paid 60% and the employee paid 40%, the additional City contribution would be $427 million and the additional employee contribution would be 7.94% of pay.

than the ARC for most of the last ten years. The pension fund actuaries estimate that in order to contribute an amount sufficient to meet the ARC in FY2010, the City would need to contribute a multiple of 6.94 for the Fire Fund, 4.85 for the Police Fund, 4.92 for the Municipal Fund, and 3.89 for the Laborers Fund.[168]

FY2011 Statutory Multiple for Employer Contribution vs. Annual Required Multiple			
	Unfunded Actuarial Accrued Liability Amortization Method Used for Financial Reporting	**Annually Required Multiple (Normal Cost + UAAL Amortization)**	**Statutory Multiple**
Fire	level dollar, open	**6.94**	2.26
Police*	level % of payroll, open	**4.85**	2.00
Municipal	level dollar, open	**4.92**	1.25
Laborers	level dollar, open	**3.89**	1.00

*Police Fund also computes that the FY2010 annual required multiple using a level dollar amortization would be 6.78. See Police Fund FY2010 Actuarial Valuation p. 17.

Source: Respective Pension Fund FY2010 Actuarial Valuations

The table below shows employee contribution levels, which are set in state statute as a percent of appropriated salary. It also shows the actual employer contributions for FY2010 as a percent of payroll. Employee contributions to the Fire Fund are highest, at 9.125% of salary. Employer contributions are also highest for the Fire Fund as a percent of payroll, at 20.9%.

City of Chicago Pension Funds Employee and Employer Contribution Requirements (current laws)			
Fund	**Employee Contribution** (% of appropriated salary)	**Employer Contribution** (multiple of employee contribution made two years prior)	**FY2010 Employer Contribution** (shown as % of payroll)
Fire	9.125%	2.26	20.9%
Police	9.00%	2.00	17.5%
Municipal	8.50%	1.25	10.7%
Laborers	8.50%	1.00	9.0%

Source: Police, Fire, Municipal and Laborers' pension fund Financial Statements FY2010.

Employer Contributions for Chicago Public Schools Members of the Municipal Fund

As noted on page 77, roughly half of the Municipal Fund members are not City employees but are non-teacher employees of the Chicago Public Schools. CPS has not traditionally made an employer contribution to the Municipal Fund for these employees, beyond transferring associated federal grant revenue to the City for those Municipal Fund participants that are paid through federal grants.[169] The City makes the full statutory Municipal Fund employer

[168] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2010 p. 17; Chicago Firemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2010 p. 14; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2010, p. 87; and Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2010, p. 91.

[169] The City of Chicago 2011 Annual Financial Analysis p. 53 notes that the City would be reimbursed for $7.5 million of Municipal Fund pension costs by CPS in 2011. This is the amount for CPS employees supported by federal grants. Information provided by Chicago Public Schools Chief Financial Officer, August 18, 2011.

contribution through its property tax levy and personal property replacement tax revenue.[170]

Beginning with the FY2012 City budget, CPS will begin reimbursing the City for part of the statutory employer contribution the City has been making for CPS employees participating in the Municipal Fund. The reimbursement amount proposed for FY2012 is $32.5 million.[171]

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administers a retiree benefit healthcare plan for which it pays a share of the expenses on a pay as you go basis. The settlement agreement which obligates the City to pay these costs expires on June 30, 2013.[172] The four City of Chicago pension funds all subsidize the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The funds provide $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants.[173] The City's contribution is roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and Laborers' pension funds each contribute roughly 33% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[174]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree healthcare plan totaled $1.0 billion in FY2010. This is a decline from the $1.3 billion total unfunded liability reported in FY2009. The decline reflects that the actuarial valuations assume the plan will terminate on June 30, 2013.

As described above, the City pays for a portion of the retiree health care premiums, but the pension funds also subsidize part of the employee portion of the premium. The following table shows the unfunded accrued actuarial liability reported for the pension funds, reflecting the obligations of each fund based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, so only the total City obligation is shown. The City's financial statements reported an FY2010 unfunded OPEB liability of $477.9 million for the portion subsidized by the pension funds and a FY2009 unfunded OPEB liability of $533.4 million for the portion subsidized by the City.[175] The City does not pre-fund OPEB, so there are

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[170] City of Chicago, 2011 Annual Financial Analysis, p. 53.
[171] City of Chicago, FY2012 Budget Overview, pp. 6 and 15.
[172] City of Chicago, FY2010 Comprehensive Annual Financial Report, p. 87. The settlement is dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/dam/city/depts/fin/supp_info/Benefits/Handbooks/AnnuitantSettlementPlans.pdf.
[173] City of Chicago, FY2010 Comprehensive Annual Financial Report, p. 87. Between July 1, 2003 and June 30, 2008, the amounts were $85 for non-Medicare eligible and $55 for Medicare-eligible annuitants. See for example, Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report as of December 31, 2007, p. 68.
[174] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, May 19, 2011.
[175] City of Chicago, FY2010 Comprehensive Annual Financial Report, pp. 87 and 89. The FY2010 financial statements state that December 31, 2009 was the most recent actuarial valuation date for the portion of OPEB subsidized by the City. The City does not report a combined total liability for both the pension fund and the City OPEB subsidies, nor does it break out its liabilities by pension fund.

no assets to offset the actuarial accrued liability and the funded ratio is 0%. The combined unfunded OPEB liability for the City and the pension funds is $1.0 billion.

City of Chicago OPEB Unfunded Liabilities: FY2010 (in $ thousands)					
	Municipal	Laborers'	Police	Fire	Total
Unfunded Actuarial Accrued Liability--Pension Funds	$ 223,564	$ 41,361	$164,796	$ 48,222	**$ 477,943**
Unfunded Actuarial Accrued Liability--City					**$ 533,387**
TOTAL					**$ 1,011,330**

Source: City of Chicago FY2010 CAFR, pp. 87 and 89.

RESERVE FUNDS

Fund balance is commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[176] The *unreserved* fund balance refers to resources that do not have any external legal restrictions or constraints. This section analyzes the fund balance levels maintained by the City of Chicago.

Fund Balance Policy

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." Two months of operating expenditures is approximately 17%.[177] The GFOA statement adds that each unit of government should adopt a formal policy that considers the unit's own specific circumstances and that a smaller fund balance ratio may be appropriate for the largest governments.[178]

The City's discussion of its financial policies does not include an explicit Corporate fund balance target.

Corporate Fund Fund Balance

Between FY2000 and FY2008, the City of Chicago Corporate Fund unreserved fund balance dropped from $80.7 million to just $226,000. The fund balance ratio plummeted from 3.39% to 0.01%. There was some growth from FY2008 to FY2009 with the balance rising to $2.7 million.

At the end of 2010, the Corporate Fund unreserved fund balance rose by $78.5 million to $81.2 million, the highest level yet in an eleven-year comparison. This significant increase is primarily the result of a favorable variance in Revenues and Other Financing Sources of $82.3 million above Expenditures and Other Financing Uses. Approximately $30.0 million in revenue from income tax proceeds was received in 2010, rather than in 2011 as expected. By December 31, 2010, the total Fund Balance was $135.5 million. Nearly $54.4 million was reserved for other commitments ($36.2 million for Encumbrances and $18.2 million for Inventory), leaving the

[176] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[177] Previously the GFOA had recommended a general fund balance of 5 to 15%.
[178] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).

remaining amount of $81.5 million for the Corporate Fund unreserved fund balance at the end of 2010.[179]

To meet the GFOA standard of two months of operating expenditures, the City would need approximately $500 million. Being a large government with a diverse revenue base and home-rule authority, a smaller ratio may be appropriate, such as ten percent, for example. Ten percent of expenditures would amount to $300 million.

City of Chicago Unreserved Corporate Fund Balance Ratio (FY2000-FY2010)			
	Unreserved Corporate Fund Balance	Operating Expenditures	Ratio
FY2000	$ 80,653,000	$ 2,380,310,000	3.39%
FY2001	$ 33,241,000	$ 2,440,426,000	1.36%
FY2002	$ 13,014,000	$ 2,442,796,000	0.53%
FY2003	$ 19,458,000	$ 2,661,102,000	0.73%
FY2004	$ 42,246,000	$ 2,567,658,000	1.65%
FY2005	$ 57,648,000	$ 2,739,570,000	2.10%
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%
FY2009	$ 2,658,000	$ 3,014,077,000	0.09%
FY2010	$ 81,151,000	$ 3,033,941,000	2.67%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY2000-FY2010.

[179] City of Chicago, Comprehensive Annual Financial Report FY2010, pp. 16 and 32.

The decline in Corporate Fund reserves, especially between FY2005 and FY2008, occurred at the same time that additional reserves created by long-term asset lease agreements were being depleted in order to close Corporate Fund budget gaps.

The table below shows transfers of non-recurring lease fund revenues to the Corporate Fund from 2004 to 2011.[180] Nearly $1.1 billion in non-recurring revenues will have been transferred from asset lease proceeds to the Corporate Fund between 2005 and 2010 (not including amounts spent on human infrastructure programs) with an additional $272.7 million budgeted in the 2011 appropriation ordinance for a total of $1.3 billion over seven years.[181] These transfers and disbursements were made in addition to the $57.4 million drawn out from the Corporate Fund unreserved fund balance between FY2005 and FY2008, which was also used to balance the Corporate Fund budget. The transfer of these asset lease proceeds to the Corporate Fund at the same time as the Corporate Fund fund balance was being depleted highlights the size of the structural gap that was created over the last several years.

Non-Recurring Transfers to Corporate Fund from Long-Term Asset Lease Proceeds (in $ thousands)

Year	Skyway Mid-Term Reserve Fund*	Parking Meter Mid-Term Reserve Fund	Parking Meter Long-Term Reserve Fund**	Parking Meter Budget Stabilization Fund	Total Non-Recurring Lease Transfers to Corporate Fund
2005	$ 100,000	$ -	$ -	$ -	$ 100,000
2006	$ 50,000	$ -	$ -	$ -	$ 50,000
2007	$ 75,000	$ -	$ -	$ -	$ 75,000
2008	$ 50,000	$ -	$ -	$ -	$ 50,000
2009	$ 50,000	$ 50,000	$ 20,000	$ 217,625	$ 337,625
2010	$ 50,000	$ 100,000	$ 210,000	$ 103,787	$ 463,787
2011 budgeted	$ 50,000	$ 82,800	$ 139,900	$ -	$ 272,700
	$ 425,000	**$ 232,800**	**$ 369,900**	**$ 321,412**	**$ 1,349,112**

Source: City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html and Annual Financial Analysis 2011, Long-Term Asset Lease and Reserve Funds.

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Based on date of transfers, which may not match fiscal year accounting.

* 2005 includes $50 million for 2004 per ordinance and 2007 includes $25 million in cumulative investment earnings.

** The City of Chicago Budget 2012 Overview book page 37 states that $50 million of the $210 million transferred out of the parking meter Long-Term Reserve Fund in 2010 was returned to the fund in May 2011, but this amount is not reflected in the reserve balances as of June 30, 2011 posted on the City's web site.

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[180] Interest earnings transferred from the Skyway Long-Term Reserve Fund are excluded from the analysis because they are recurring revenues. However, interest earnings transferred from the parking meter Long-Term Reserve Fund are included because the ordinance required a minimum $20 million to be transferred annually even if less than $20 million in interest was earned. The Fund has never earned more than $10.1 million in interest, so even those interest earnings that have been part of the $20 million annual transfer are not considered recurring because the principal on which interest is earned has been severely diminished. Human infrastructure funds are excluded because they were designated for specific programs, not for general Corporate Fund expenses.

[181] The City of Chicago Budget 2012 Overview book page 37 states that $50 million of the $210 million transferred out of the parking meter Long-Term Reserve Fund in 2010 was returned to the fund in May 2011. This amount is not reflected in the reserve balances as of June 30, 2011 posted on the City's website so it is not included here.

Long-Term Asset Lease Reserve Funds

In addition to its Corporate Fund fund balance, the City also maintains a reserve fund that is used to account for Mid-Term and Long-Term reserves created through the Skyway and parking meter lease transactions.[182] In the past the City has counted these long-term reserves when measuring its adherence to the GFOA fund balance standard.[183] It should be noted that the GFOA standard refers to unrestricted general fund balance, whereas the Skyway asset lease long-term reserves are legally restricted.[184]

The City set aside $500 million of the $1.83 billion Skyway lease proceeds and $400 million of the $1.15 billion parking meter lease proceeds for long-term reserves. While the $500 million in Skyway reserves has remained intact, the parking meter long-term reserves have been significantly depleted. If all appropriated 2011 transfers out of the parking meter Long-Term Reserve are made before the end of the year, the Civic Federation projects that there will be only $47.7 million remaining in the fund. This represents a decline of 87.5% or $332.3 million from the close of FY2009 to the projected close of FY2011.

City of Chicago:
Long-Term Asset Lease Reserves

Reserve Fund Balance	FY2009 Actual	FY2010 Actual	Projected Balance FY2011 Year-End	FY2009-FY2011 $ Change	FY2009-FY2011 % Change
Skyway Long-Term Reserve	$ 500,000	$ 500,000	$ 500,000	$ -	0.0%
Parking Meter Long-Term Reserve	$ 380,000	$ 239,166	$ 47,686	$ (332,314)	-87.5%
Total Long-Term Reserve Balance	**$ 880,000**	**$ 739,166**	**$ 547,686**	**$ (332,314)**	**-37.8%**

Note: The Skyway and Parking Meter Long-Term Reserves is not shown separately in the financial statements, but are combined in a single reserve fund. The Parking Meter Long-Term Reserve is computed here as the difference between the total Long-Term Reserve Balance and the $500 million of principal required to be retained pusuant to the Skyway lease agreement. The projected 2011 year-end balance is based on the 6/30/11 balance and assumes that the full amount appropriated for 2011 will be transferred out of the fund by year-end.
Source: City of Chicago FY2009 and FY2010 Comprehensive Annual Financial Reports and City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html .

[182] City of Chicago, FY2010 Comprehensive Annual Financial Report p. 49.
[183] City of Chicago, FY2011 Overview and Revenue Estimates, p. 62.
[184] City of Chicago, FY2010 Comprehensive Annual Financial Report p. 51.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the report of net assets in its annual Comprehensive Annual Financial Report (CAFR) for FY2010, which is the most recent financial statement released by the City:

- **Voucher Warrants Payable**: monies owed to vendors for goods and services carried over into the new fiscal year;
- **Short-Term Debt**: loans taken out in anticipation of revenues paid back within 12 months or less;
- **Accrued Interest**: includes interest due on deposits payable by the City in the next fiscal year; and
- **Accrued and Other Liabilities**: includes self insurance funds, unclaimed property and other unspecified liabilities.

During the five-year period of this review, total short-term liabilities increased by 60.0%, rising from $849.2 million to $1.3 billion. There was a large 97.3% increase in the total "Accrued & Other Liabilities" due at the end of each fiscal year. This increase is primarily due to new accounting rules that were adopted by the City in 2007 relating to the accounting and financial reporting for post employment benefits other than pensions (i.e., retiree healthcare). The following chart shows short-term liabilities by category and the percent change between FY2006 and FY2010.

City of Chicago Short-Term Liabilities for Governmental Activities: FY2006 - FY2010 (in $ thousands)

Type	FY2006	FY2007	FY2008	FY2009	FY2010	5-Year Change	5-Year % Change
Voucher Warrants Payable	$ 349,039	$ 413,388	$ 469,214	$ 427,573	$ 479,047	$ 130,008	37.2%
Short-Term Debt	$ 747	$ 672	$ 672	$ 672	$ 672	$ (75)	-10.0%
Accrued Interest	$ 127,796	$ 127,183	$ 135,152	$ 138,294	$ 145,788	$ 17,992	14.1%
Accrued & Other Liabilities	$ 371,682	$ 599,197	$ 674,492	$ 786,128	$ 733,300	$ 361,618	97.3%
Total	**$ 849,264**	**$ 1,140,440**	**$ 1,279,530**	**$ 1,352,667**	**$ 1,358,807**	**$ 509,543**	**60.0%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2006-FY2010.

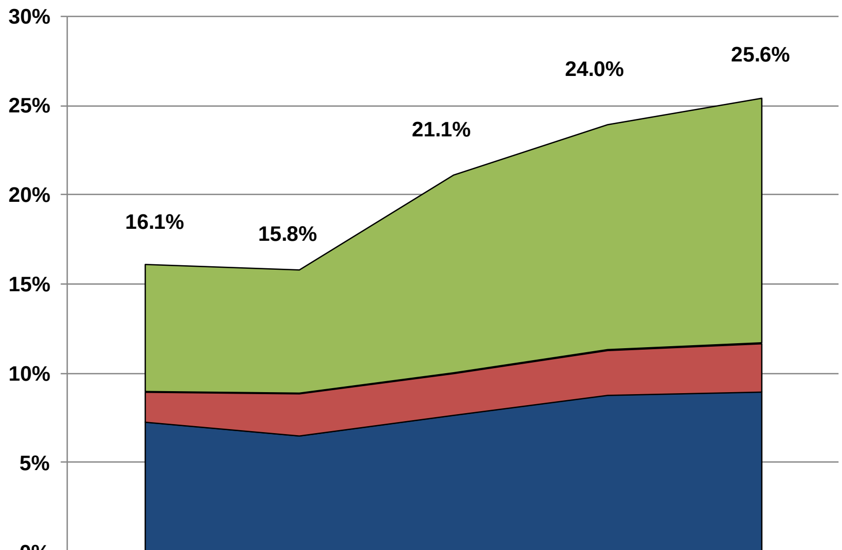
Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[185] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The City of Chicago has shown a steady increase in this trend of short-term liabilities compared to total operating revenue between FY2006 and FY2010, rising from 16.1% to 25.6%.

[185] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

The following graph shows the five-year trend in the City's short-term liabilities by category. It does not include short-term debt because of the relatively small amount reported for that liability. The steady upward trend in recent years, driven in large part by increases in Accrued and Other Liabilities, bears watching.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2006-FY2010

(Does Not Include Short-Term Debt)



	FY2006	FY2007	FY2008	FY2009	FY2010
Accrued & Other Liabilities	7.1%	6.9%	11.1%	12.6%	13.7%
Accrued Interest	1.7%	2.4%	2.4%	2.5%	2.7%
Voucher Warrants Payable	7.3%	6.5%	7.7%	8.8%	9.0%

Source: City of Chicago ,CAFR FY2006-FY2010.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[186]

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a municipality, including:

- *Cash and cash equivalents*: assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Cash and Investments with Escrow Agent*: Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive

[186] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations.* (Upper Saddle River, NJ, 2001), p. 476.

interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt.

- *Investments*: any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: monetary obligations owed to the government including property taxes and interest on loans; and
- *Internal balances*: monies due from (positive) or due to (negative) the government.

Chicago's current ratio was 3.8 in FY2010, the most recent year for which data is available. In the past five years, the City's current ratio averaged 4.1, far above the preferred benchmark of 2.0 and thus demonstrating a healthy level of liquidity. From FY2009 to FY2010, the current ratio increased slightly from 3.6 to 3.8. This change was largely due to a $148.2 million or 18.5% increase in the value of investments and a $52.8 million or 6.7% decrease in the amount of accrued and other liabilities. The uptick in the current ratio in FY2010 came after four years of decline. In FY2006, the current ratio was 5.4; by FY2009 it had decreased to 3.6.

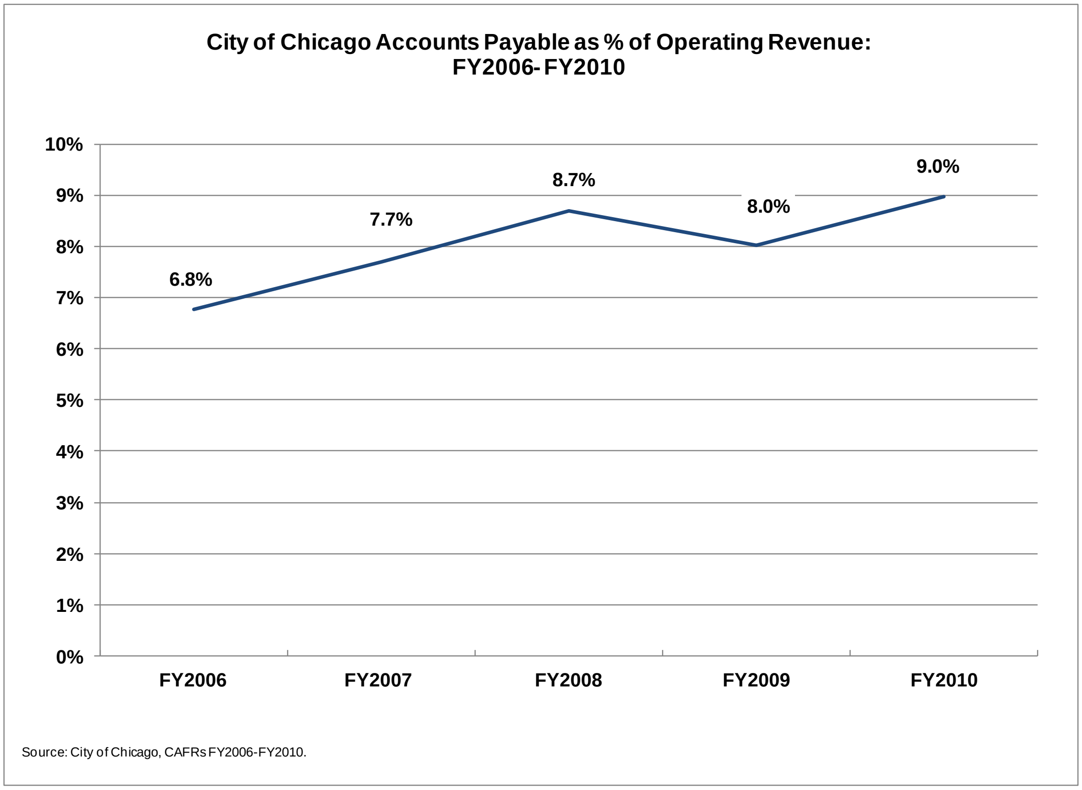
City of Chicago Current Ratio of the Governmental Funds: FY2006-FY2010 (in $ thousands)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-Year Change	5-Year % Change
Current Assets							
Cash and Cash Equivalents	$ 963,668	$ 1,254,007	$ 1,092,143	$ 1,606,394	$ 1,594,798	$ 631,130	65.5%
Investments	$ 1,369,840	$ 1,073,559	$ 763,171	$ 801,904	$ 950,161	$ (419,679)	-30.6%
Cash and Investments with Escrow Agent	$ 424,348	$ 501,680	$ 440,339	$ 491,626	$ 457,748	$ 33,400	7.9%
Receivables (Net of Allowances): Property Taxes	$ 1,110,113	$ 1,300,941	$ 1,279,226	$ 1,323,772	$ 1,423,922	$ 313,809	28.3%
Accounts Receivable	$ 695,002	$ 684,245	$ 702,437	$ 702,258	$ 735,807	$ 40,805	5.9%
Internal Balances	$ (9,775)	$ 3,278	$ (17,630)	$ (9,134)	$ (16,851)	$ (7,076)	72.4%
Total Current Assets	**$ 4,553,196**	**$ 4,817,710**	**$ 4,259,686**	**$ 4,916,820**	**$ 5,145,585**	**$ 592,389**	**13.0%**
Current Liabilities							
Voucher Warrants Payable	$ 349,039	$ 413,388	$ 469,214	$ 427,573	$ 479,047	$ 130,008	37.2%
Short-Term Debt	$ 747	$ 672	$ 672	$ 672	$ 672	$ (75)	-10.0%
Accrued Interest	$ 127,796	$ 127,183	$ 135,152	$ 138,294	$ 145,788	$ 17,992	14.1%
Accrued & Other Liabilities	$ 371,682	$ 599,197	$ 674,492	$ 786,128	$ 733,300	$ 361,618	97.3%
Total Current Liabilities	**$ 849,264**	**$ 1,140,440**	**$ 1,279,530**	**$ 1,352,667**	**$ 1,358,807**	**$ 509,543**	**60.0%**
Curent Ratio	**5.4**	**4.2**	**3.3**	**3.6**	**3.8**	**-**	**-**

Source: City of Chicago Comprehensive Annual Financial Reports, Statements of Net Assets, FY2006-FY2010.

Accounts Payable

Over time, rising amounts of accounts payable may indicate that a government is having difficulty controlling expenses or keeping up with spending pressures. The City of Chicago's ratio of accounts payable to operating revenues has fluctuated over the past five years, rising from 6.8% in FY2006 to 8.7% three years later before falling to 8.0% in FY2009. It rose again in FY2010 to 9.0%. The following graph shows the City's ratio of accounts payable to operating revenue over this time frame.



LONG-TERM LIABILITIES

This section of the analysis examines trends in City of Chicago long-term liabilities. It includes a review of trends in Chicago's total long-term liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. They include:

- **Bonds, Notes and Certificates Payable:** These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.

- **Pension Obligations:** These are amounts needed to pay for pension and other post-employment obligations over time. This not the same as the unfunded liabilities of the pension funds, which are the dollar value of pension liabilities not covered by assets.

- **Lease Obligations:** The amount reported annually is the present value of minimum future lease payments for a sale and lease back arrangements with third parties that the City entered into regarding the City-owned portion of a rapid transit line with a book value of $430.8 million in 2005.[187]

- **Claims and Judgments**: Claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. The amount reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[188]

- **Pollution Remediation**: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[189]

[187] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 66.
[188] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 19.
[189] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 91.

The two-year increase in long-term liabilities from FY2009 to FY2010 was 11.7% or a $1.4 billion increase. The five-year increase in total long-term obligations between FY2006 and FY2010 was 40.7%. This is a $3.9 billion increase. Long-term debt (bonds, notes and certificates payable) rose by 22.7%, from $6.9 billion to nearly $8.5 billion. Other liabilities, which include pension and lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 86.9%. The single largest percentage and dollar increase over the five-year period was for pension obligations, which increased by 122.4% or $2.3 billion. The steady increases in long-term obligations, particularly the large pension obligation increase, are a cause for concern.

City of Chicago Long Term Liabilities for Governmental Activities
FY2006 - FY2010 (in $ thousands)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-Year Change	5-Year % Change
General Obligation Debt	$ 5,884,548	$ 6,379,034	$ 6,455,979	$ 6,863,427	$ 7,504,739	$ 1,620,191	27.5%
Installment Purchase Agreement	$ 9,200	$ 7,500	$ 5,500	$ 3,500	$ 1,200	$ (8,000)	-87.0%
Tax Increment	$ 355,368	$ 299,765	$ 210,213	$ 186,158	$ 163,578	$ (191,790)	-54.0%
Revenue	$ 518,800	$ 512,585	$ 562,690	$ 564,842	$ 559,417	$ 40,617	7.8%
Subtotal Bonds, Notes and Certificates Payable	**$ 6,767,916**	**$ 7,198,884**	**$ 7,234,382**	**$ 7,617,927**	**$ 8,228,934**	**$ 1,461,018**	**21.6%**
Less unamortized debt refunding transactions	$ (104,962)	$ (134,253)	$ (134,773)	$ (159,810)	$ (171,150)	$ (66,188)	63.1%
Add unamortized premium	$ 113,851	$ 178,569	$ 179,514	$ 173,347	$ 198,730	$ 84,879	74.6%
Add accretion of capital appreciation bonds	$ 171,397	$ 186,147	$ 185,454	$ 207,878	$ 235,412	$ 64,015	37.3%
Less converted portion of conversion bonds	$ (27,383)	$ (11,153)	$ (7,637)	$ (3,923)	$ -	$ 27,383	-100.0%
Total Bonds, Notes and Certificates Payable	**$ 6,920,819**	**$ 7,418,194**	**$ 7,456,940**	**$ 7,835,419**	**$ 8,491,926**	**$ 1,571,107**	**22.7%**
Pension Obligations	$ 1,895,513	$ 2,379,703	$ 2,874,722	$ 3,453,365	$ 4,216,250	$ 2,320,737	122.4%
Lease Obligations	$ 278,863	$ 245,685	$ 207,065	$ 169,282	$ 177,011	$ (101,852)	-36.5%
Pollution Remediation	$ -	$ -	$ 33,200	$ 37,368	$ 14,263	$ 14,263	……
Claims and Judgments	$ 526,515	$ 625,833	$ 609,230	$ 627,370	$ 641,762	$ 115,247	21.9%
Total Other Liabilities	**$ 2,700,891**	**$ 3,251,221**	**$ 3,724,217**	**$ 4,287,385**	**$ 5,049,286**	**$ 2,348,395**	**86.9%**
Grand Total	**$ 9,621,710**	**$ 10,669,415**	**$ 11,181,157**	**$ 12,122,804**	**$ 13,541,212**	**$ 3,919,502**	**40.7%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2006-FY2010. Note 10: Long-Term Obligations

Long-Term Direct Debt Trends

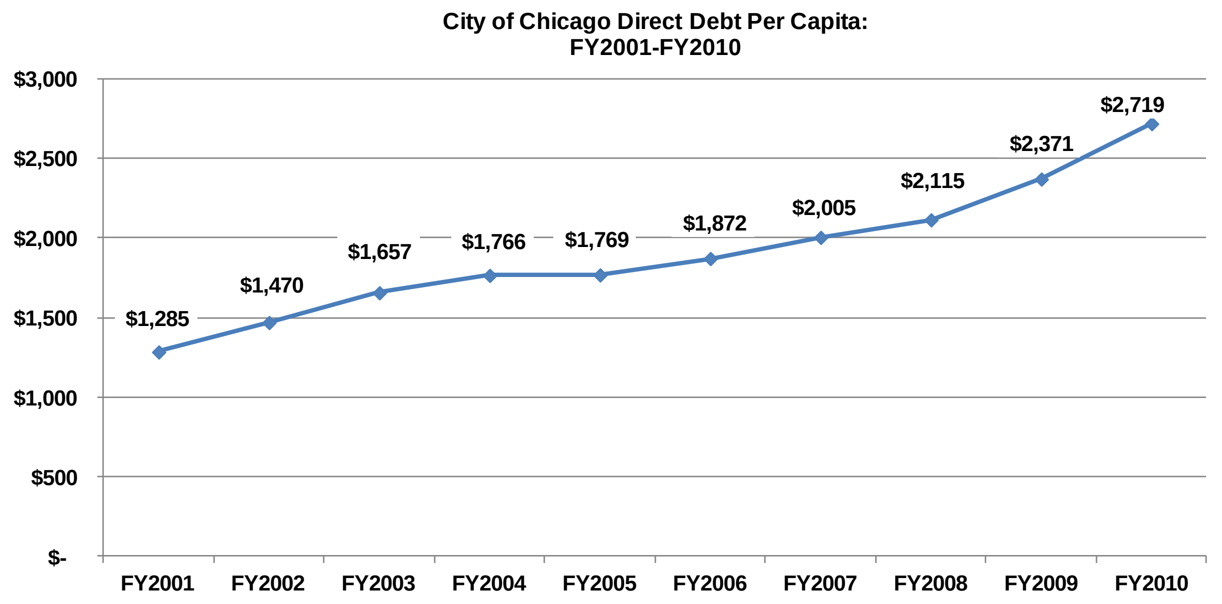
Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 96.9% or $3.6 billion. This represents an increase from $3.7 billion in FY2001 to approximately $7.3 billion in FY2010.

City of Chicago Direct Debt: FY2001-FY2010		
FY2001	$	3,722,403,000
FY2002	$	4,257,256,000
FY2003	$	4,798,541,000
FY2004	$	5,113,565,000
FY2005	$	5,123,729,000
FY2006	$	5,422,232,000
FY2007	$	5,805,921,000
FY2008	$	6,126,295,000
FY2009	$	6,866,270,000
FY2010	$	7,328,452,000
$ Change	**$**	**3,606,049,000**
% Change		**96.9%**

Source: City of Chicago CAFR FY2010, p. 153.

Long-Term Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the past five years, between FY2006 and FY2010, direct debt per capita rose by 45.2% from $1,872 to $2,719. This upward trend comes amidst a ten-year increase in the City of Chicago's debt per capita of 111.5%, which is a $1,433 per capita increase. This sharp upward trend in debt per capita between FY2001 and FY2010 is cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing. The following chart shows the trend in the City of Chicago's direct debt per capita over the last decade.



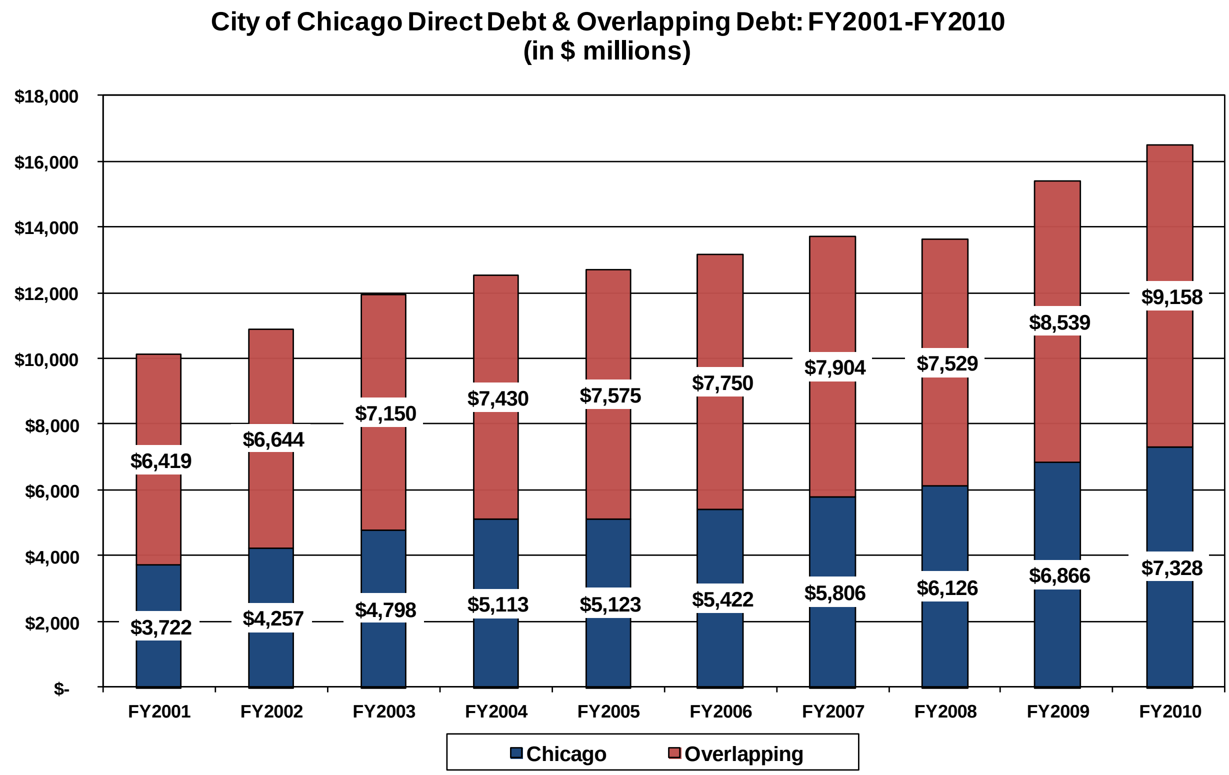
Source: City of Chicago CAFR FY2010, p. 153.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, the City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[190] Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2001 and FY2010, overlapping debt from other governments combined increased by 42.7% at the same time City of

[190] School Finance Authority debt was retired in 2007 and the Authority dissolved on June 1, 2010. Debt is now issued by the City on behalf of the Chicago Public Schools through the Chicago School Building Improvement Fund. The City also issues debt on behalf of the City Colleges for capital improvements.

Chicago debt rose by 96.9%. Total debt from all eight major governments rose by 62.6%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other governments in the region.



Source: City of Chicago CAFR: FY2001 - FY2010.

Debt Service Appropriations

Chicago debt service appropriations in FY2012 are projected to be 22.9% of total local fund appropriations, or $1.4 billion out of expenditures totaling nearly $6.3 billion. The rating agencies consider a debt burden high if this ratio is between 15% and 20%. [191]

City of Chicago Debt Service Appropriations: FY2008-FY2012

	Debt Service	Total Appropriation	Ratio
FY2008	$ 1,160,340,262	$ 5,918,287,000	19.6%
FY2009	$ 1,127,795,840	$ 5,967,201,000	18.9%
FY2010	$ 1,241,164,403	$ 6,139,590,000	20.2%
FY2011	$ 1,291,683,500	$ 6,154,793,000	21.0%
FY2012	$ 1,437,125,733	$ 6,283,605,000	22.9%

Source: City of Chicago Program and Budget Summaries: FY2008-FY2012.

[191] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Bond Ratings and Credit Rating Downgrades

As of April 12, 2011 the three major rating agencies have awarded various City of Chicago bond issues high credit ratings. At that time, all of the outstanding Chicago bond issues were rated A or higher, indicating high quality investment grade status.

City of Chicago Credit Ratings (4/12/11)			
Rating Agency	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation			
City	Aa3	A+	AA-
Revenue Bonds			
O'Hare Airport			
First Lien	Aa3	AA	AA+
Second Lien	A1	AA-	AA
Third Lien	A1	A-	A-
First Lien PFC	A2	A-	A
Midway Airport			
First Lien	A2	A	A
Second Lien	A3	A-	A-
Water			
Senior Lien	Aa2	AA	AA+
Junior Lien	Aa3	AA-	AA
Wastewater			
Senior Lien	Aa2	AA-	n/a
Junior Lien	Aa3	A+	AA
Sales Tax	Aa2	AAA	AA-
Motor Fuel Tax	Aa3	AA+	A-

Source: City of Chicago w ebsite at
http://w w w .cityofchicago.org/city/en/depts/fin/supp_info/bond_issuances0/credit_information.html.

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds from AA+ to AA.[192] The City's rating outlook was changed to "Negative." The downgrade reflected the City's weakening financial condition as a result of revenue declines and the accelerated use of asset lease reserves to balance the operating budget. The downgrade and Negative outlook also reflected the City's large unfunded accrued actuarial pension liability.[193] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General

[192] The City's GO debt had been raised to AA+ as part of Fitch Ratings' recalibration of almost all municipal issuers in April 2010. Moody's and Standard & Poor's also undertook recalibrations intended to rate public and corporate debt on the same scale. Dan Seymour, "Fitch Recalibrates 38,000-Plus Ratings," *The Bond Buyer*, April 6, 2010.
[193] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.

Obligation bonds from AA to AA-, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[194]

Moody's also downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2 in August 2010. The reasons given for the downgrade were that the Chicago was overly dependent on asset lease reserves that were being rapidly depleted, the City's pension funds are severely underfunded and the City maintains an above average debt burden characterized by a slow 32-year payout. Moody's noted, however, that Chicago maintains a large and diverse tax base, it still maintains reserves from the Skyway long-term lease and that management has taken steps to reduce expenditures.[195]

In October 2010, Fitch reduced Chicago's credit rating on general obligation bonds from AA to AA- because of concerns about the City's weakening financial position. Fitch particularly cited the city's growing pension obligations, its ongoing structural deficit and the use of asset lease reserves to balance budgets as key issues in influencing its decision.[196]

Moody's, Standard & Poor's and Fitch reaffirmed the City of Chicago's general obligation and sales tax bond ratings and gave the City's credit a stable outlook on October 18, 2011. The rating agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[197]

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[194] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[195] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
[196] Martin Z. Braun. "Chicago's Bond Rating Reduced One Level to Fourth-Highest AA- by Fitch," Bloomberg News. Oct 28, 2010.
[197] Fitch Ratings. Fitch Rates Chicago, IL GOs & Sales Tax Bonds 'AA-'; Outlook Stable. October 18, 2011 and Standard & Poor's. 'AAA' Rating Assigned To Chicago, IL's $229.5 Million Series 2011A-C Sales Tax Refunding Bonds. October 18, 2011. Fran Spielman. "500 jobs coming, bond rating steady," *Chicago Sun-Times*, October 19, 2011.

CAPITAL PROGRAM

The *Chicago FY2012 Budget Overview* includes a brief summary of capital improvement plan (CIP) highlights. This includes a brief discussion of amounts projected to be collected from tax increment financing districts in FY2012. Appendices provide a list of capital projects planned for 2012[198] and information about TIF district revenues and expenses.[199] Details regarding the allocation, funding source, timing and scope of each capital improvement project will be available on the City website in early 2012.[200] The 2011 Annual Financial Analysis released earlier this year provided capital improvement trend information from 2001 through 2014 and summary TIF revenue and expenditure data for the same time period.[201] In previous years, the CIP has been released in the summer. However, this year the new five-year CIP is not yet available. The City's Office of Budget and Management indicates that a 2011-2014 CIP will be available online by the end of 2011. In the future, a CIP will be released each fall and will include plans for the next three years. The level of project detail will be similar to what was provided in past years.[202]

In FY2012 the City proposes to spend \$1.6 billion in new capital improvements. Of that amount, \$738.1 million, or 46.1%, of the total are earmarked for aviation capital improvements.[203]

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[198] City of Chicago, FY2012 Budget Overview, Appendix B – 2012 Capital Improvement Project, pp. 187-190.
[199] City of Chicago, FY2012 Budget Overview, Appendix C – 2012 TIF Programming, pp. 193-196.
[200] City of Chicago, FY2012 Budget Overview, p. 187.
[201] City of Chicago, 2011 Annual Financial Analysis, pp. 41-48
[202] Information provided by the City of Chicago Office of Budget and Management, November 1, 2011.
[203] City of Chicago, FY2012 Budget Overview, p. 142.