The Civic Federation

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CITY OF CHICAGO FY2013 PROPOSED BUDGET:

Analysis and Recommendations

October 31, 2012

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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** Mayor Emanuel's proposed FY2013 City of Chicago budget of nearly $6.5 billion because it is a reasonable continuation of the City's efforts to reduce its structural deficit through management reforms that focus on expenditure reduction and operational efficiency.

The Civic Federation offers the following **key findings** on the City of Chicago FY2013 budget:

- The City proposes a FY2013 local funds budget of $6.5 billion; this is a 3.9% increase from the FY2012 adopted appropriation of nearly $6.3 billion across all local funds. When grant funds are included, the FY2013 budget totals $8.7 billion;
- The Corporate Fund budget proposal is nearly $3.2 billion, which is a 1.9% increase from FY2012 adopted appropriations of $3.1 billion;
- Corporate Fund tax revenues are projected to increase by $22.2 million or 1.2% from FY2012 year-end estimates and non-tax revenues will increase by $30.2 million or 3.2%;
- The proposed budget eliminates approximately 275 positions, including vacancies, for a workforce of 31,977 FTEs, not including grant-funded positions. The Corporate Fund workforce will be 25,419 FTEs.[1]
- Corporate Fund personnel service appropriations are projected to increase by 1.2% or $30.9 million from the FY2012 adopted appropriations;
- The property tax levy for City purposes will rise by $3.3 million in FY2013 for a total levy of $837.9 million including amounts levied for the City Colleges of Chicago ($36.6 million);
- The $298 million FY2013 budget deficit is projected to be closed using the following measures: $70 million in healthcare savings in 2012 and 2013; $67 million in expenditure reductions and government reforms; $45 million in personnel savings; $42 million in revenue growth; $40 million in refinancing initiatives; $24 million in improved debt collection; and $10 million in TIF reform; and
- Unfunded liabilities for the City's four pension funds have grown by $12.6 billion or 303.9% from $4.1 billion in FY2002 to $16.7 billion in FY2011.

The Civic Federation **supports** the following elements of the City of Chicago's FY2013 budget:

- Restructuring City government by implementing management reforms that will have recurring effects on personnel-related expenditures;
- Maintaining the City's property tax revenues nearly flat at $801.3 million (not including amounts levied for the City Colleges of Chicago);
- Replenishing long-term asset lease reserves;
- Pursuing management reforms such as alternative service delivery;
- Terminating non-performing tax increment financing districts;
- Eliminating the Employers' Expense Tax; and
- Reporting personnel counts more accurately in budget books.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2013 budget:

- The City faces a severe pension crisis, which grows worse the longer action is delayed. The City's unfunded pension liabilities have reached $16.7 billion or $6,174 per City resident;
- The City will be using one-time revenue sources to close its budget deficits;

[1] Trend analyses of position counts do not reflect these eliminations because the City has implemented a new way of budgeting its personnel. See the Personnel section on page 59 for more details.

- The City budget will continue to have a structural deficit, a condition characterized by annual expenditure increases that consistently outpace recurring revenue increases over time. Steps taken to narrow the structural gap in FY2012 and FY2013 must be expanded in the future;
- The City sold bonds to finance a $78.4 million tort settlement rather than making a one-time payment which may have been possible if the City had been maintaining adequate budgetary reserves;
- Long-term liabilities continue to grow and the City has not articulated a plan to curb this growth. Long-term obligations grew by 42.6% between FY2007 and FY2011;
- Bonded debt levels are high and debt service as a percent of total local fund appropriations is expected to reach 23.2% in FY2013. This represents $1.5 billion in debt service payments out of total local funds spending of $6.5 billion;
- 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 City failed to meet the scheduled hearing for public comment on the FY2012 proposed budget.

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

- **Work with the State legislature to enact comprehensive 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;
- Create an independent retiree health care trust fund;
- Limit the declaration of TIF surplus and ensure that rules for any surplus declaration are part of a comprehensive TIF policy as recommended by the Mayor's 2011 TIF Reform Panel;
- 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 FY2013 City of Chicago budget of nearly $6.5 billion because it is a reasonable continuation of the City's efforts to reduce its structural deficit through management reforms that focus on expenditure reduction and operational efficiency. The FY2013 budget proposes increased action in healthcare claims management and joint purchasing, more aggressive debt collection, work rule adjustments and expanded opportunities for managed competition.

The City will continue to face significant challenges with an ongoing structural deficit, enormous unfunded pension liabilities and growing bonded indebtedness as a result of the City's earlier failures to structurally attack previous budget shortfalls. 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, exacerbated a persistent structural deficit in the annual operating budget and has deferred attention from problems with long-term debt and a looming pension crisis. Additionally, the proposed budget still uses some non-recurring revenues to close its budget shortfall and does not address long-term debt and pension issues.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2013 City of Chicago budget.

Restructuring City Government

The proposed $3.2 billion Corporate Fund budget includes a moderate increase of $58.8 million, or 1.9%, over FY2012 appropriations. The Civic Federation strongly supports the City's efforts to implement management reforms that will have recurring effects on personnel-related expenditures. Approximately 83% of the Corporate Fund budget is spent on personnel costs, which consistently rise faster than revenues due to labor agreements and healthcare cost increases.

The FY2013 proposed personnel services (including salaries, benefits and pensions) for all local funds is $3.2 billion, which is approximately 49.6% of the total budget excluding grant funds, for 31,977 positions.[2] Personnel appropriations are increasing by $30.9 million from FY2012, despite a reduction of 275 budgeted positions, including eliminated vacancies.[3] 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 FY2012 budget included the first significant decrease in personnel expenditures since FY2004.

The Federation commends the City for addressing rising personnel-related costs through management reforms that will have long-lasting effects on operating expenditures, including healthcare savings, work rule adjustments and managed competition. The City's effort to

[2] "All local funds" is the Corporate Fund, special revenue funds, pension funds, debt service funds, and enterprise funds. It excludes grant funds.
[3] This change in positions is not reflected in the City's personnel counts due to changes in the way the City budgets its full-time "open line positions." City of Chicago, FY2013 Budget Overview, pp. 22-23.

aggregate its purchasing power by soliciting health maintenance organization services with its component governments is an excellent example of inter-governmental collaboration to reduce costs. With grid-based garbage collection and reverse auction bidding, the City has proven its ability to work with labor unions to reduce costs and provide services more efficiently. The successful use of managed competition with their Blue Cart Recycling Program enabled the City to achieve enough savings to expand recycling services city-wide. The practice of managed competition, which has now been used to solicit tree-trimming services by City workers at a reduced cost to the taxpayers, is commendable and should be expanded to more services.

As in past years, the City is proposing to close its budget gap with some one-time revenue sources. The structural deficit that remains will require the City to consider additional reforms to the largest portion of the City's operating budget. As such, personnel-related expenses, particularly in public safety, will continue to be key factors in balancing the City's expenditures with recurring resources.

Holding the Line on Property Taxes

The FY2013 budget holds the property tax levy relatively flat and does not include any new tax or fee increases. City residents will, however, experience incremental water and sewer fee increases in 2013, which were implemented to address the City's aging water infrastructure with the approved FY2012 budget. In addition, the proposed FY2013 budget eliminates the employee head tax on December 31, 2013, approximately six months before the original proposed phase-out plan.[4]

The City of Chicago's proposed 2013 property tax levy for City government is $801.3 million, which is a $3.3 million increase from the 2012 levy. The increase comes from the City's desire to capture property tax revenues from expiring and terminated tax increment financing (TIF) districts and transfer them to the general property tax levy. However, the levy increase will not increase the amount of money taxpayers will owe in property taxes. This is because taxpayers were already paying the $3.3 million for TIF district expenses, which are not reported in the operating budget. Now, they will pay the $3.3 million instead as part of the City's general levy, which is reported in the budget.

The last significant property tax levy increase for City government purposes was in FY2008, when the levy was increased by 11.7%, or $83.4 million, to $796.8 million. The 2008 levy increase exceeded the City's self-imposed limit on property tax increases by 7.9%.[5] An increase of $1.1 million in FY2012 and the $3.3 million increase in FY2013 bring the levy for government purposes to $801.3 million.

The Civic Federation commends the City for generally holding the line on the amount of revenue it seeks from homeowners and businesses this year. It is important to explore all possible cost

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[4] The Employers' Expense Tax applies to businesses that employ 50 or more full-time workers or employees that perform 50% or more of their work service per calendar quarter in the City of Chicago. The tax rate is currently $2.00 per employee per month ($4.00 prior to July 1, 2012).
[5] 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.

cutting efficiencies before raising broad-based taxes 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, major benefit reductions and/or spending cuts.

Replenishing Long-Term Asset Lease Reserves

In addition to ending the practice of transferring principal from its long-term asset lease reserves, the Civic Federation commends the City for its very positive moves toward replenishing some of these reserves. The FY2013 Proposed Budget includes transferring $15 million to the parking meter long-term reserve fund in addition to the FY2012 transfer of $20 million. The reserve fund was depleted early from its initial $400 million deposit to $80 million in 2011, and is now expected to increase to $115 million in 2013. The additional funds will allow the reserve fund to generate more interest that could then be transferred to the Corporate Fund.

Reducing Expenditures Through Alternative Service Delivery

The City will continue its managed competition program for recycling services, which it has generated enough savings to expand recycling citywide to 340,000 additional households in 2013. In 2012, citing the excellent returns it had received from managed competition in recycling, the City extended managed competition to tree trimming and is projecting savings of $1.3 million in FY2013.[6]

According to the FY2013 proposed budget, the City saved more than $20 million in 2011 and 2012 by better managing healthcare plans and costs. Among these cost saving initiatives was the City's request for proposal (RFP) soliciting health management organization services in conjunction with its sister agencies.[7] The Civic Federation has long recommended that the City work with other major local governments to consolidate purchasing of services such as health insurance, particularly after the City joined with six other local governments for the joint purchase of prescription drugs.

The 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.

Terminating Non-Performing Tax Increment Financing Districts

The City is proposing to capture $3.3 million in property taxes through one expiring TIF district, terminating seven non-performing TIF districts and repealing one TIF district. The practice of closing non-performing or under-performing TIF districts was recommended by the TIF Reform Panel created by Mayor Emanuel in 2011.[8] The task force recommended that if a district is not

[6] City of Chicago, 2013 Budget Overview, p. 4.
[7] City of Chicago, 2013 Budget Overview, p. 2.
[8] Civic Federation President Laurence Msall is a member of the TIF Reform Panel.

meeting its performance objectives, or that it has met its objectives and the original intent of the district no longer applies, the district should be closed.[9]

Eliminating the Employers' Expense Tax

The City has proposed to eliminate the Employers' Expense Tax as of December 31, 2013, six months ahead of schedule. The Employers' Expense Tax applies to businesses that employ 50 or more full-time workers or employees that perform 50% or more of their work service per calendar quarter in the City of Chicago. The tax rate is currently $2.00 per employee per month. The Mayor first announced his plan to phase-out the "Head Tax" in October 2011. The original proposed plan reduced the tax from $4 per employee per month to $2 in July 2012 and fully eliminated the tax in July 2014.[10] The Civic Federation commends the City for eliminating what was widely considered an overly burdensome tax on Chicago businesses that stunted employment growth and discouraged businesses from locating in the City.

Reporting Personnel Counts More Accurately in Budget Overview and Recommendations

The Civic Federation commends the City for removing some "open line positions," which are full-time employees budgeted in hourly lines, and representing them more accurately as full-time positions in the Budget Recommendations book. In previous years the Budget Recommendations, which is voted on by City Council to become the Annual Appropriations Ordinance, did not accurately reflect the position counts of some City departments. According to the FY2013 Budget Overview, the City conducted an audit of open line positions and determined that the lines were sometimes overfilled throughout the year. By correctly representing open line positions as budgeted full-time positions, the Budget Recommendations will more accurately account for personnel figures.

The Federation also commends the City for reporting full-time equivalent (FTE) position counts in addition to full-time position counts in its Budget Overview. For the first time, the City provides five prior years of approved FTEs with its FY2013 proposed FTEs. Full-time equivalents include part-time and hourly wage earners and therefore provide a more accurate count of the City's workforce than full-time positions.

Civic Federation Concerns

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

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[9] The recommendation is one of many parts of a comprehensive plan aimed at improving the transparency and efficiency of the City's TIF program and strengthening the ability of TIF to meet the City's economic development goals. For more information, see the final report available at http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2011/august_2011/tax_increment_financingfinalreport.html.

[10] City of Chicago, "Mayor Emanuel Announces Plan to Eliminate the Head Tax for Chicago Businesses," press release, October 5, 2011.

Pension Funding Crisis

The City faces a severe pension funding crisis as all four funds' funding levels dropped significantly for the fourth consecutive year. The Police and Fire pension funds were only 35.6% and 28.3% funded in FY2011 on an actuarial value basis; the funded ratio for the Municipal Fund was 44.6% and the Laborers Fund was 64.9%.[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 fulfilled statutory requirements, but 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 $12.6 billion or 303.9%. The total unfunded liabilities reached $16.7 billion in FY2011, of which $6.9 billion was in the Municipal Fund followed by the Police Fund with $6.2 billion.

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. Pursuant to this legislation, the City's total required pension contribution for all four pension funds will increase from $466.6 million in FY2014 to $1.2 billion in FY2015. Since the property tax levy is the primary source of revenue for the City's contributions to the pension funds, the levy would have to be significantly increased from its current $801.3 million level to cover the additional costs. Meanwhile, without reform, the Municipal and Laborers' Funds are projected to run out of funds by 2025 and 2028, respectively.

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. The Civic Federation is pleased Mayor Emanuel presented a framework for reform to the General Assembly, but there is much more work to be done and our State legislature needs more specific encouragement by members of the City Council and the administration to take the necessary actions for the State of Illinois as well as the City's fiscal stability.

Use of One-Time Revenue Sources

Unlike prior years' budget recommendations, the FY2013 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 has proposed in his FY2012 and FY2013 budgets, 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.

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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 2010," June 25, 2012, at http://www.civicfed.org/FY2010LocalPensionsReport.

While the City has dramatically reduced its reliance on one-time revenue sources, at least $47 million of the FY2013 budget gap will be closed with non-recurring resources that include refinancing initiatives on bonds for $40 million[12] and $6.7 million in one-time Tax Increment Financing (TIF) surplus. The City's refinancing initiatives include taking advantage of historically low interest rates. While reducing the cost of bonds is a prudent financial practice, proceeds from financing initiatives should not be used to cover operating expenditures. Rather, these types of non-recurring revenues should be dedicated to reducing long-term liabilities, building reserves or making capital investments. The Civic Federation does recognize that the City is proposing to replenish some of its long-term asset lease reserves with $15 million from the Corporate Fund, which is discussed further in this analysis.

The continued practice of using 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.

Ongoing Structural Deficit

In the Annual Financial Analysis 2012 document, the City projected that without changes to expenditures and revenues, its Corporate Fund deficit would grow to $466 million in FY2014 and $580 million in FY2015 under a continuation of 2012 revenue and expenditure trends. These projections assume that expenditures grow at an average rate of 3.0% and that revenues would grow by 0.7% in 2014 and decline by 0.7% in 2015. The City also includes two alternative projections with slightly higher or lower revenue growth estimates.[13] The increase in the City's annual budget deficit over time is a leading indicator that its expenses are not aligned with its recurring revenues.

The City has made considerable efforts to reform the way the City operates through management efficiencies and innovative programs over the past two years. However the City still faces a structural deficit as it continues to use one-time resources to close its budget gaps. In addition, the City faces a significant increase in its pension contributions in FY2015, which it will not be able to provide without comprehensive pension reform, large increases to the property tax levy and/or drastic cuts to City services.

Borrowing to Pay for Tort Settlement

In May 2012, the City sold nearly $308.0 million in taxable bonds, a part of which will be used to pay for a $78.4 million tort settlement related to the City's hiring of firefighters.[14] The Civic Federation estimates the total cost of financing the settlement to be approximately $201.4 million, which includes nearly $123.0 million in interest. This estimate is a lowest cost scenario; it assumes that the settlement funds are the first to be repaid. The Civic Federation is concerned that the City is borrowing to pay for what is essentially an operating cost. Rather than adequately budgeting for known tort claims, previous administrations had for many years spent all of its

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[12] The City's Office of Budget and Management uses the term "swaption" to describe this transaction.
[13] City of Chicago, 2012 Annual Financial Analysis, July 31, 2012, pp. 46-48.
[14] Communication with the Office of Budget and Management, October 30, 2012. General Obligation Bonds, Taxable Project and Refunding Series 2012B, CUSIP 167486PG8.

revenues and additionally drained its parking meter asset lease reserves. By borrowing money to pay for the settlement rather than making a one-time payment, the City has compounded the cost of its actions for the taxpayers.

Growing Long-Term Liabilities

The two-year increase in long-term liabilities from FY2010 to FY2011 was 12.3% or a $1.7 billion increase. The five-year increase in total long-term obligations between FY2007 and FY2011 was 42.6%. This is a $4.5 billion increase. Long-term debt (bonds, notes and certificates payable) rose by 21.1%, increasing from $7.4 billion to over $8.9 billion. Other long-term liabilities, including pension and lease obligations, pollution remediation liabilities and claims and judgments obligations increased at a much faster rate, rising by 91.7%. The single largest percentage and dollar increase over the five-year period was related to pensions, which increased by 126.4% or $3.0 billion. The steady increases in long-term obligations, particularly the large pension obligation increase, are a cause for concern.

High Bonded Debt Burden

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

- Between FY2002 and FY2011 Chicago total net direct debt rose by 79.2% or $3.4 billion. This represents an increase from $4.3 billion in FY2002 to approximately $7.6 billion in FY2011.
- Between FY2002 and FY2011, combined overlapping debt from other local governments increased by 48.7% at the same time City of Chicago debt rose by 79.2%. Total debt from all eight major governments rose by 60.6%. 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 FY2013 are projected to be 23.2% of total local fund appropriations or $1.5 billion out of expenditures totaling over $6.5 billion. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[15]

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.

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

[15] 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.

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.).[16]

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 adjustments 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 $420.6 million for FY2013.[17] 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 FY2013 proposed budget includes $479.5 million for pension funds.[18]

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 the Streets and Sanitation Department rises from $141 million to $204 million when unallocated costs are accounted for.[19] 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

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[16] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).
[17] City of Chicago, FY2013 Budget Recommendations, p. 261.
[18] City of Chicago, FY2013 Budget Recommendations, pp. 429-432.
[19] Dan Mihalopoulos and Mick Dumke, "Service Couldn't Be Better, and at $200 a Ton It Should Be," *Chicago News Cooperative*, February 12, 2011.

budget that outline the cost of programs including pensions, benefits, liability claims and financing and even debt service.[20]

Failure to Schedule Stand Alone Public Hearing

The only opportunity for the public to comment on the Mayor's complete budget proposal is at one public hearing, which has been traditionally held as part of a regular City Council meeting. There has been no designated time for the public hearing to begin because it takes place only after other Council business has been conducted. Last year the City Council scheduled a public hearing on the budget at 11:00 am on November 2, 2011, which the Civic Federation commended in its FY2012 Budget Analysis.[21] As the scheduled time elapsed, the City Council continued to conduct their regular business for the meeting that began at 10:00 a.m. with budget staff in attendance and the public hearing began after the meeting concluded.

The Civic Federation urges the City Council to allow more 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.

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

In May 2012, Mayor Emanuel offered a plan to reform pensions for employees of the City of Chicago, Chicago Public Schools and Chicago Park District during a hearing of the Illinois House of Representatives Personnel and Pensions Committee. The Civic Federation supports the proposal, which provides a strong outline of a comprehensive, balanced solution that includes shared sacrifice by retirees, current employees and eventually taxpayers. The proposed reforms include four main elements to reduce the City's $20 billion unfunded liability for the City's four pension funds, Chicago Teacher's Pension Fund and Park District Pension Fund:

1. *Temporary suspension of the annual automatic annuity increase for current retirees*: The current 3% compounded annual increase would be suspended for ten years, after which a simple interest annual increase will be implemented.

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[20] 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).

[21] See Resolution R2011-1233 Time Fixed for Public Hearing on Executive Budget for Year 2012 available on the City Clerk's website at http://chicago.legistar.com/LegislationDetail.aspx?ID=988304&GUID=2B50B8A7-D4E4-46CC-8FAC-219FC9DFB4F6&Options=&Search=

2. *Increase in employee contributions*: Employee contributions would increase by 1% each year for five years. Current employee contribution rates range from 8.5% (Laborers and Municipal Funds) to 9.125% (Fire).
3. *Increase in the retirement age by five years*: According to testimony by Chief Financial Officer Lois Scott, the increased retirement age would include a ten-year phase-in plan to mitigate the effect of the reforms on those currently close to retirement age.
4. *401(k)-type Retirement Option*: More choices would be provided to allow newer employees the flexibility to take accrued benefits with them if they leave City employment.

Though the Federation supports the Mayor's plan, further details are needed on how each of the provisions of the plan will be phased in, their financial impact in terms of cost savings and what the governments' contributions will be going forward. This data should be made available to the public and could be modeled on Cook County's pension website, www.OpenPensions.org, which was created by Cook County Commissioner Bridget Gainer.

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

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.

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.[22]

Adopt Corporate Fund Fund Balance Policy to Build Reserves

The Civic Federation urges the City to establish a Corporate Fund policy to build its reserves. The Government Finance Officers Association (GFOA) recommends that each government set aside unrestricted funds equivalent to two months of expenditures or revenues. In FY2013 this amount would total roughly $506.7 million. The GFOA statement adds that each unit of

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[22] 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).

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.[23] The City does have reserves in the form of the $500 million Skyway Long-Term Reserve Fund and is making efforts to replenish its Parking Meter Long-Term Reserve Fund. While asset reserves have in the past been viewed favorably by bond rating agencies, they are not Corporate Fund fund balance.

The City's budgetary practices include budgeting all surplus from the City's prior years as an available revenue, instead of building a true fund balance available for contingencies. The City has included $177 million of prior year Corporate Fund resources as part of its FY2013 available resources to be appropriated. This is a continuation from last year's practice of appropriating $143 million of prior year Corporate Fund resources. In other words, the City is continuously budgeting the entirety of its Corporate Fund resources to cover its upcoming expenses rather than putting aside a small amount of unrestricted funds for emergencies.

Having a healthy level of budgetary reserves is imperative to managing the City's risk effectively. The Civic Federation is disappointed that the City is borrowing approximately $78.4 million to pay for a tort settlement that is essentially an operating cost.[24] The Federation estimates the total cost of financing the settlement to be approximately $201.4 million, which includes nearly $123.0 million in interest. This estimate is a lowest cost scenario; it assumes that the settlement funds are the first to be repaid. Because the City wasn't appropriately building budgetary reserves that would have allowed it to make a one-time payment rather than borrow to finance the settlement, the cost of the City's actions has been compounded for the taxpayers. Going forward, the Civic Federation urges the City to more effectively manage its risk by maintaining a healthy level of budgetary reserves, as it should for any unexpected event such as a snowstorm.

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

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[23] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[24] Fran Spielman, "City to borrow for firefighter settlement," *Chicago Sun-Times*, October 24, 2012.

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.

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.

Create an Independent Retiree Health Care Trust Fund

Since 1988 the City of Chicago and its four pension funds have been party to the settlement of *City of Chicago v. Korshak* regarding how much the City, the funds and annuitants pay for healthcare. The City pays for a portion of the retiree health care premiums and the pension funds subsidize part of the employee portion of the premium. The City's financial statements reported an FY2011 unfunded OPEB liability of $414.5 million for the portion subsidized by the pension funds and an FY2010 unfunded OPEB liability of $390.6 million for the portion subsidized by the City.[25] The combined unfunded OPEB liability for the City and the pension funds is $805.1 million.

The settlement agreement expires June 30, 2013. Before the settlement expires, the commission created by the settlement – the Retiree Healthcare Benefits Commission (RHBC) – is required to make recommendations with regard to the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any healthcare benefits after July 1, 2013. The Civic Federation recommends that Mayor Emanuel and the City Council carefully consider creating an independent trust fund to provide retiree health care benefits upon the expiration of the Korshak settlement.

The model adopted by the Chicago Transit Authority provides an example of the costs and benefits of an independent retiree health care trust. Public Act 95-0708 created a separate Retiree Health Care Trust for the provision of CTA retiree health insurance. The CTA seeded the Trust with approximately $529 million in bond proceeds on which it is scheduled to pay debt service through the year 2040. However, neither the CTA nor the CTA pension fund has any further financial obligations regarding retiree health insurance beyond the debt service.[26] Public Act 95-708 requires employees to contribute 3% of pay to the CTA Retiree Health Care Trust and that amount increased to 6% in 2012.[27] Retiree, survivor and dependent contributions to their health

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[25] City of Chicago, FY2011 Comprehensive Annual Financial Report, pp. 89 and 91. The FY2011 financial statements state that December 31, 2010 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.

[26] See the Civic Federation's annual Status of Local Pension Funding reports for more information on the CTA pension reform and Retiree Health Care Trust legislation.

[27] Chicago Transit Authority, *Financial Statements and Supplementary Information December 31, 2009 and 2008,* p. 14 and Chicago Transit Authority Retiree Health Care Trust, *Funding Results as of January 1, 2010*, p. 13.

care benefits cannot exceed 45% of the total benefit cost.[28] The fiscal health of the fund is monitored by the State Auditor General. If the actuarial present value of projected benefits expected to be paid to current and future retirees and their dependents and survivors is found to exceed the actuarial present value of projected contributions, trust income and reserves, the Trust's Board of Trustees must submit to the Auditor General a plan to rectify the situation within ten years by increasing participant contributions, reducing benefits or making other plan changes.[29]

The Civic Federation urges the Mayor and City Council to consider a similar solution for the City to divest itself of financial responsibility for retiree health insurance. State legislation would be required to create such a trust.

If a separate retiree health care trust is not created, the City should require much greater cost sharing by retirees and end practices such as granting free coverage to some retirees aged 55 to 65.

Limit Declaration of TIF Surplus

In FY2013 the City will declare a surplus in Tax Increment Financing (TIF) districts and will receive $6.7 million as its share of the distribution of those funds. The administration proposes to use its share of funds to help address the City's budget deficit and distributes the remaining surplus to the overlapping taxing districts in compliance with state statute. Last year, the City declared a surplus of $62.9 million in TIF districts and used $12 million as its share.[30] In FY2011 the City declared a surplus of $180.0 million and transferred $38.5 million to its Corporate Fund.[31]

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."

With the guidance of the TIF Reform Panel, the City has taken a number of steps to improve the transparency and efficiency of the TIF program, including aligning TIF investments with a multi-year economic development plan and providing more data on TIF districts to the public. The Federation encourages the City to continue to follow the recommendations of the TIF Reform Panel, particularly with regard to developing thresholds that would assess the districts' performance.

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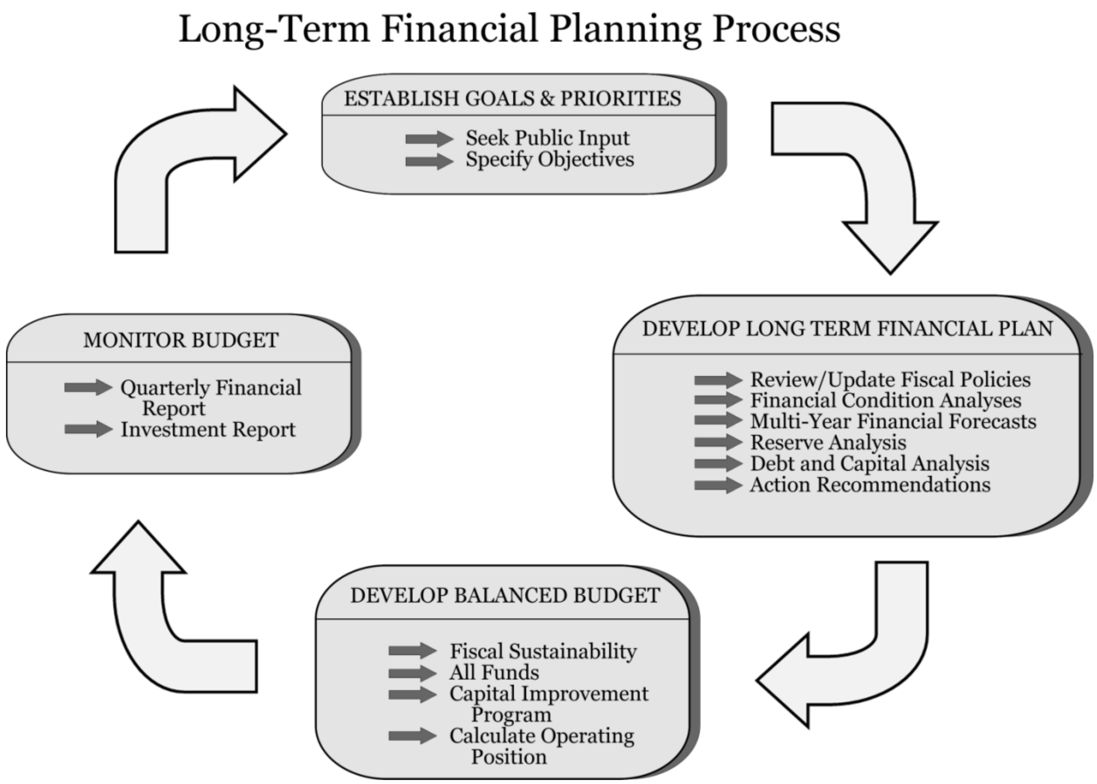
[28] Chicago Transit Authority, *Financial Statements and Supplementary Information December 31, 2009 and 2008,* p. 14 and 40 ILCS 5/22-101B.
[29] 40 ILCS 5/22-101B.
[30] City of Chicago, Annual Financial Analysis 2012, p. 71.
[31] City of Chicago, FY2011 Budget Overview, p. 61.

Implement a Formal Long-Term Financial Plan

The first 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.[32]

[32] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[33] 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.



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.

[33] 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.

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.

Strengthen the Capital Budgeting and CIP Process

As part of the Building a New Chicago initiative, the City has released a FY2012-FY2016 Capital Improvement Program (CIP) that focuses on plans for City-owned infrastructure and facilities.[34] This comes after a one-year hiatus; no CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It was made available for public inspection on June 29, 2012 on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

The Civic Federation urges the City to: (1) develop and submit to the City Council for approval 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.[35] 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.[36] The GFOA recommends using a rating system to facilitate decision making in capital planning.[37] The CIP should utilize a rating system to determine which projects

[34] The FY2012-2016 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/city/en/depts/obm/provdrs/cap_improve.html
[35] Government Finance Officers' Association, "GFOA Best Practice: Adoption of Financial Policies," (2002).
[36] City of Chicago, 2010-2014 Capital Improvement Program, p. 4.
[37] Government Finance Officers' Association, "Preparing and Adopting Multi-Year Capital Planning," (2006).

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 component of the operating budget or as a separate capital budget. The capital budget should be directly linked to and flow from the CIP.[38] 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.[39]

Improve Budget Format

The City has made several improvements to its budget books over the past few years including providing additional data in a searchable and downloadable format on its website. The Civic Federation offers the following recommendations to improve the transparency and usefulness of City's budget documents.

Provide More Detail on Financing Initiatives

The FY2013 budget deficit is closed with $40 million of what is called "Refinancing Existing Debt and Bond Reimbursements" in the Budget Overview. However, the Budget staff have referred to the revenue source as interest rate "swaption," where the City takes advantage of the low interest rate environment. While refinancing debt can be a prudent financial practice, it is important for the City to provide more information about how savings are generated and being spent, as well as any impact on the City's overall indebtedness. It is important to reassure City Council members and taxpayers that current costs are not being pushed into the future by any refinancing initiative.

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

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

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

Last year the City posted appropriations and personnel data sets on its data portal in a searchable and downloadable format. This was a significant step forward. The Civic Federation urges the City to also provide 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. The City has made an important step by providing current and historical FTE counts in its FY2013 Budget Overview. However, the FY2013 Budget Recommendations, which is the document to be voted on by the City Council to become the FY2013 Appropriations Ordinance, provides position count by full-time positions only (both filled and vacant). Meanwhile, the Budget Recommendations provide personnel services appropriations that reflect expenses for full-time equivalent positions, including personnel-related expenses such as pension and healthcare costs. As such, the number of employees per fund is not an entirely accurate reflection of the costs associated with their employment per fund. 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 in 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, Office of Budget and Management (OBM) Director Alexandra Holt, Chief Revenue Analyst Manmeet Taneja and their staffs to answer our questions about the budget.

FY2013 BUDGET HIGHLIGHTS

The City proposes a FY2013 budget of $6.5 billion for all local funds (excluding grants). This is a 3.9% increase from the FY2012 adopted appropriation of nearly $6.3 billion across all local funds. The Corporate Fund budget proposal is $3.2 billion, which is a 1.9% increase from FY2012 adopted appropriations of $3.1 billion.

The City proposes to reduce budgeted positions by 275 positions to 31,977 positions. The Corporate Fund workforce will be 25,419 FTEs.

Including grant funding, the City's total FY2013 proposed budget is $8.7 billion. The City anticipates $1.8 billion in grant funds for FY2013, which represent 20.7% of the total budget.

City of Chicago All Local Funds: FY2012 & FY2013 (in $ millions)

	FY2012	FY2013	$ Change	% Change
Net Total Appropriations	**Adopted**	**Proposed**		
Corporate Fund	$ 3,098.4	$ 3,157.2	$ 58.8	1.9%
All Local Funds	$ 6,295.4	$ 6,540.1	$ 244.7	3.9%
Total Resources*	**Year-End Estimate**	**Proposed**		
Corporate Fund	$ 3,140.1	$ 3,157.2	$ 17.1	0.5%
All Local Funds	$ 6,769.9	$ 6,936.8	$ 166.9	2.5%

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

Source: City of Chicago, FY2012 Appropriation Ordinance, Summary D; FY2013 Budget Overview, p. 22.

At approximately $2.6 billion, the FY2013 Corporate Fund appropriation for personnel costs represents 82.8% of the Corporate Fund budget. Personnel costs will increase by $26.4 million, or 1.5%, for public safety departments and by $4.5 million, or 0.5%, for non-safety departments from FY2012. Contractual services in non-safety departments are increasing by $54.2 million, or by 23.5%.

Over the past five years, tax revenues in the Corporate Fund have increased by 9.0%, or $160.7 million, while non-tax revenues have increased by 25.7%, or $199.9 million. 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 $12.6 billion, or 303.9%, from $4.1 billion in FY2002 to $16.7 billion in FY2011. Between FY2002 and FY2011, total unfunded liabilities per resident of Chicago grew from $1,434 per capita to $6,174 per capita. This is an increase of 430.6%.

FY2013 BUDGET DEFICIT AND GAP CLOSING MEASURES

The City of Chicago projected a $369.0 million budget deficit for FY2013 in its 2012 Annual Financial Analysis released on July 29, 2012.[40] The deficit was the result of a projected $288 million or 9.2% decline in Corporate Fund resources and a $114 million, or 3.7%, increase in Corporate Fund expenditures compared to the FY2012 year-end estimates.[41]

The projected decline in Corporate Fund revenues reflect a conservative approach to growth, declining utility and vehicle fuel tax revenues, as well as diverting some resources toward pension obligations.[42] The proportion of City sales tax revenues flowing into the Corporate Fund are projected to decline as debt service payments on the City's sales tax revenue bonds increase in 2013.[43] Other revenue reductions include the elimination of the employer head tax proposed by Mayor Emanuel and expected declines in personal property replacement tax revenues from the State.[44]

The FY2013 Corporate Fund expenditures projection was based on known changes such as collective bargaining agreement wage increases, increased utility and fuel expenses and the citywide expansion of recycling.[45]

Gap-Closing Measures

The City's FY2013 Budget Overview book includes a summary on page five that states the projected Corporate Fund budget gap of $298 million will be closed with $67 million in expenditure reductions and government reforms, $45 million in personnel savings, $42 million in revenue growth, $40 million in refinancing initiatives, $24 million in improved debt collection and $10 million in TIF reform. Some additional details of the gap-closing measures provided by the Office of Budget and Management are shown in the exhibit below. The Civic Federation urges the City to publish more detailed evidence of each gap-closing measure, including the Corporate Fund dollar amount tied to each measure, in the budget books.

While the City has dramatically reduced its reliance on one-time revenue sources, at least $47 million of the FY2013 budget gap will be closed with non-recurring resources that include interest rate swaps for $40 million[46] and $6.7 million in one-time Tax Increment Financing (TIF) surplus. The City's refinancing initiatives include taking advantage of historically low interest rates, or interest rate "swaption." Proceeds from financing initiatives should not be used to cover operating expenditures. Rather, these types of non-recurring revenues should be dedicated to reducing long-term liabilities, building reserves or making capital investments. The Civic Federation does recognize however, that the City is proposing to replenish some of its long-term

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[40] 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.
[41] City of Chicago, 2012 Annual Financial Analysis, July 29, 2012, p. 44.
[42] City of Chicago, 2012 Annual Financial Analysis, July 29, 2012, pp. 45-46.
[43] City of Chicago, 2012 Annual Financial Analysis, July 29, 2012, p. 46.
[44] City of Chicago, FY2013 Budget Overview, pp. 14 and 158.
[45] City of Chicago, 2012 Annual Financial Analysis, July 29, 2011, p. 46.
[46] The City refers to this as "Refinancing Existing Debt and Bond Reimbursements" in its Budget Overview, p. 5.

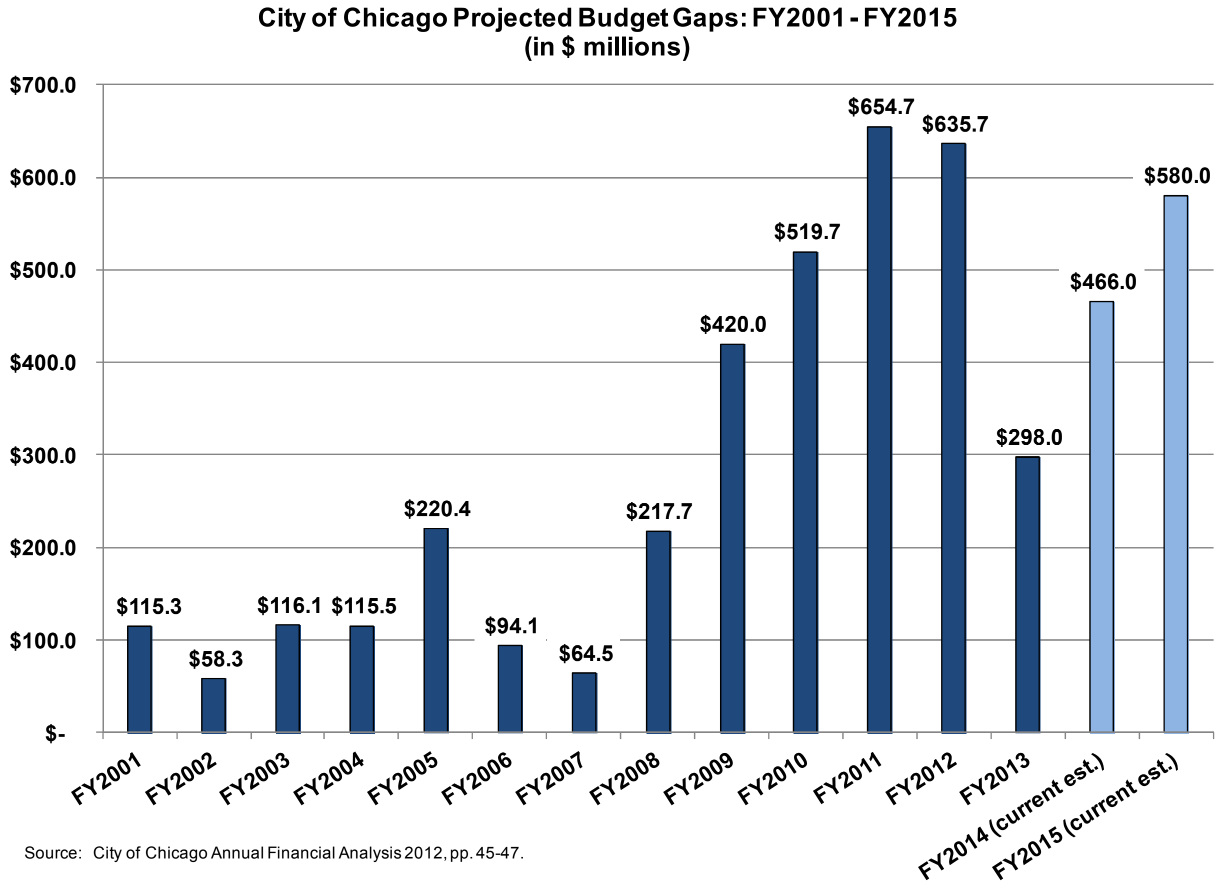
asset lease reserves with $15 million from the Corporate Fund, which is discussed further in this analysis.

City of Chicago FY2013 Gap-Closing Measures (in $ millions)		
Healthcare Savings	$	70.0
Expenditure Reductions		
2012 Non-Personnel	$	20.0
Strategic Sourcing	$	10.0
Information Technology	$	5.8
Energy Efficiency	$	5.0
Facility and Equipment Expenses	$	3.9
Materials and Supplies	$	2.5
Telecom	$	2.3
Waste Disposal (Citywide Recycling)	$	2.3
FMLA Reform	$	1.0
Other collective reductions	$	14.2
Total Expenditure Reductions	**$**	**67.0**
Personnel Savings		
Layoffs, Attrition and Vacancy Sweeps	$	20.0
2011-2012 Savings	$	20.0
Labor Agreement Savings	$	5.0
Total Personnel Reductions	**$**	**45.0**
Revenue Growth	$	42.0
Interest Rate Swaption (2007c Series Bonds)	$	40.0
Improved Debt Collection	$	24.0
TIF Reform	$	10.0
Total	**$**	**298.0**

Source: City of Chicago, Office of Budget and Management, FY2013 Budget Presentation and communication with OBM, October 23, 2012.

Historical Trend of Projected Budget Gaps

The City of Chicago's projected budget gaps have grown from $58.3 million for FY2002 to $298.0 million for FY2013, including a high of $654.7 million for FY2011 and $635.7 million for FY2012. In its *Annual Financial Analysis 2012* document, the City projects that its Corporate Fund deficit will grow to $466 million in FY2014 and $580 million in FY2015 under a continuation of current revenue and expenditure trends. These projections assume that expenditures grow at a rate of 3.0% and that revenue would grow at 0.7% in 2014 and fall by 0.7% in 2015. The City also includes two alternative projections with slightly higher or lower revenue growth estimates.[47] These projections demonstrate that if nothing is done in FY2013 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 2012, pp. 45-47.

UPDATE ON *RECOMMENDATIONS FOR A FINANCIALLY SUSTAINABLE CITY OF CHICAGO*

On June 30, 2011 the Civic Federation released *Recommendations for a Financially Sustainable City of Chicago*. 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.

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[47] City of Chicago, 2012 Annual Financial Analysis, July 29, 2012, pp. 46-47.

This section of the analysis provides an update to the Federation's report by analyzing the City of Chicago's progress on each recommendation, including an updated index of all forty recommendations and their current status, identifying where the City has failed to take action and details on the City's progress for each recommendation where action has been taken. To determine the status of the recommendations, the Civic Federation reviewed the Annual Financial Analysis 2012, first-year progress report and other documents prepared by the Mayor's office, monitored City Council meetings and media reports and analyzed the budgets. The Federation uses cost savings estimates either provided by the City of Chicago or calculated from the City's approved Appropriations Ordinances.

In over one year, Mayor Rahm Emanuel has produced two budgets and has implemented initiatives that reflect significant progress on recommendations made by the Civic Federation. Some cost savings reforms include major expenditure reductions in personnel and evaluation of the procurement process for efficiencies. Initiatives that have increased operational efficiencies include reducing the number of required business licenses and inspections in the City, pursuing managed competition for recycling and other city services and implementing grid-based garbage collection. The Federation also commends the Mayor for addressing the City's aging water infrastructure and increasing public works coordination between the City's departments and across unit governments, in part through the implementation of the Infrastructure Trust Fund. However, despite these achievements, the City still faces enormous financial challenges with its long-term liabilities.

The Civic Federation is deeply concerned by the continued lack of action taken to address the sustainability of the City's four employee pension funds. Although the Mayor presented his own vision for pension reform to the Illinois General Assembly, the subsequent lack of action on the part of the legislature and the City is a serious cause for concern. The pending fiscal crisis is an immediate concern for all taxpayers and can only be resolved through strong leadership, cooperation with relevant unions and engagement with the Illinois General Assembly.

The chart below shows the current statuses of the forty Civic Federation recommendations.

Update to Recommendations for a Financially Sustainable City of Chicago

	Civic Federation Recommendation	Status as of October 2012
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	Some Progress
3	Increase Employer and Employee Pension Contributions	Some Progress
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	Some Progress
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	Some Progress
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	Significant 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	Some Progress
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	Some Progress

The following sections describe the initiatives that the City has implemented or begun to implement that advance the Civic Federation's recommendations as of October 30, 2012.

Personnel

Anticipated Savings: $136.1 million from FY2011 to FY2013

With personnel expenses comprising 83.4% of the final FY2012 Corporate Fund appropriations, it is necessary to examine the City's workforce, particularly in the area of public safety, 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:

- *Reduction in Workforce and Elimination of Vacancies*: The FY2012 budget included a reduction of 2,505 FTEs, or 7.3% of the workforce from the FY2011 approved budget.[48] Total personnel services appropriations in the Corporate Fund declined by $132.7 million, or 4.9%, from the FY2011 approved budget.[49] The most significant cuts proposed were 1,252 eliminated sworn officer vacancies in the Police Department. These cuts were reflected in a $56.6 million decline in Corporate Fund personnel services appropriations for the Police Department. However, personnel services appropriations for all public safety departments were collectively down only 1.7% due to a $33.3 million increase for the Fire Department.[50] In FY2013 the City is proposing to reduce the City's workforce by 275 positions, including targeted vacancies.[51] These eliminations are not reflected in the trend analyses of personnel counts because the City is also budgeting its personnel in its budget books in a way that more accurately reflects its workforce. According to the City, approximately $45 million in cost savings were identified for FY2013, including vacancy sweeps and attrition ($20 million), savings from personnel-related healthcare costs in 2011 and 2012 ($20 million) and labor agreement savings ($5 million).[52]
- *Cuts in Management Payroll and Board and Commission Compensation*: Approximately $30 million in savings were expected in FY2011 with cuts to middle and senior management payrolls and a 50% reduction in compensation for members of City boards and commissions.[53]
- *Merge Overlapping Functions Across Departments*: With the elimination of redundant positions (and non-personnel costs), $3.5 million was estimated to be saved in FY2011.[54]
- *Vacation Rule Changes*: Non-represented employees will be allowed to carry over a maximum of five vacation days from one year to the next, reducing the monetary compensation of unused vacation days for retiring employees.[55]

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[48] City of Chicago, FY2013 Budget Overview, p. 170.
[49] City of Chicago, FY2011 and FY2012 Appropriations Ordinance, Summary D.
[50] City of Chicago, FY2011 and FY2012 Appropriations Ordinance, Summary D.
[51] City of Chicago, FY2013 Budget Overview, pp. 22-23.
[52] City of Chicago, Office of Budget and Management, FY2013 Budget Presentation.
[53] 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.
[54] City of Chicago, Office of the Mayor, "2011 Savings Update at First 100 Days," press release, August 22, 2011.

- *New Reimbursement Policies*: The City implemented new credit card and travel reimbursement policies aimed at increasing accountability and efficiency, which 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.[56]

Pension Funds

The City has taken action on the following recommendation:

- *Reduced Subsidy of CPS' Employer Contribution to the Municipal Pension Fund*: Beginning with the FY2012 City budget, Chicago Public Schools (CPS) began reimbursing the City for part of the statutory employer contribution for its employees participating in the Municipal Fund. The reimbursement amount proposed by the City for FY2012 was $32.5 million.[57] However, CPS' FY2012 actual reimbursement was $9.1 million.[58] The District's FY2013 proposed budget included an estimated $53.0 million contribution from the City and a $6.3 million reimbursement.[59]

On May 8, 2012, Mayor Emanuel addressed the Illinois General Assembly Personnel and Pension Committee with his roadmap to retirement security. The plan outline included an increase in the retirement age for most civilian workers, a one percent annual increase in employee contributions for five years and a ten-year freeze in annual cost-of-living adjustments for current retirees. The Civic Federation was encouraged by Mayor Emanuel's pension reform initiative as it provided a strong outline of a comprehensive, balanced solution to the City of Chicago, CPS and Park District pension crises that included shared sacrifice by retirees, current employees and eventually taxpayers.

In addition to the Mayor's pension reform initiative, the City has provided information on the City's pension funds to the public via a new pension website and in its Annual Financial Analysis 2012.[60] The information includes current funding statuses, the effect of unfunded liabilities on city finances and the City's historic and projected pension contributions.

However, much more must be done. 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 in 2015 that will increase the City's total required contributions from $476 million in 2012 to $1.2 billion in 2015.[61] The pension liabilities have grown so large and the contributions needed to rescue the funds are so

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[55] City of Chicago, Office of the Mayor, "City Council Adopts City Employee Vacation Reform," press release, October 5, 2011.
[56] 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.
[57] City of Chicago, FY2012 Budget Overview, pp. 6 and 15.
[58] Information provided by CPS Budget Office, July 17, 2012.
[59] CPS FY2013 Proposed Budget, p. 26. This contribution from the City is recorded as revenue for the CPS 2013 fiscal year, which is July 1 to June 30, not the City's fiscal year, which runs January 1-December 31. Actual contribution amount information provided by CPS Budget Office, July 17, 2012.
[60] www.cityofchicago.org/retirementsecurity
[61] Public Act 96-1495.

substantial that the City will have great difficulty funding the current pension promises it has made to its employees. Further delay in implementing reforms will only increase the severity of the actions that must be taken. The Federation strongly urges the City to work with relevant unions and to engage members of the Illinois General Assembly for immediate action on the much needed reform.

Police and Fire Departments
Anticipated Savings: at least $56.6 million in FY2012

The public safety departments, including the Office of Emergency Management, comprise 58.7% of the City's FY2013 proposed Corporate Fund budget. Mayor Emanuel and Police Superintendent Garry McCarthy have taken some actions to evaluate and reorganize the Chicago Police Department.

- *Reorganizing the Command Structure of the Police Department*: Superintendent McCarthy's reorganization of the Chicago Police Department (CPD) eliminated two assistant superintendent and four deputy superintendent positions, creating a management system more similar to police departments in other major U.S. cities.[62]
- *Re-deployment of Additional Officers to the Beat*: The Mayor and CPD have deployed more officers previously assigned as Mobile Strike Force and Targeted Response Unit officers, administrative positions and detention aides to patrol higher crime areas.[63]
- *Consolidation of Space and Increased Coordination*: The FY2012 budget closed three police stations and consolidated the Police and Fire headquarters. The consolidated headquarters allowed the City to terminate a $350,000 lease previously used for the Fire Department headquarters.[64] 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.[65]
- *Reduction in Expenses*: The FY2012 proposed budget included a significant reduction in the City's workforce, including the elimination of 1,252 sworn officer vacancies in the Police Department. The vacancy eliminations were reflected in a $56.6 million decline in final Corporate Fund personnel services appropriations for the Police Department.[66]

Procurement
Anticipated Savings: $2.8 million in FY2012, up to $25.0 million by FY2013

Mayor Emanuel implemented the Procurement Modernization Initiative on August 18, 2011. However, the Federation strongly urges the City to address the underlying structural issues that

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[62] See Chicago Police Department website for Organization Chart available at https://portal.chicagopolice.org (last visited on October 4, 2011).
[63] 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.
[64] Communication with Office of Budget and Management, October 23, 2012.
[65] City of Chicago, FY2012 Budget Overview, p. 3.
[66] City of Chicago, FY2011 Appropriation Ordinance, Summary D; FY2012 Appropriation Ordinance, Summary D.

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.[67] As of October 2012, the City has identified $22 million in savings across funds and will continue to work with Accenture to meet the $25 million savings goal by the end of 2012. Accenture has been training City contracts negotiators and administrators to better renegotiate contracts for more favorable pricing and to improve Request for Proposals processing to increase bidding competition.[68]
- *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 in FY2012 with increased coordination, efficiency and purchasing power.[69] The City made a joint purchasing agreement with Cook County and Chicago Public Schools to purchase computers which is estimated to save the City $1 million annually and CPS $3 million annually starting in 2013.[70]
- *Reform Competitive Bidding Process with Reverse Auction*: The 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.[71]

Infrastructure

The Federation is encouraged by the "Building a New Chicago" program, but 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.[72]
- *Increased Coordination of Infrastructure Projects*: Mayor Emanuel initiated a three-year infrastructure plan called "Building a New Chicago." A major component of the program is increased coordination between City departments, unit governments and private sector

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[67] 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.
[68] Communication with Office of Budget and Management, October 23, 2012.
[69] City of Chicago, Office of the Mayor, "City Council Approves Resolution that Allows Joint Procurement with Other Governments," press release, October 5, 2011.
[70] Communication with Office of Budget and Management, October 23, 2012.
[71] 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.
[72] 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.

utilities, allowing the entities to share information on long-term plans and schedules so that projects can be synchronized, reducing costs and burdens on residents.[73]

- *Increased Coordination with Unit Governments with the Chicago Infrastructure Trust*: On April 24, 2012 the City Council approved an ordinance to establish an Infrastructure Trust. The Trust is designed to open new investment opportunities for the private sector to finance long-term infrastructure projects of the City and its unit governments. If implemented properly, the Infrastructure Trust could bring about much-needed coordination between governments in the Chicago area with regard to infrastructure.

Water and Sewer Enterprise Funds

- *Increased Revenues for Water Infrastructure Maintenance*: The FY2012 proposed budget included increases in water rates for residents and modifications of the water service fee waiver system. The increased rates are reflected in a projected 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.[74]
- *Multi-year Water Management Plan*: The Department of Water Management 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.[75]
- *Collection of Past-Due Water Services from Suburbs*: The City developed plans to recover nearly $15 million owed to the City from neighboring suburban municipalities, of which two-thirds are expected to be recovered by 2013.[76]

Alternative Service Delivery
Anticipated Savings: $2.2 million in FY2012

- *Managed Competition with Blue Cart Recycling*: Starting in October 2011, public and private crews both collect blue cart residential recycling in different areas of the City. The City evaluated the different teams' performance and identified ways to improve service and lower costs for the City in the future. In the first six months of the program, the City saved $2.2 million.[77] The City will expand service citywide and begin competition in the delivery of tree trimming and street marking for FY2013.
- *City-County Collaboration on Revenue Collection*: The Joint Committee on City-County Collaboration identified possible increased revenues that would result from sharing tax

[73] City of Chicago, Annual Financial Analysis 2012, pp. 64-65.
[74] City of Chicago, FY2012 Budget Recommendations, Summary F; FY2012 Budget Overview, pp. 4-5; Mayor Rahm Emanuel's 2012 Budget Address, October 12, 2011.
[75] City of Chicago, Office of the Mayor, "The First 30 Days of the Emanuel Administration," press release, June 16, 2011.
[76] 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.
[77] City of Chicago, Office of the Mayor, "Mayor Rahm Emanuel Announces Citywide Recycling in 2013," press release, April 5, 2012.

enforcement data and resources to increase compliance with similar City and County taxes, such as the cigarette tax.[78]

Tax Increment Financing (TIF)

- *TIF Task Force*: Mayor Emanuel created the TIF Reform Panel, 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.[79] 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.[80]
- *TIF Data*: The City 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.[81]

Public Health Department

- *Transfer of Primary Care Clinics*: The FY2012 proposed budget included transferring some 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.[82] In addition, the City has worked to consolidate City-operated mental health clinics and strengthen partnerships with private mental health organizations in order to maintain the same level of service.[83]

Surplus Vacant Property and Assets

- *Ordinance Addressing Vacant Buildings*: The Mayor and City Council worked together to pass an ordinance in October 2011 that shifts 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.[84]

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[78] City of Chicago, Joint Committee on City-County Collaboration, June 2011, p. 81.
[79] City of Chicago, Office of the Mayor, "Mayor Emanuel Announces Formation of Task Force on TIF," press release, May 19, 2011.
[80] See the report on the City's website available here www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2011/august_2011/tax_increment_financing finalreport.html
[81] www.cityofchicago.org/city/en/depts/dcd/provdrs/tif.html
[82] City of Chicago, FY2012 Budget Overview, p. 75.
[83] Naomi Nix and Peter Nickeas, "23 arrested while protesting closing of mental facility," *Chicago Tribune*, April 14, 2012.
[84] 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.

Chicago City Council

- *Grid-Based Garbage Collection*: The Department of Streets and Sanitation began implementation of a new program to pick up residential garbage on a grid-based rather than a ward-based system in 2012.[85]

Chicago Board of Elections Commissioners

- *Transfer Election Function to Cook County*: Through city-county collaboration, the City announced that 3,000 fewer election judges and polling place administrators will be hired to staff elections.[86]

Budget Process and Format

- *Executive Order for Long-Term Financial Analysis*: In May 2011 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.[87]
- *Data Portal*: The City administration 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.[88] Some data related to the FY2012 budget was released on the portal, including line-item budget recommendations.
- *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.[89]
- *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.[90]
- *More Accurate Budgeting of Personnel Count*: The Civic Federation commends the City for removing some "open line positions," which are full-time employees budgeted in hourly lines, and representing them more accurately as full-time positions in the FY2013 Budget Recommendations book. In addition, the City is reporting full-time equivalent (FTE) position counts along with full-time position counts in its Budget Overview. For the first time, the City provides five prior years of approved FTEs with its FY2013 proposed FTEs. Full-time equivalents include part-time and hourly wage earners and therefore provide a more accurate count of the City's workforce than full-time positions.

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[85] City of Chicago, FY2012 Budget Overview, p. 114.
[86] Kristen Mack, "City, county say $33.4 million to be saved through cooperation," *Chicago Tribune*, July 2, 2012.
[87] 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.
[88] 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.
[89] City of Chicago, Office of the Mayor, "The First 100 Days of the Emanuel Administration," press release, August 22, 2011.
[90] 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 FY2013 as compared to adopted appropriations for FY2012 and adopted and actual expenditures when available for FY2009. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. 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.[91] Local funds do not include grant funds.

Two-Year and Five-Year Appropriation Trends by Fund for Local Funds

The FY2013 budget projects that appropriations for all funds will increase by 3.9% to $6.5 billion from FY2012 adopted appropriations of $6.3 billion. Appropriations for the Corporate Fund will increase by 1.9%, or $58.8 million, from approximately $3.1 billion in FY2012 to nearly $3.2 billion in FY2013.

The Special Revenue Fund, which includes appropriations for operations of specific activities that require special accounting procedures, will increase by 2.3% over FY2012. Appropriations for the Debt Service Fund will increase by 9.5%, or $61.6 million. Enterprise Fund appropriations, which are for operations that are typically self-supporting and include appropriations for the two airports, water and sewer operations, are increasing by 5.3% over the two-year period. Pension Fund appropriations will increase slightly, by 0.6%, or $3.0 million. Appropriations in the Pension Funds typically reflect changes in payroll from two years prior since, per state statute, the City's pension contributions are a multiple of employee payroll deductions made two years prior.

Net appropriations are projected to rise by approximately 13.4% in the five-year period since FY2009. The largest percentage increase, 31.7%, is projected to be in appropriations for the City's Debt Service Fund. Corporate Fund expenditures are expected to rise by 2.5%, from approximately $3.1 billion in FY2009 to nearly $3.2 billion in FY2013.

[91] See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2012 & FY2013* and *City of Chicago All Local Fund Appropriations by Fund: FY2009-FY2013* for further detail.

Enterprise Fund appropriations will increase by 29.1%, or $475.1 million between FY2009 and FY2013 due in part to increases in costs to the Airport Funds and Sewer and Water Funds. Appropriations in Airport Funds over the five-year period will increase for repair and maintenance predominately related to the O'Hare Modernization Project.[92] Appropriations to the Sewer Fund and Water Fund will increase in FY2013 in accordance with the City's continued overhaul of its water and sewer systems.[93]

City of Chicago Appropriations by Fund for Local Funds: FY2009-FY2013 (in $ millions)

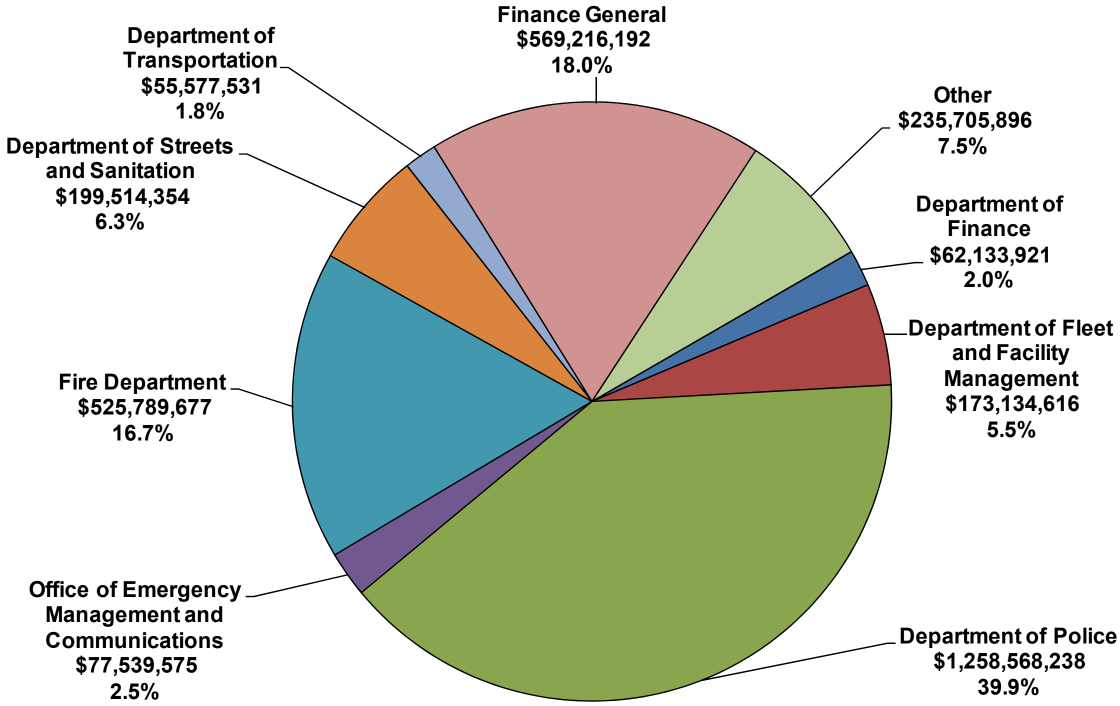
	FY2009 Year-End Estimate	FY2010 Year-End Estimate	FY2011 Adopted	FY2012 Adopted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,079.1	$ 3,098.3	$ 3,263.7	$ 3,098.4	$ 3,157.2	$ 58.8	1.9%	$ 78.1	2.5%
Special Revenue Fund	$ 441.5	$ 419.6	$ 445.6	$ 473.2	$ 484.2	$ 11.0	2.3%	$ 42.7	9.7%
Pension Funds	$ 454.9	$ 458.9	$ 450.5	$ 476.4	$ 479.4	$ 3.0	0.6%	$ 24.5	5.4%
Debt Service Fund	$ 537.7	$ 595.6	$ 584.9	$ 646.6	$ 708.2	$ 61.6	9.5%	$ 170.5	31.7%
Enterprise Fund	$ 1,632.8	$ 1,812.4	$ 1,822.6	$ 2,001.6	$ 2,107.9	$ 106.3	5.3%	$ 475.1	29.1%
Total Resources	**$ 6,146.0**	**$ 6,384.8**	**$ 6,567.3**	**$ 6,696.2**	**$ 6,936.9**	**$ 240.7**	**3.6%**	**$ 790.9**	**12.9%**
Less Proceeds of Debt	$ (70.4)	$ (70.4)	$ (70.4)	$ (70.5)	$ (72.3)	$ (1.8)	2.6%	$ (1.9)	2.7%
Less Internal Transfer	$ (305.8)	$ (346.9)	$ (344.4)	$ (330.3)	$ (324.5)	$ 5.8	-1.8%	$ (18.7)	6.1%
Net Appropriation	**$ 5,769.8**	**$ 5,967.5**	**$ 6,152.5**	**$ 6,295.4**	**$ 6,540.1**	**$ 244.7**	**3.9%**	**$ 770.3**	**13.4%**

Note: Excludes grant funds. FY2011 and FY2012 adopted figures are used because year-end estimates are not available.
Source: City of Chicago, Budget Overview and Revenue Estimates, FY2009-FY2011 and Budget Overviews, FY2012-FY2013.

[92] City of Chicago, 2012 Annual Financial Analysis, p. 28.
[93] City of Chicago, 2012 Annual Financial Analysis, pp. 29-30. Information provided by the City of Chicago Office of Budget and Management, October 23, 2012.

The following chart illustrates FY2013 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of total Corporate Fund appropriations.[94] Public Safety, which consists of the Police and Fire departments and the Office of Emergency Management and Communications, represents 58.7% of the Corporate Fund. Finance General appropriations represent 18.0% of the Corporate Fund and consist of employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[95]

City of Chicago FY2013 Proposed Corporate Fund Appropriations by Department



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Housing and Economic Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
Source: City of Chicago, FY2013 Budget Recommendations, Summary D.

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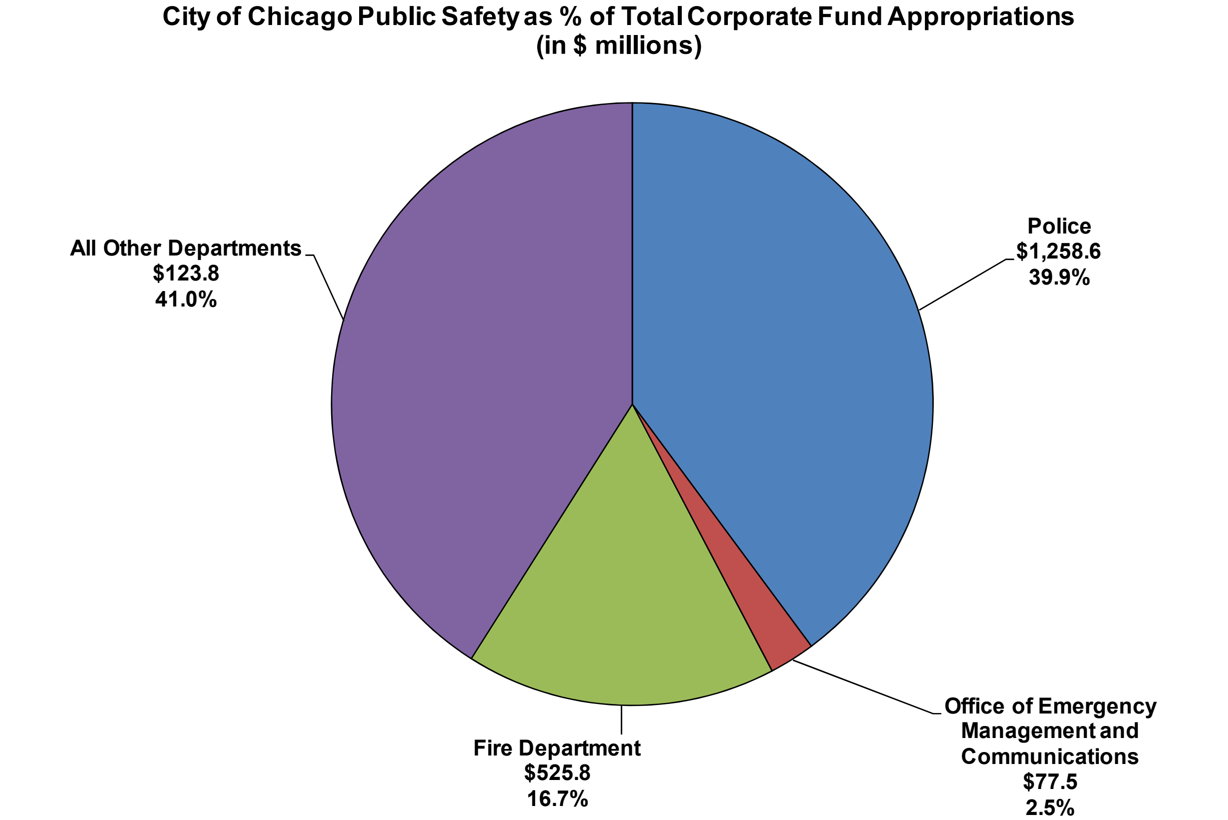
[94] See note in figure *City of Chicago FY2013 Proposed Corporate Fund Appropriations by Department* for complete list of the departments included in the Other category.
[95] City of Chicago, FY2013 Budget Overview, p. 132.

The chart below depicts the public safety appropriations as a percentage of total Corporate Fund appropriations for FY2013. Public safety appropriations will represent 59.0% of Corporate Fund in FY2013.



Note: Police includes Police Board, Independent Police Review Authority and Department of Police.
Source: City of Chicago, FY2013 Budget Recommendations, Summary F.

The following chart shows five-year trends of Corporate Fund appropriations that have been allocated for Public Safety. Between FY2009 and FY2013, appropriations for Public Safety as a share of Corporate Fund appropriations will decline from 60.8% to 59.0%. In the five-year span, appropriations for the Office of Emergency Management and Communications will decrease by 14.6%, while appropriations for Police and Fire will increase by 1.2% and 8.2%, respectively.

City of Chicago Corporate Fund
Public Safety as % of Total Corporate Fund Appropriations: FY2009-FY2013
(in $ millions)

Department	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Adopted	FY2013 Proposed	Five-Year $ Change	Five-Year % Change
Police	$ 1,243.8	$ 1,233.6	$ 1,304.6	$ 1,245.2	$ 1,258.6	$ 14.8	1.2%
Office of Emergency Management and Communications	$ 90.7	$ 78.1	$ 89.3	$ 78.4	$ 77.5	$ (13.2)	-14.6%
Fire Department	$ 485.9	$ 478.7	$ 483.4	$ 521.5	$ 525.8	$ 39.8	8.2%
All Other Departments	$ 1,171.5	$ 1,202.7	$ 1,386.3	$ 1,241.4	$ 1,295.3	$ 123.8	10.6%
Total Corporate Fund Appropriations	**$ 3,186.5**	**$ 3,179.7**	**$ 3,263.7**	**$ 3,086.6**	**$ 3,157.2**	**$ (29.3)**	**-0.9%**
Public Safety as % of Total	**60.8%**	**59.8%**	**57.5%**	**59.8%**	**59.0%**		
All Other Department as % of Total	**39.2%**	**40.2%**	**42.5%**	**40.2%**	**41.0%**		

Note: Police includes Police Board, Independent Police Review Authority and Department of Police.
Source: City of Chicago, FY2011-FY2013 Budget Recommendations, Summaries F.

Two-Year and Five-Year Appropriation Trends by Object

In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures by object were not available. The FY2013 City of Chicago budget proposes a net appropriation of $6.5 billion, excluding projected grant funds. This is an increase of 3.9%, or $247.7 million, from the FY2012 adopted appropriation of $6.3 billion. Travel appropriations will decrease by 8.8% over the two-year period while all other appropriations by object will increase.

Contractual Services will rise by the greatest amount, increasing by $67.5 million, or 10.4%. This is attributed to smaller increases in appropriations in non-public safety departments, including delegate agency funding, maintenance for aging information technology, citywide recycling, and personnel exams. Expenses for newly privatized services, such as the water call center, custodial services and benefits managements, will also contribute to the overall increase in Contractual Services.

Despite the City's efforts to reduce personnel costs through lay-offs and vacancy eliminations, Personnel Services appropriations will increase by 1.2%, or $39.6 million, to $3.2 billion.[96] Appropriations for Equipment and Permanent Improvement and Land will each increase by 3.0% while Commodities appropriations will increase by 2.3%. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies. Appropriations for Specific Items/Contingencies will increase by $131.0 million, or 5.1%. 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.

[96] City of Chicago, FY2013 Budget Overview, p. 22.

Over the five-year period from FY2009 to FY2013, net appropriations will rise by 9.6%, or $574.4 million. Personnel Services appropriations will increase by 1.7%, or $54.4 million, over the same period, despite falling from a high in FY2011 of $3.3 million to $3.2 million in FY2012 and FY2013. Commodities appropriations will increase by 43.2%, from $162.7 million in FY2009 to $233.0 million in FY2013. Conversely, travel appropriations will decrease by 39.3%, or $1.2 million, falling from $3.1 million in FY2009 to $1.9 million in FY2013. Appropriations for Contractual Services will fall by 4.5%, or $34.1 million, over the five-year period. Specific Items/Contingencies will experience the greatest increase in dollar amount, rising by $506.9 million, or 22.9%. This increase is attributed to increases in workers' compensation costs. Workers' compensation costs have increased by $56.1 million, or 96.1%, between FY2003 and FY2011 due to rising medical costs, increases in salaries and wages and higher unemployment as workers remain on workers' compensation for longer periods of time because they cannot find jobs elsewhere.[97]

City of Chicago Proposed Appropriations by Object All Local Funds: FY2009-FY2013 (in $ millions)

Object	FY2009 Adopted	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,189.2	$ 3,187.9	$ 3,305.6	$ 3,204.1	$ 3,243.7	$ 39.6	1.2%	$ 54.4	1.7%
Contractual Services	$ 753.8	$ 761.5	$ 763.3	$ 652.2	$ 719.8	$ 67.5	10.4%	$ (34.1)	-4.5%
Travel	$ 3.1	$ 3.0	$ 2.7	$ 2.1	$ 1.9	$ (0.2)	-8.8%	$ (1.2)	-39.3%
Commodities	$ 162.7	$ 149.4	$ 143.5	$ 227.7	$ 233.0	$ 5.2	2.3%	$ 70.3	43.2%
Equipment	$ 12.8	$ 15.8	$ 14.6	$ 14.6	$ 15.1	$ 0.4	3.0%	$ 2.3	17.7%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 0.1	3.0%	$ 0.0	0.4%
Specific Items and Contingencies	$ 2,213.7	$ 2,373.1	$ 2,334.9	$ 2,589.6	$ 2,720.6	$ 131.0	5.1%	$ 506.9	22.9%
Subtotal	**$ 6,338.3**	**$ 6,493.6**	**$ 6,567.5**	**$ 6,693.3**	**$ 6,936.9**	**$ 243.6**	**3.6%**	**$ 598.6**	**9.4%**
Less Internal Transfers	$ (302.2)	$ (317.0)	$ (344.4)	$ (330.3)	$ (324.5)	$ 5.8	-1.8%	$ (22.3)	7.4%
Less Proceeds of Debt	$ (70.4)	$ (70.4)	$ 70.4	$ (70.5)	$ (72.3)	$ (1.7)	2.4%	$ (1.8)	2.6%
Total	**$ 5,965.7**	**$ 6,106.1**	**$ 6,293.6**	**$ 6,292.4**	**$ 6,540.1**	**$ 247.7**	**3.9%**	**$ 574.4**	**9.6%**

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

Source: City of Chicago, Appropriation Ordinanaces, FY2009-FY2011 and FY2013 Budget Recommendation, Summary D.

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, Human Resources, Procurement Services and Fleet and Facility Management.
- **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 include the City's Department of Housing and Economic Development and Department of Cultural Affairs and Special Events, which 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. These departments provide services such as home heating

[97] City of Chicago, 2012 Annual Financial Analysis, p. 40.

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.

In a comparison of FY2012 adopted appropriations and FY2013 proposed figures, appropriations by program area, including grant funding, will increase by 1.5%, or $128.9 million. Grant funds help provide services to City residents while relieving the operating budget. Appropriations for Public Services Enterprises will rise by the greatest amount, by $181.0 million, or 20.2%, mostly due to a rise in grant funds of $155.4 million, or 59.2%. Appropriations for Finance and Administration, Regulatory, Infrastructure Services and General Financing Requirements will experience increases ranging from 1.6% to 4.8%. The most significant decrease will occur in City Development as appropriations will decrease by 34.6% due to a decline in grant funding of 42.3%. Appropriations for Legislative and Elections and Community Services will fall by 13.7% and 12.5%, respectively. Public Safety appropriations will decline by 1.6% over the two-year period.

Estimated grant fund appropriations will fall by 6.0% from $1.9 billion in FY2012 to $1.8 billion in FY2013. 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: FY2012 & FY2013 (in $ millions)				
	FY2012 Adopted	FY2013 Proposed	$ Change	% Change
Finance and Administration				
Local Fund	$ 463.7	$ 490.8	$ 27.1	5.8%
Grants	$ 56.8	$ 38.0	$ (18.8)	-33.1%
Subtotal Finance and Administration	**$ 520.5**	**$ 528.8**	**$ 8.3**	**1.6%**
Legislative and Elections				
Local Fund	$ 40.7	$ 35.2	$ (5.6)	-13.7%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 40.7**	**$ 35.2**	**$ (5.6)**	**-13.7%**
City Development				
Local Fund	$ 61.6	$ 62.3	$ 0.6	1.0%
Grants	$ 285.0	$ 164.6	$ (120.4)	-42.3%
Subtotal City Development	**$ 346.7**	**$ 226.9**	**$ (119.8)**	**-34.6%**
Community Services				
Local Fund	$ 93.3	$ 99.5	$ 6.3	6.7%
Grants	$ 516.6	$ 434.4	$ (82.3)	-15.9%
Subtotal Community Services	**$ 609.9**	**$ 533.9**	**$ (76.0)**	**-12.5%**
Public Safety				
Local Fund	$ 1,901.6	$ 1,918.5	$ 17.0	0.9%
Grants	$ 280.0	$ 228.6	$ (51.4)	-18.4%
Subtotal Public Safety	**$ 2,181.6**	**$ 2,147.1**	**$ (34.5)**	**-1.6%**
Regulatory				
Local Fund	$ 49.2	$ 51.6	$ 2.4	4.9%
Grants	$ 7.9	$ 7.5	$ (0.3)	-4.4%
Subtotal Regulatory	**$ 57.0**	**$ 59.1**	**$ 2.1**	**3.7%**
Infrastructure Services				
Local Fund	$ 364.8	$ 388.0	$ 23.2	6.4%
Grants	$ 512.5	$ 515.6	$ 3.1	0.6%
Subtotal Infrastructure Services	**$ 877.3**	**$ 903.6**	**$ 26.3**	**3.0%**
Public Services Enterprises				
Local Fund	$ 632.5	$ 658.1	$ 25.6	4.1%
Grants	$ 262.7	$ 418.2	$ 155.4	59.2%
Subtotal Public Services Enterprises	**$ 895.2**	**$ 1,076.3**	**$ 181.0**	**20.2%**
General Financing Requirements				
Local Fund	$ 3,085.9	$ 3,232.8	$ 146.9	4.8%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 3,085.9**	**$ 3,232.8**	**$ 146.9**	**4.8%**
Subtotal All Program Areas	**$ 8,614.9**	**$ 8,743.8**	**$ 128.9**	**1.5%**
Less Internal Transfers	$ (330.3)	$ (324.5)	$ 5.8	-1.8%
Less Proceeds of Debt	$ (70.5)	$ (72.3)	$ (1.7)	2.4%
Less Grant Funds	$ (1,921.6)	$ (1,806.8)	$ 114.7	-6.0%
Total	**$ 6,292.4**	**$ 6,540.1**	**$ 247.7**	**3.9%**

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

Source: City of Chicago, FY2012 Appropriation Ordinance, Summary G and FY2013 Budget Recommendations, Summary G.

Between FY2009 and FY2013, appropriations by program area, including grant funds, will increase overall by 10.7%, or by $845.9 million. Legislative and Elections, City Development, Community Services and Regulatory will experience decreases in appropriations while the rest of the programs areas will see increases in appropriations ranging from 1.8% to 30.1%. Regulatory appropriations will decline by almost half, from $118.0 million in FY2009 to $59.1 million in FY2013.

Grant funding for all program areas will rise by 15.9%, or $247.3 million, over the five-year span and will increase significantly for Infrastructure Services and Public Services Enterprises by $213.9 million and $190.7 million, respectively. In FY2009 and FY2013, grants make up the majority of funding for City Development and Community Services. In FY2009 grant funds accounted for 43.4% of Infrastructure Services, but in FY2013, grants will represent 57.1% of Infrastructure Services. There were no grant funds for General Financing Requirements in FY2009 through FY2013; local fund appropriations will increase by $534.3 million, or 19.8%, for General Financing Requirements over the five years.

City of Chicago Appropriations by Program Area: FY2009 & FY2013 (in $ millions)				
	FY2009 Adopted	FY2013 Proposed	$ Change	% Change
Finance and Administration		$ -		
Local Fund	$ 497.2	$ 490.8	$ (6.4)	-1.3%
Grants	$ 13.6	$ 38.0	$ 24.5	180.5%
Subtotal Finance and Administration	**$ 510.8**	**$ 528.8**	**$ 18.1**	**3.5%**
Legislative and Elections		$ -		
Local Fund	$ 37.2	$ 35.2	$ (2.0)	-5.4%
Grants	$ -	$ -	$ -	0.0%
Subtotal Legislative and Elections	**$ 37.2**	**$ 35.2**	**$ (2.0)**	**-5.4%**
City Development		$ -		
Local Fund	$ 78.7	$ 62.3	$ (16.4)	-20.8%
Grants	$ 203.4	$ 164.6	$ (38.8)	-19.1%
Subtotal City Development	**$ 282.0**	**$ 226.9**	**$ (55.2)**	**-19.6%**
Community Services		$ -		
Local Fund	$ 116.4	$ 99.5	$ (16.9)	-14.5%
Grants	$ 483.1	$ 434.4	$ (48.7)	-10.1%
Subtotal Community Services	**$ 599.5**	**$ 533.9**	**$ (65.6)**	**-10.9%**
Public Safety		$ -		
Local Fund	$ 1,830.5	$ 1,918.5	$ 88.0	4.8%
Grants	$ 278.4	$ 228.6	$ (49.8)	-17.9%
Subtotal Public Safety	**$ 2,108.9**	**$ 2,147.1**	**$ 38.2**	**1.8%**
Regulatory		$ -		
Local Fund	$ 66.1	$ 51.6	$ (14.5)	-21.9%
Grants	$ 51.9	$ 7.5	$ (44.4)	-85.5%
Subtotal Regulatory	**$ 118.0**	**$ 59.1**	**$ (58.9)**	**-49.9%**
Infrastructure Services*		$ -		
Local Fund	$ 393.0	$ 388.0	$ (5.0)	-1.3%
Grants	$ 301.7	$ 515.6	$ 213.9	70.9%
Subtotal Infrastructure Services	**$ 694.7**	**$ 903.6**	**$ 208.9**	**30.1%**
Public Services Enterprises		$ -		
Local Fund	$ 620.7	$ 658.1	$ 37.4	6.0%
Grants	$ 227.5	$ 418.2	$ 190.7	83.8%
Subtotal Public Services Enterprises	**$ 848.2**	**$ 1,076.3**	**$ 228.1**	**26.9%**
General Financing Requirements		$ -		
Local Fund	$ 2,698.5	$ 3,232.8	$ 534.3	19.8%
Grants	$ -	$ -	$ -	0.0%
Subtotal General Financing Requirements	**$ 2,698.5**	**$ 3,232.8**	**$ 534.3**	**19.8%**
Subtotal All Program Areas	**$ 7,897.8**	**$ 8,743.8**	**$ 845.9**	**10.7%**
Less Internal Transfers	$ (302.2)	$ (324.5)	$ (22.3)	7.4%
Less Proceeds of Debt	$ (70.4)	$ (72.3)	$ (1.8)	2.6%
Less Grant Funds	$ (1,559.5)	$ (1,806.8)	$ (247.3)	15.9%
Total	**$ 5,965.7**	**$ 6,540.1**	**$ 574.4**	**9.6%**

*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.

Source: City of Chicago, FY2009 Appropriation Ordinance, Summary G and FY2013 Budget Recommendations, Summary G.

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 funds used by the City for its non-capital operations, including the Corporate Fund, special revenue funds, pension funds, debt service funds and enterprise funds. They exclude grant funds.[98] The Corporate Fund is the City's fund for regular governmental operations.

This analysis examines proposed FY2013 revenue estimates, 2012 year-end revenue estimates and prior year actual revenues.

All Local Funds Resources Trends

The City of Chicago's total resources are projected to increase by 2.5%, or $166.9 million, in FY2013 from the FY2012 year-end estimate of nearly $6.8 billion. The City's resources include $6.7 billion of estimated revenues across all funds, including $40 million in proceeds from debt restructuring and $18 million in interest income from the City's long-term asset lease reserve funds.[99] The City's budgeted resources also include $177.0 million of unrestricted Corporate Fund fund balance generated from healthcare savings, increased revenues and improved debt collection from the prior year.

The exhibit below shows the City's resources for all local funds by source. Across all local funds, the top five sources of FY2013 revenue are the aviation fees, sewer and water fees, property taxes, sales taxes and utility taxes and fees. Together, these five sources total nearly $4.0 billion, or 59.2% of total revenues. Property taxes are estimated to generate $837.8 million across all funds, which is a $3.1 million, or 0.4%, increase over FY2012 year-end estimates. Over the past five years, property tax revenues have increased by $20.6 million, or 2.5%. Details of the property tax levy will be discussed on page 52.

Until last year, Proceeds and Transfers In was one of the top five revenue sources since the City had been transferring proceeds from the long-term asset leases into the Corporate Fund to balance the City's operating budget. The amount of Proceeds and Transfers In proposed in FY2013 is $58.0 million – a significant decrease from the FY2011 amount of $467.7 million. This represents a decrease of $409.7 million, or 87.6%, over three years. The FY2013 Proceeds and Transfers In include $40 million from restructuring of debt and other financial transactions and $18 million in interest earnings from the Skyway long-term reserve fund and parking meter long-term reserve fund.[100]

The two- and five-year trends of revenue sources for all funds reflect the continuation of a number of initiatives proposed by Mayor Rahm Emanuel since his first budget, including:

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[98] City of Chicago, FY2013 Budget Overview, p. 152.

[99] These transfers-in come from interest generated on the long- and mid-term reserves established with the lease transactions of the parking meters and the Skyway.

[100] City of Chicago, FY2013 Budget Overview, p. 15 and communication between the Civic Federation and the Office of Budget and Management, October 8, 2012.

- Sewer and Water revenues represent the largest two-year dollar increase, with revenue growing by $89.9 million, or 10.9%, to $913.1 million in FY2013 reflecting incremental increases to water rates enacted in the FY2012 budget.[101] Since FY2009 Sewer and Water revenues have increased by $266.1 million, or 41.1%;
- The largest two-year percentage increase occurs with Lease, Rentals and Sales which is estimated to generate $21.7 million in FY2013, up $7.5 million, or 52.8% from FY2012. The increase is due largely to the scheduled increase in payments under the City's contract with JCDecaux for bus shelter advertising, as well as a slight uptick in expected revenues from other event-related rentals of City facilities and leases of City-owned land.[102] Since FY2009, these revenues have increased by 102.8%, or $11.0 million;
- Aside from the significant reduction of Proceeds and Transfers In, the City's largest two-year dollar decrease is a $21.5 million, or 6.4%, decline in Internal Service Earnings, which are reimbursements for inter-governmental services;
- Charges for Services revenue, which include charges for inspections, public information requests, police and other safety services, are projected to decline by 8.5%, or $11.5 million, to $124.4 million in FY2013;
- Business Taxes will decrease by $0.9 million, or 0.9%, from FY2012 year-end estimates but will increase by $23.6 million, or 29.6% over the five-year period starting FY2009. The increase in revenue is due to higher-than-expected hotel revenues in FY2012 as a result of an increase in the hotel tax rate[103] and increased occupancy and room rates. The relatively flat projection for FY2013 is due to the proposed elimination of the employee head tax;[104]
- Licenses and Permits will decrease by $9.1 million, or 7.7%, despite an effort in FY2012 to increase revenues by raising fees for valet and loading zones, alcohol dealer licenses and fees for owners who fail to register their vacant buildings.[105] The FY2013 drop is due to an initiative to streamline and rationalize the licensing structure that includes reducing the overall number of licenses required by businesses.[106]

[101] City of Chicago, FY2013 Budget Overview, p. 18.
[102] Communication with the Office of Budget and Management, October 23, 2012.
[103] Illinois Legislative Research Unit Tax Handbook for Legislators, 28th Edition March 2012, p. 52.
[104] City of Chicago, FY2013 Budget Overview, p. 13.
[105] City of Chicago, FY2012 Budget Overview, p. 15.
[106] City of Chicago, FY2013 Budget Overview, p. 14.

- Other Revenues, which include Debt Service Funds revenues, are increasing significantly due to increased revenues in the General Obligation Bond Redemption and Interest Fund.

City of Chicago All Local Funds Resources by Source: FY2009-FY2013
(in $ millions)

Revenue	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimates	FY2013 Proposed Budget	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Aviation	$ 891.7	$ 909.9	$ 1,026.1	$ 1,200.2	$ 1,194.8	$ (5.4)	-0.4%	$ 303.1	34.0%
Sewer & Water	$ 647.0	$ 695.1	$ 704.4	$ 823.2	$ 913.1	$ 89.9	10.9%	$ 266.1	41.1%
Property Taxes	$ 817.2	$ 775.2	$ 879.6	$ 834.7	$ 837.8	$ 3.1	0.4%	$ 20.6	2.5%
Sales Taxes	$ 599.3	$ 525.6	$ 562.7	$ 597.1	$ 601.7	$ 4.6	0.8%	$ 2.4	0.4%
Utility Taxes & Fees	$ 481.3	$ 467.4	$ 467.6	$ 447.0	$ 444.2	$ (2.8)	-0.6%	$ (37.1)	-7.7%
Vehicle, Transportation & Motor Fuel Taxes	$ 381.8	$ 389.1	$ 377.5	$ 410.2	$ 410.8	$ 0.6	0.1%	$ 29.0	7.6%
Income Taxes/PPRT	$ 347.8	$ 385.7	$ 344.7	$ 370.1	$ 387.8	$ 17.7	4.8%	$ 40.0	11.5%
Other Resources*	$ 208.8	$ 216.2	$ 299.2	$ 279.4	$ 365.5	$ 86.1	30.8%	$ 156.7	75.0%
Fines, Forfeitures & Penalties	$ 252.5	$ 258.8	$ 263.3	$ 285.6	$ 330.6	$ 45.0	15.8%	$ 78.1	30.9%
Internal Service Earnings	$ 289.1	$ 274.6	$ 306.1	$ 335.1	$ 313.5	$ (21.6)	-6.4%	$ 24.4	8.4%
Transaction Taxes	$ 179.6	$ 195.1	$ 215.3	$ 222.0	$ 225.0	$ 3.0	1.4%	$ 45.4	25.3%
Recreation Taxes	$ 154.0	$ 158.4	$ 159.4	$ 159.3	$ 162.7	$ 3.4	2.1%	$ 8.7	5.6%
Charges for Services	$ 87.5	$ 77.7	$ 132.6	$ 135.9	$ 124.4	$ (11.5)	-8.5%	$ 36.9	42.2%
Licenses & Permits	$ 100.5	$ 96.2	$ 102.7	$ 117.9	$ 108.8	$ (9.1)	-7.7%	$ 8.3	8.3%
Business Taxes	$ 79.6	$ 83.0	$ 88.2	$ 104.1	$ 103.2	$ (0.9)	-0.9%	$ 23.6	29.6%
Emergency Communications Surcharge	$ 97.9	$ 94.8	$ 97.0	$ 90.3	$ 89.0	$ (1.3)	-1.4%	$ (8.9)	-9.1%
Proceeds & Transfers In	$ 474.6	$ 519.0	$ 467.7	$ 126.8	$ 58.0	$ (68.8)	-54.3%	$ (416.6)	-87.8%
Special Events	$ 43.3	$ 62.3	$ 32.4	$ 35.8	$ 36.3	$ 0.5	1.4%	$ (7.0)	-16.2%
Lease, Rentals & Sales	$ 10.7	$ 17.6	$ 22.6	$ 14.2	$ 21.7	$ 7.5	52.8%	$ 11.0	102.8%
Municipal Utilities (Parking)	$ 9.1	$ 6.4	$ 9.1	$ 8.7	$ 9.1	$ 0.4	4.6%	$ -	0.0%
Prior Year Unrestricted Corporate Fund Balance	**$ 1.5**	**$ 2.6**	**$ -**	**$ 143.5**	**$ 177.0**	**$ 33.5**	**23.3%**	**$ 175.5**	**11700.0%**
Prior Year Unrestricted Other Fund Balance	**$ (46.6)**	**$ (46.0)**	**$ 11.6**	**$ 28.8**	**$ 21.8**	**$ (7.0)**	**-24.3%**	**$ 68.4**	**-146.8%**
Total	**$ 6,108.2**	**$ 6,164.7**	**$ 6,569.8**	**$ 6,769.9**	**$ 6,936.8**	**$ 166.9**	**2.5%**	**$ 828.6**	**13.6%**

Note: Totals may differ due to rounding.

Sources: City of Chicago *FY2013 Budget Overview*, pp. 158-164.

*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.

The exhibit that follows presents the resources for all local funds by fund. Some of the resource highlights by fund include:

- Tax revenues in the Corporate Fund, the largest revenue source in the budget, are expected to increase by $22.2 million, or 1.2%, to $1.9 billion. Since FY2009 these revenues have increased by $160.7 million, or 9.0%. During the same five-year period, non-tax revenues in the Corporate Fund have increased by $199.9 million, or 25.7%, from $777.8 million in FY2009 to an estimated $977.7 million in FY2013;
- The City is projecting an increase of $84.5 million, or 4.2%, in Enterprise Fund revenues for a total of $2.1 billion in FY2013. Over five years, revenues are increasing by $569.2 million, or 37.0%. Water and Sewer revenues are increasing by $266.1 million mostly due to reforms of the water fee waiver system and water rate increases.[107] Aviation revenues, which are increasing by $303.1 million over the five-year period, are largely sourced by the fees airlines are charged which are established at each airport on a ongoing basis;[108]

[107] 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.
[108] City of Chicago, FY2013 Budget Overview, p. 18.

- The City is projecting it will use $177.0 million of unrestricted Corporate Fund fund balance. The fund balance reflects an uptick in revenues, improved debt collection and savings in FY2012.[109] Since FY2009 the amount of prior year unrestricted Corporate Fund fund balance made available as resources has increased from $1.5 million in FY2009 to $177.0 million in FY2013. For more information on the City's fund balance levels, see Reserve Funds section on page 85.

City of Chicago All Local Funds Resources by Fund: FY2009-FY2013 (in $ millions)									
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimates	FY2013 Proposed Budget	2-Year $ Change	2-Year $ Change	5-Year $ Change	5-Year $ Change
Corporate Fund									
Tax Revenues	$ 1,783.8	$ 1,837.6	$ 1,860.1	$ 1,922.3	$ 1,944.5	$ 22.2	1.2%	$ 160.7	9.0%
Non-Tax Revenues	$ 777.8	$ 773.3	$ 921.1	$ 947.5	$ 977.7	$ 30.2	3.2%	$ 199.9	25.7%
Total Corporate Fund Revenue	**$ 2,561.6**	**$ 2,610.9**	**$ 2,781.2**	**$ 2,869.8**	**$ 2,922.2**	**$ 52.4**	**1.8%**	**$ 360.6**	**14.1%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 222.5	$ 235.0	$ 222.0	$ 229.5	$ 226.5	$ (3.0)	-1.3%	$ 4.0	1.8%
Library	$ 88.3	$ 86.8	$ 87.7	$ 81.6	$ 87.1	$ 5.5	6.7%	$ (1.2)	-1.4%
Emergency Communication	$ 75.8	$ 72.5	$ 83.7	$ 68.8	$ 66.7	$ (2.1)	-3.1%	$ (9.1)	-12.0%
Special Events and Hotel Tax	$ 43.3	$ 62.3	$ 32.4	$ 35.8	$ 36.3	$ 0.5	1.4%	$ (7.0)	-16.2%
CTA Real Estate Transfer Tax	$ 25.4	$ 32.6	$ 35.2	$ 36.6	$ 37.9	$ 1.3	3.6%	$ 12.5	49.2%
TIF Administration	$ -	$ -	$ 3.9	$ 6.5	$ 9.0	$ 2.5	38.5%	$ 9.0	-
Housing Revenue	$ -	$ -	$ -	$ 7.8	$ -	$ (7.8)	-100.0%	$ -	-
Total Special Revenue Funds Revenue	**$ 455.3**	**$ 489.2**	**$ 464.9**	**$ 466.6**	**$ 463.5**	**$ (3.1)**	**-0.7%**	**$ 8.2**	**1.8%**
Enterprise Funds									
Water and Sewer	$ 647.0	$ 695.1	$ 704.4	$ 823.2	$ 913.1	$ 89.9	10.9%	$ 266.1	41.1%
Aviation	$ 891.7	$ 909.9	$ 1,026.1	$ 1,200.2	$ 1,194.8	$ (5.4)	-0.4%	$ 303.1	34.0%
Total Enterprise Funds Revenue	**$ 1,538.7**	**$ 1,605.0**	**$ 1,730.5**	**$ 2,023.4**	**$ 2,107.9**	**$ 84.5**	**4.2%**	**$ 569.2**	**37.0%**
Pension Funds									
Municipal Employees	$ 162.7	$ 150.7	$ 176.5	$ 164.2	$ 162.7	$ (1.5)	-0.9%	$ -	0.0%
Laborers and Retirement Board Employees	$ 13.4	$ 20.8	$ 19.1	$ 14.9	$ 14.6	$ (0.3)	-2.0%	$ 1.2	9.0%
Policemen and Firemen	$ 260.5	$ 263.9	$ 285.7	$ 297.3	$ 302.0	$ 4.7	1.6%	$ 41.5	15.9%
Total Pension Funds Revenue	**$ 436.6**	**$ 435.4**	**$ 481.3**	**$ 476.4**	**$ 479.3**	**$ 2.9**	**0.6%**	**$ 42.7**	**9.8%**
Debt Service Funds									
Bond Redemption and Interest	$ 686.5	$ 548.2	$ 632.5	$ 634.6	$ 707.2	$ 72.6	11.4%	$ 20.7	3.0%
Total Debt Service Funds Revenue	**$ 686.5**	**$ 548.2**	**$ 632.5**	**$ 634.6**	**$ 707.2**	**$ 72.6**	**11.4%**	**$ 20.7**	**3.0%**
Total Revenues	**$ 5,678.7**	**$ 5,688.7**	**$ 6,090.4**	**$ 6,470.8**	**$ 6,680.1**	**$ 209.3**	**3.2%**	**$ 1,001.4**	**17.6%**
Corporate Fund Proceeds & Transfers In	**$ 474.6**	**$ 519.0**	**$ 467.7**	**$ 126.8**	**$ 58.0**	**$ (68.8)**	**-54.3%**	**$ (416.6)**	**-87.8%**
Corporate Fund Prior Year Unreserved Fund Balance	**$ 1.5**	**$ 2.6**	**$ -**	**$ 143.5**	**$ 177.0**	**$ 33.5**	**23.3%**	**$ 175.5**	**11700.0%**
Other Funds Prior Year Unreserved Fund Balance	**$ (46.6)**	**$ (46.0)**	**$ 11.6**	**$ 28.8**	**$ 21.8**	**$ (7.0)**	**-24.3%**	**$ 68.4**	**-146.8%**
Total Resources	**$ 6,108.2**	**$ 6,164.3**	**$ 6,569.7**	**$ 6,769.9**	**$ 6,936.9**	**$ 167.0**	**6.6%**	**$ 828.7**	**13.6%**

Note: Minor differences may appear due to rounding.
Source: City of Chicago FY2013 Budget Overview , pp. 158-164.

Corporate Fund Resources Trends

The Corporate Fund is the City's general operating fund. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects a 0.5% or $17.1 million increase in Corporate Fund resources in FY2013 from FY2012 year-end estimates.

The Corporate Fund's tax revenues are projected to increase by 1.2% in FY2013, rising $22.2 million to $1.9 billion in FY2013. The increase is primarily due to a projected increase in income taxes collected by the State, which include the personal property replacement taxes (PPRT) levied on corporations and utilities. PPRT revenues in the Corporate Fund are projected to decline by $8.1 million largely because the State's allocations to municipalities are declining and

[109] City of Chicago, FY2013 Budget Overview, p. 15.

because the portion of PPRT revenue distributed to pension obligations are increasing.[110] The growth in income taxes reflects anticipated growth in corporate profits, declines in the city unemployment rate and general improvements in the economy.[111]

Non-tax revenues are expected to increase by $30.2 million, or 3.2%, to $977.6 million. The majority of this growth is due to a $45.0 million, or 15.8%, growth in fines and forfeitures, which the City attributes to improved and more aggressive debt collection efforts and anticipated revenues from newly enacted automated speed enforcement cameras at public schools and parks.[112]

Over the five-year period beginning FY2009, all tax and non-tax revenues are expected to increase except for utility tax and franchise fees and municipal parking revenues. Sales and use taxes are expected to increase by $86.5 million, or 18.1%. Fines and forfeitures are projected to increase by $78.1 million, or 30.9%.

The City's Corporate Fund resources include $58.0 million of proceeds and transfers in, which consist of $40 million in savings from debt restructuring and $18 million in interest income from long-term asset lease reserve funds. The category of Proceeds and Transfers In will decrease by 87.8% since FY2009, due to reduced use of asset lease proceeds. Also included as Corporate Fund resources is $177.0 million of unrestricted Corporate Fund fund balance generated from healthcare savings, increased revenues and improved debt collection from the prior year.

City of Chicago Corporate Fund Resources: FY2009-FY2012
(in $ millions)

Tax Revenue	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Year-End Estimates	FY2013 Proposed Budget	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Sales & Use Taxes	$ 476.6	$ 495.8	$ 536.3	$ 564.5	$ 563.1	$ (1.4)	-0.3%	$ 86.5	18.1%
Utility Tax & Franchise Fees	$ 481.3	$ 467.4	$ 467.6	$ 447.0	$ 444.2	$ (2.8)	-0.6%	$ (37.1)	-7.7%
Income Taxes (Incl. PPRT)	$ 251.8	$ 282.0	$ 236.5	$ 243.5	$ 260.6	$ 17.1	7.0%	$ 8.8	3.5%
Transaction Taxes	$ 179.6	$ 195.1	$ 215.3	$ 222.0	$ 225.0	$ 3.0	1.4%	$ 45.4	25.3%
Transportation Taxes	$ 155.9	$ 150.7	$ 151.9	$ 177.0	$ 180.6	$ 3.6	2.0%	$ 24.7	15.8%
Recreation Taxes	$ 154.0	$ 158.4	$ 159.4	$ 159.3	$ 162.7	$ 3.4	2.2%	$ 8.7	5.7%
Business Taxes	$ 79.6	$ 83.0	$ 88.2	$ 104.1	$ 103.2	$ (0.9)	-0.9%	$ 23.6	29.6%
Other	$ 5.1	$ 5.2	$ 4.9	$ 4.9	$ 5.1	$ 0.2	4.5%	$ 0.0	0.4%
Total Tax Revenue	**$ 1,783.9**	**$ 1,837.6**	**$ 1,860.1**	**$ 1,922.3**	**$ 1,944.5**	**$ 22.2**	**1.2%**	**$ 160.6**	**9.0%**
Non-Tax Revenue									
Fines & Forfeitures	$ 252.5	$ 258.8	$ 263.3	$ 285.6	$ 330.6	$ 45.0	15.8%	$ 78.1	30.9%
Licenses & Permits	$ 100.5	$ 96.2	$ 102.7	$ 117.9	$ 108.8	$ (9.1)	-7.7%	$ 8.3	8.2%
Charges for Services	$ 87.5	$ 77.7	$ 132.6	$ 135.9	$ 124.4	$ (11.5)	-8.5%	$ 36.9	42.1%
Leases, Rentals & Sales	$ 10.7	$ 17.6	$ 22.6	$ 14.2	$ 21.7	$ 7.5	53.0%	$ 11.0	103.0%
Municipal Utilities (Parking)	$ 9.1	$ 6.4	$ 9.1	$ 8.7	$ 9.0	$ 0.4	4.4%	$ (0.1)	-0.6%
Reimbursement,Interest,Other	$ 317.5	$ 316.6	$ 390.8	$ 385.2	$ 383.1	$ (2.1)	-0.5%	$ 65.6	20.7%
Total Non-Tax Revenue	**$ 777.8**	**$ 773.3**	**$ 921.1**	**$ 947.5**	**$ 977.6**	**$ 30.2**	**3.2%**	**$ 199.8**	**25.7%**
Prior Year Unrestricted Fund Balance	**$ 1.5**	**$ 2.6**	**$ -**	**$ 143.5**	**$ 177.0**	**$ 33.5**	**23.3%**	**$ 175.5**	**11700.0%**
Proceeds & Transfers In	**$ 474.6**	**$ 519.0**	**$ 467.7**	**$ 126.8**	**$ 58.0**	**$ (68.8)**	**-54.3%**	**$ (416.6)**	**-87.8%**
Total Corporate Resources	**$ 3,037.8**	**$ 3,132.5**	**$ 3,248.9**	**$ 3,140.1**	**$ 3,157.2**	**$ 17.1**	**0.5%**	**$ 119.4**	**3.9%**

Source: City of Chicago FY2013 Budget Overview , pp. 158-164.

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[110] City of Chicago, FY2013 Budget Overview, pp. 14 and 159.
[111] City of Chicago, FY2013 Budget Overview, p. 14.
[112] City of Chicago, FY2013 Budget Overview, p. 14.

Property Tax Revenues

The City of Chicago's proposed 2013 property tax levy for City government purposes is $801.3 million, which is an increase of $3.3 million from the FY2012 proposed levy. The increase in the levy is from additional revenue captured through expiring and terminated tax increment financing (TIF) districts.

The proposed 2013 levy includes property taxes levied for the Chicago Public Library, which is a branch of city government.[113] 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 FY2013 will not begin to be collected until 2014 and any increase appears on the second installment of tax bills sent in the fall of 2014.

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.[114]

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.[115] The 2008 levy increase exceeded the City's self-imposed limit on property tax increases by 7.9%. 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.[116] 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 levy remained at $796.9 million from FY2008 to FY2011 and then increased to $798.0 million in FY2012 in order to capture revenue from three expiring tax increment financing (TIF) districts. The FY2012 proposed budget noted 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 would 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.[117]

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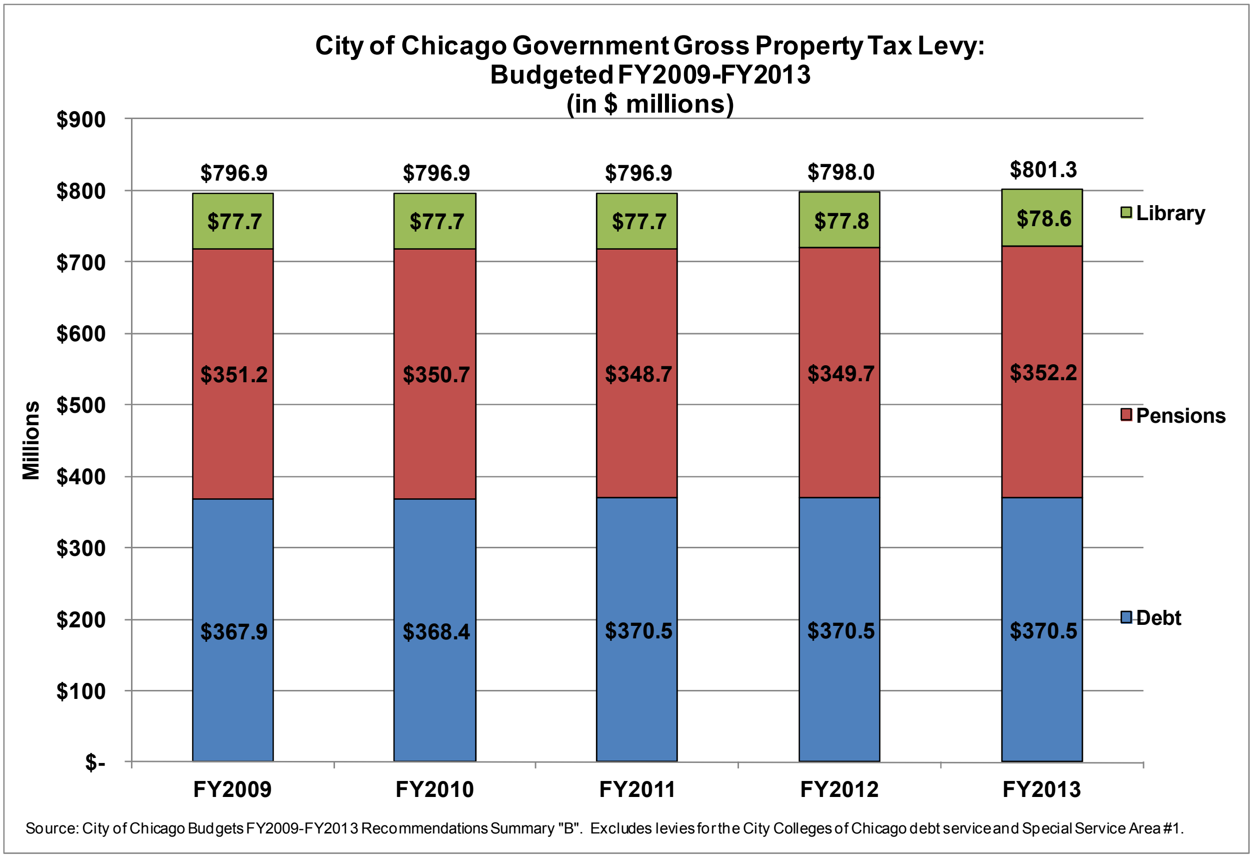
[113] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[114] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.
[115] This was a reduction from the original budget proposal, which would have raised the property tax levy by $108 million or 15.1%.
[116] 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."
[117] Information provided by City of Chicago Office of Budget and Management, November 1, 2011. City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 51.

The proposed FY2013 property tax levy is $801.3 million, which includes an additional $3.3 million that will be captured from expiring and terminated TIF districts.[118] The figure below shows the components of the property tax levy for the past five years.



Additional Property Tax Revenues

As discussed in the previous section, the City of Chicago's proposed 2013 property tax levy for City government purposes, including the library, is $801.3 million. The City has proposed to capture property tax revenue from expiring TIF districts, resulting in a $3.3 million increase in 2013. Aside from the slight increases in 2012 and 2013, 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 separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

[118] City of Chicago, 2013 Budget Overview, p. 20.

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.[119]

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.[120] 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.[121] 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.[122] It has remained at $36.6 million from FY2008 through FY2013.

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.[123] When City Colleges $36.6 million levy is added to the $801.3 million total listed it brings the total levy to $837.9 million, which is the amount reflected in the City's property tax rate.

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.

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[119] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php
[120] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[121] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[122] 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
[123] The City Colleges levy appears in the City's FY2013 Budget Recommendations book (p. 32) but is absent from the property tax discussion on page 20 of the Budget Overview book.

The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[124] 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.[125] 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.[126]

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.[127] 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.[128]

The City also issued new bonds to finance its "Modern Schools Across Chicago" school construction program. The bonds amounted to over $356 million in 2007 and $150 million in 2010.[129]

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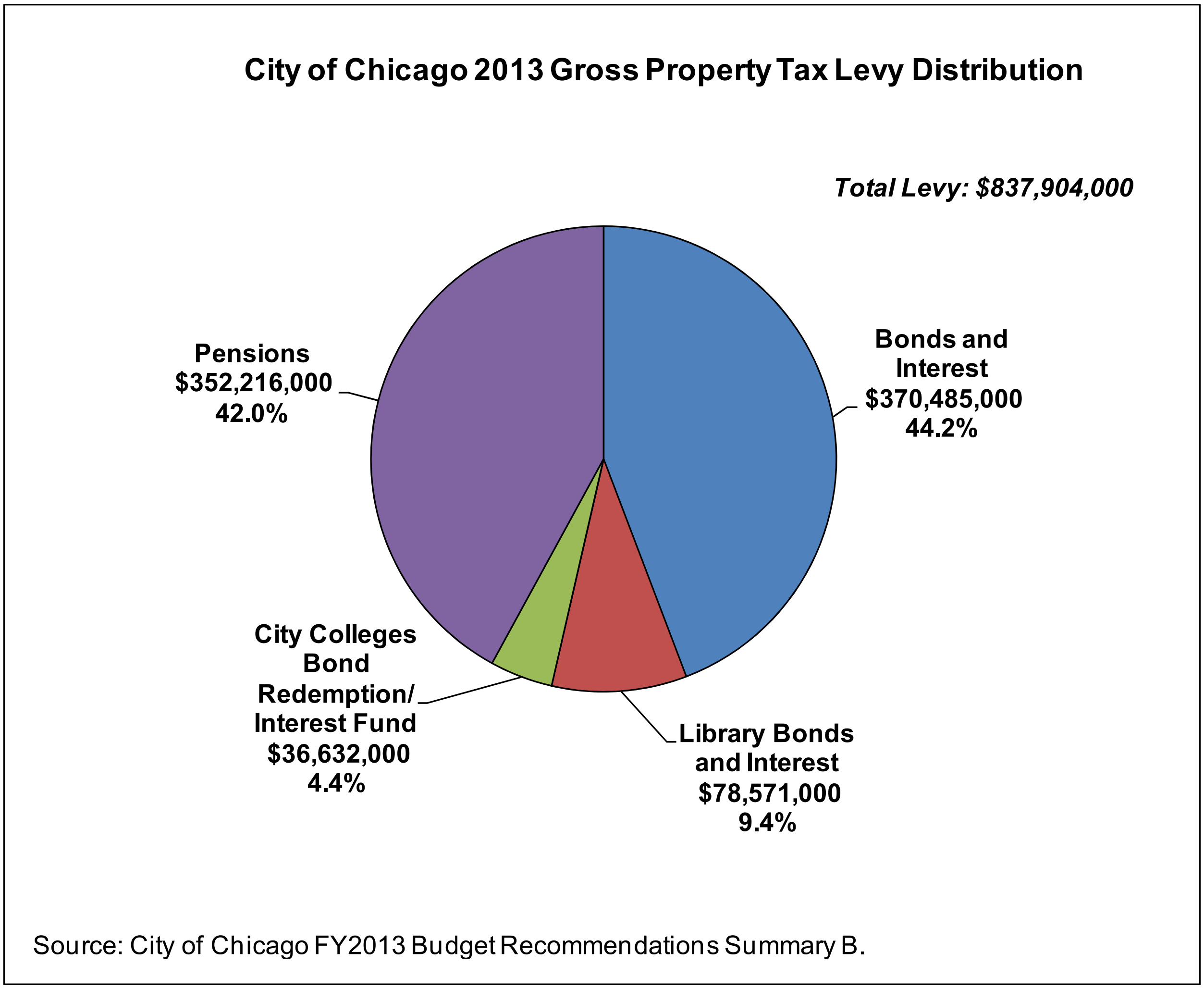
[124] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.
[125] 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
[126] 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.
[127] City of Chicago, FY2013 Budget Recommendations, pp. 28-34.
[128] City of Chicago, FY2010 Comprehensive Annual Financial Report, p. 144.
[129] 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 2013 (taxes payable in 2014). Approximately 4.4% of the City's proposed FY2013 property tax levy is for City Colleges bonds, and 9.4% is for the library. Roughly 42.0% is dedicated to pension payments and 44.2% 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 $837.9 million.



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 163 active TIFs in Chicago. In 2012 one TIF district will expire, seven will be terminated and one will be repealed. In 2013 three TIF districts are scheduled to expire by the end of the year, leaving 151 TIF districts expected to remain.[130] The City plans to move property taxes from the expired districts to the general property tax levy.[131]

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.[132] 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 2011 rates, paid in 2012.[133] For tax year 2011, the City of Chicago will collect $453.7 million in TIF revenue, down 11.0% from the $510.0 million collected in 2010. The decline in overall TIF revenue is partly due to the real estate decline and a lower equalizer, which also fell 10%.[134]

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 or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[135] 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.[136]

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 2011 property tax revenues totaled nearly $1.3 billion. This was a decline of $15.1 million from FY2007.

City of Chicago FY2007 - FY2011 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund #	Fund Name	FY2007	FY2008	FY2009	FY2010	FY2011
	City Government Funds	$ 713,452	$ 796,862	$ 796,862	$ 796,862	$ 796,862
549	City Colleges Bond Redemption/Interest Fund	$ 33,509	$ 36,632	$ 36,632	$ 36,632	$ 36,637
	TIF Property Tax Revenues	$ 555,311	$ 495,590	$ 519,716	$ 509,971	$ 453,672
	GRAND TOTAL	**$ 1,302,272**	**$ 1,329,084**	**$ 1,353,210**	**$ 1,343,465**	**$ 1,287,171**

Source: City of Chicago, FY2007-FY2011 Appropriations Ordinance, Summary B and Cook County Clerk TIF reports 2007-2011.

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.

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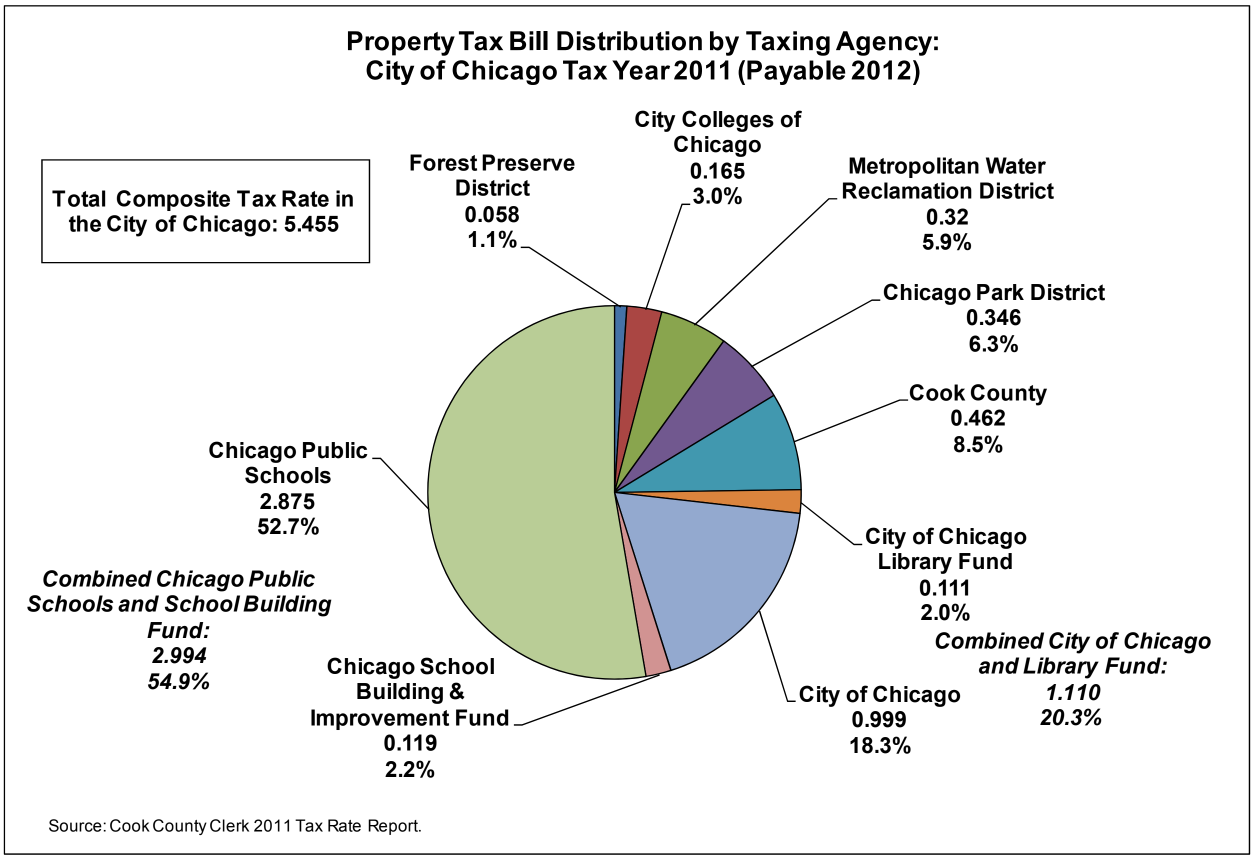
130 Communication with the Office of Budget and Management, October 23, 2012.
131 City of Chicago, FY2013 Budget Overview, p. 20.
132 Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
133 Available on the Cook County Clerk's website at www.cookcountyclerk.com.
134 Cook County Clerk, "2011 TIF revenue continues 4 year slide," press release, July 18, 2012.
135 See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
136 City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

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 the City of Chicago tax bill among the different governments.[137] The 2011 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 20.3% of a typical City property tax bill is for the City of Chicago, including the library, and 54.9% 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. The following chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago.



[137] Cook County Clerk 2011 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 2007-2011 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 2007-2011
As Reported in the Cook County Clerk Agency Tax Rate Reports

Fund #	Fund Name	2007	2008	2009	2010	2011
3	Bonds & Interest	$ 400,728,571	$ 411,108,080	$ 404,269,309	$ 405,045,033	$ 407,105,446
120	Police Pension	$ 141,080,000	$ 139,640,000	$ 141,741,000	$ 140,165,000	$ 143,785,000
121	Fire Pension	$ 65,242,000	$ 65,426,000	$ 66,140,000	$ 64,323,000	$ 66,125,000
122	Municipal Pension	$ 128,378,000	$ 125,644,000	$ 124,326,000	$ 126,831,000	$ 121,297,000
125	Laborers Pension	$ -	$ 9,526,000	$ 13,327,000	$ 13,714,000	$ 11,759,000
289	Note Redemption & Interest Fund	$ 3,867,000	$ -	$ -	$ -	$ -
319	1998 Equipment Notes	$ -	$ -	$ -	$ -	$ -
	Subtotal City	**$ 739,295,571**	**$ 751,344,080**	**$ 749,803,309**	**$ 750,078,033**	**$ 750,071,446**
3	Bonds & Interest	$ -	$ 3,049,661	$ 4,339,219	$ 4,338,906	$ 4,339,922
128	Library Municipal Pension	$ -	$ 5,700,000	$ 5,700,000	$ 5,700,000	$ 5,700,000
259	Library Note Redemption	$ 29,103,000	$ 73,363,000	$ 73,363,000	$ 73,377,000	$ 73,377,000
	Subtotal Library	**$ 29,103,000**	**$ 82,112,661**	**$ 83,402,219**	**$ 83,415,906**	**$ 83,416,922**
	GRAND TOTAL City + Library	**$ 768,398,571**	**$ 833,456,741**	**$ 833,205,528**	**$ 833,493,939**	**$ 833,488,368**

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 2007-2011
As Reported in the City of Chicago Appropriation Ordinances

Fund #	Fund Name	2007	2008	2009	2010	2011
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, FY2007-FY2011 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 between FY2005 and FY2011. At the end of 2011, the aggregate principal balance in the Skyway and parking meter asset lease reserve funds was approximately $623 million.[138]

[138] City of Chicago, Annual Financial Analysis 2012, p. 58.

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.[139]

The principal balance of the Human Infrastructure Fund was fully drawn down by the end of 2009, as scheduled. By the end of 2011, the principal balance of the Mid-Term Reserve Fund was also fully drawn down.[140]

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 2012 Annual Appropriation Ordinance calls for $18.0 million in investment earnings to be transferred to the Corporate Fund by the end of 2012. As of March 31, 2012, the Fund had earned $1.8 million in interest.[140]

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[139] 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 “Service Concession and Reserve Fund.” For a description of this fund, see City of Chicago, FY2011 Comprehensive Annual Financial Report, pp. 49-51.

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

As of March 31, 2012, there were nearly $502 million of Skyway lease proceeds remaining.

Skyway Lease Proceeds: As of March 31, 2012 (in $ thousands)					
	Debt Retirement	Long-Term Reserve Fund	Mid-Term Reserve Fund	Human Infrastructure Fund	Total
Revenues (through 3/31/12)					
Proceeds	$ 850,000	$ 500,000	$ 375,000	$ 100,000	$ 1,825,000
Interest Earnings	$ -	$ 172,087	$ 50,134	$ 12,273	$ 234,494
Total	**$ 850,000**	**$ 672,087**	**$ 425,134**	**$ 112,273**	**$ 2,059,494**
Expenses, Transfers and Disbursements					
2005*	$ 850,000	$ 18,244	$ 100,000	$ 34,000	$ 1,002,244
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	$ -	$ 17,950	$ 50,000	$ 5,203	$ 73,153
As of 3/31/12	$ -	$ -	$ -	$ 72	$ 72
Total	**$ 850,000**	**$ 170,231**	**$ 425,000**	**$ 112,270**	**$ 1,557,501**
Balance	**$ -**	**$ 501,856**	**$ 134**	**$ 3**	**$ 501,993**

*Includes $50.0 million for 2004.

Notes: Debt Retirement includes $446.3 million in Skyway Associated Debt Retired. The 2012 Annual Appropriation Ordinance includes a transfer of $18.0 million to the Corporate Fund from the Long-Term Reserve Fund; this is not shown in the chart above.

Sources: City of Chicago, Annual Financial Analysis 2012, p. 55 and historical data from Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html

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.[141] 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

[141] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 94 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

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, and $33 million of existing debt as well as a transfer of $40 million 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 was transferred during 2011.[142] There will be no further reserves associated with this terminated lease transaction.

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, the Revenue Replacement 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).[143]
- 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.[144]

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 Revenue Replacement) funds in just three years, leaving the Budget Stabilization and Mid-Term Reserve funds essentially depleted.

The principal of the Mid-Term Reserve Fund was depleted at the end of 2011. The principal of the Budget Stabilization Fund was drawn down in 2010, and $549,000 in interest remained in the fund as of March 31, 2012. As of March 31, 2012, the Human Infrastructure Fund had a balance of $35.5 million.[145]

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 Revenue Replacement fund was previously required to transfer at least $20 million in interest earnings per year to the Corporate Fund. If $20 million was not earned, then the balance had to come from the principal. As funds were borrowed from the principal, there were less funds available on which to earn interest, and therefore even more needed to be taken from principal to meet the $20 million annual requirement, perpetuating a downward spiral. With the passage of the FY2012 budget, the City amended the ordinance authorizing the parking meter lease agreement so that, like the Skyway Long-Term Reserve Fund, the amount transferred annually to the Corporate Fund can

[142] City of Chicago, Annual Financial Analysis 2012, p. 55.
[143] These amounts total more than $325 million because interest income was also anticipated.
[144] City of Chicago, Annual Financial Analysis 2012, pp. 55-58 and Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.
[145] City of Chicago, Asset Lease Agreements, http://www.cityofchicago.org/city/en/depts/fin/supp_info/public_private_partnerships/asset_lease_agreements.html.

only come from interest earnings and not from the principal balance.[146] The FY2012 Annual Appropriation Ordinance included a projected $2.0 million in interest earnings from the parking meter Revenue Replacement Fund.[147] The City plans to transfer $16 million in interest income from the Skyway Long-Term Reserve Fund and $2.0 million in interest income from the parking meter long-term reserve fund to its operating budget in FY2013.[148] The Revenue Replacement Fund earned $18.0 million in interest earnings between its establishment in 2009 and March 31, 2012 and the fund had a balance of $98.1 million at this time. As of March 31, 2012, the Mid-Term Reserve Fund had earned $4.9 million in interest since 2009 and only $3,000 of principal balance remained.

Unlike the Skyway Long-Term Reserve Fund, the parking meter Revenue Replacement 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 $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 $69.9 million in 2011. The City began to pay back these funds in 2012, with a $20.0 million deposit in FY2012 and a proposed $15 million deposit in FY2013.[149]

[146] Communication with the Office of Budget and Management, October 23, 2012. See Section 12 of the FY2012 Annual Appropriation Ordinance.
[147] City of Chicago, 2012 Annual Appropriation Ordinance, p. 18.
[148] City of Chicago, FY2013 Budget Overview, p. 15.
[149] City of Chicago, Annual Financial Analysis 2012, p. 58. FY2013 Budget Overview, p. 15.

As of March 31, 2012, there were $134.2 million of parking meter lease proceeds remaining.

Parking Meter Lease Proceeds: As of March 31, 2012 (in $ thousands)					
	Revenue Replacement Fund*	Mid-Term Reserve Fund	Budget Stabilization Fund	Human Infrastructure Fund	Total
Revenues (through 3/31/12)					
Proceeds	$ 400,000	$ 325,000	$ 326,355	$ 100,000	$ 1,151,355
Interest Earnings	$ 18,006	$ 4,922	$ 2,863	$ 856	$ 26,647
Total	**$ 418,006**	**$ 329,922**	**$ 329,218**	**$ 100,856**	**$ 1,178,002**
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	$ 89,900	$ 79,919	$ 53	$ 40,886	$ 210,758
As of 3/31/12	$ -	$ -	$ 68	$ 957	$ 1,025
Total	**$ 319,900**	**$ 329,919**	**$ 328,669**	**$ 65,359**	**$ 1,043,847**
Balance	**$ 98,106**	**$ 3**	**$ 549**	**$ 35,497**	**$ 134,155**

*Also referred to as Parking Meter Long-Term Reserve Fund in previous Civic Federation reports.

Note: The 2012 Annual Appropriation Ordinance includes total transfers to the Corporate Fund of $2.0 million from the Long-Term Reserve Fund and $100.0 million from the Mid-Term Reserve Fund; these budgeted transfers are not shown in the chart above.

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 as of March 31, 2012. It does not include interest revenues generated and spent.

The proceeds from the four transactions totaled $3.3 billion, of which approximately $1.6 billion, or 47.1%, has been or is budgeted to be spent by the end of FY2012 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 FY2012 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	$ 1,010.7	$ 1,565.7
Remaining Balance Long-Term Reserves	$ 501.9	$ -	$ -	$ 98.1	$ 600.0
Remaining Balance Allocated for Operating Expenses	$ 3.0	$ -	$ -	$ 35.5	$ 38.5
Total Projected Distribution	**$ 1,834.9**	**$ 215.2**	**$ 126.1**	**$ 1,151.4**	**$ 3,327.5**

Note: The projected use of proceeds through FY2012 year-end is based on the 3/31/12 balance and assumes that the full amount appropriated for 2012 will be transferred out of the fund by year-end. It does not account for any interest that may be earned between 3/31/12 and 12/31/12.

Source: City of Chicago 2012 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 FY2012 Year-End					
	Skyway	Parking Garages	Midway Security Deposit	Parking Meters	Total
Retire Debt and Closing Costs	46.6%	100.0%	36.6%	0.6%	33.8%
Budgeted or Spent for Operating Expenses	25.9%	0.0%	63.4%	87.8%	47.1%
Remaining Balance Long-Term Reserves	27.4%	0.0%	0.0%	8.5%	18.0%
Remaining Balance Allocated for Operating Expenses	0.2%	0.0%	0.0%	3.1%	1.2%
Total Projected Distribution	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: The projected use of proceeds through FY2012 year-end is based on the 3/31/12 balance and assumes that the full amount appropriated for 2012 will be transferred out of the fund by year-end. It does not account for any interest that may be earned between 3/31/12 and 12/31/12.

Source: City of Chicago 2012 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, 90.9% of the $1.15 billion in parking meter proceeds were spent on operating expenses including amounts borrowed from the parking meter long-term reserve fund 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, full-time equivalent (FTE) position count and Corporate Fund personnel services. The FY2013 Budget Recommendations, which will be voted on by the City Council to become the FY2013 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted full-time equivalent positions and includes personnel related expenses such as pension and healthcare costs.[150] Since the actual number of full-time equivalent positions is not available, for the purposes of this analysis, the Civic Federation compares personnel count by the number of budgeted full-time equivalent positions from the FY2009 and FY2012 appropriation ordinances and FY2013 proposed budget. In

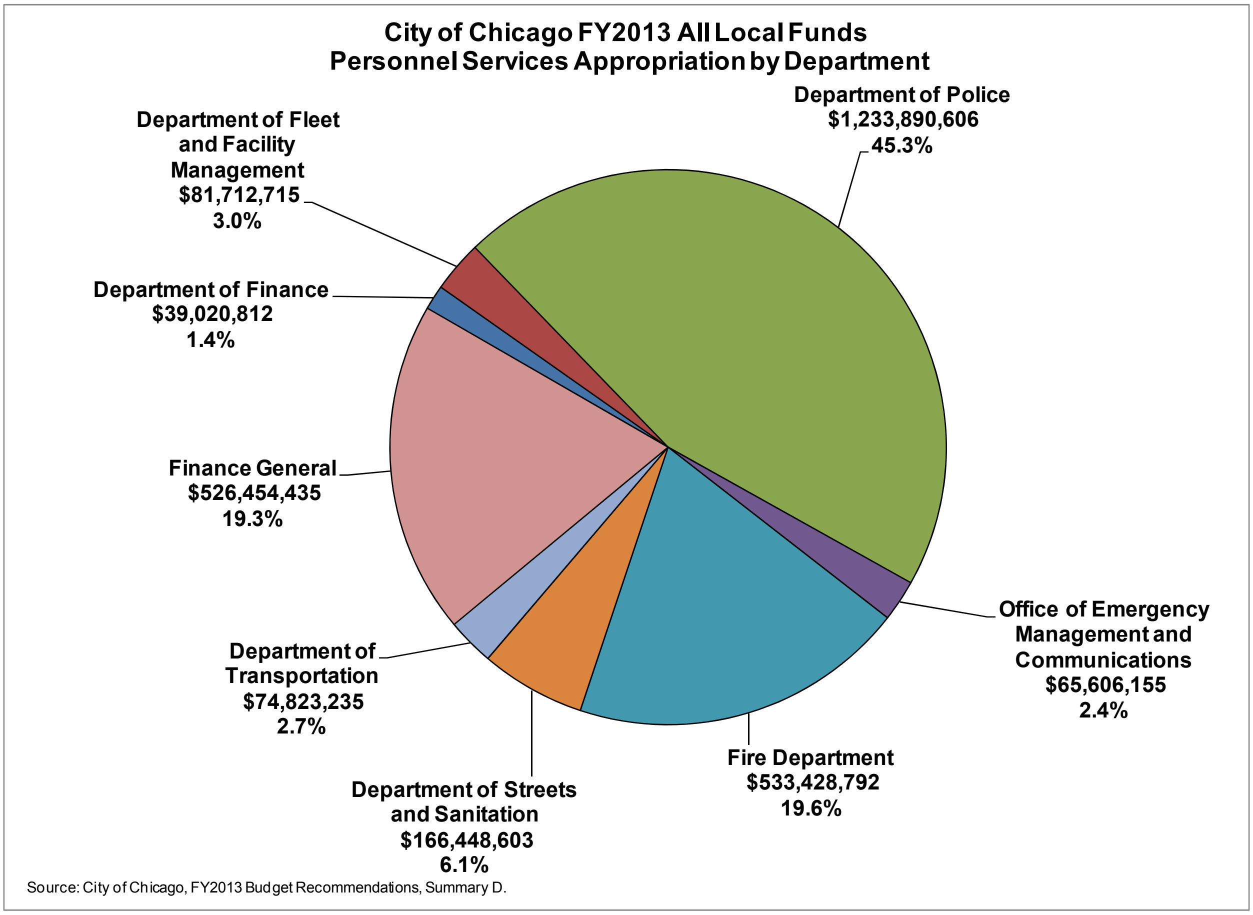
[150] Full-time equivalent (FTE) positions represent the total hours worked divided by the average annual hours worked in a full-time position.

previous years, actual numbers of full-time equivalent positions were not available and the Civic Federation therefore compared personnel count by full-time position figures from proposed budgets.

All Local Funds Personnel Services and Full-Time Equivalent Positions

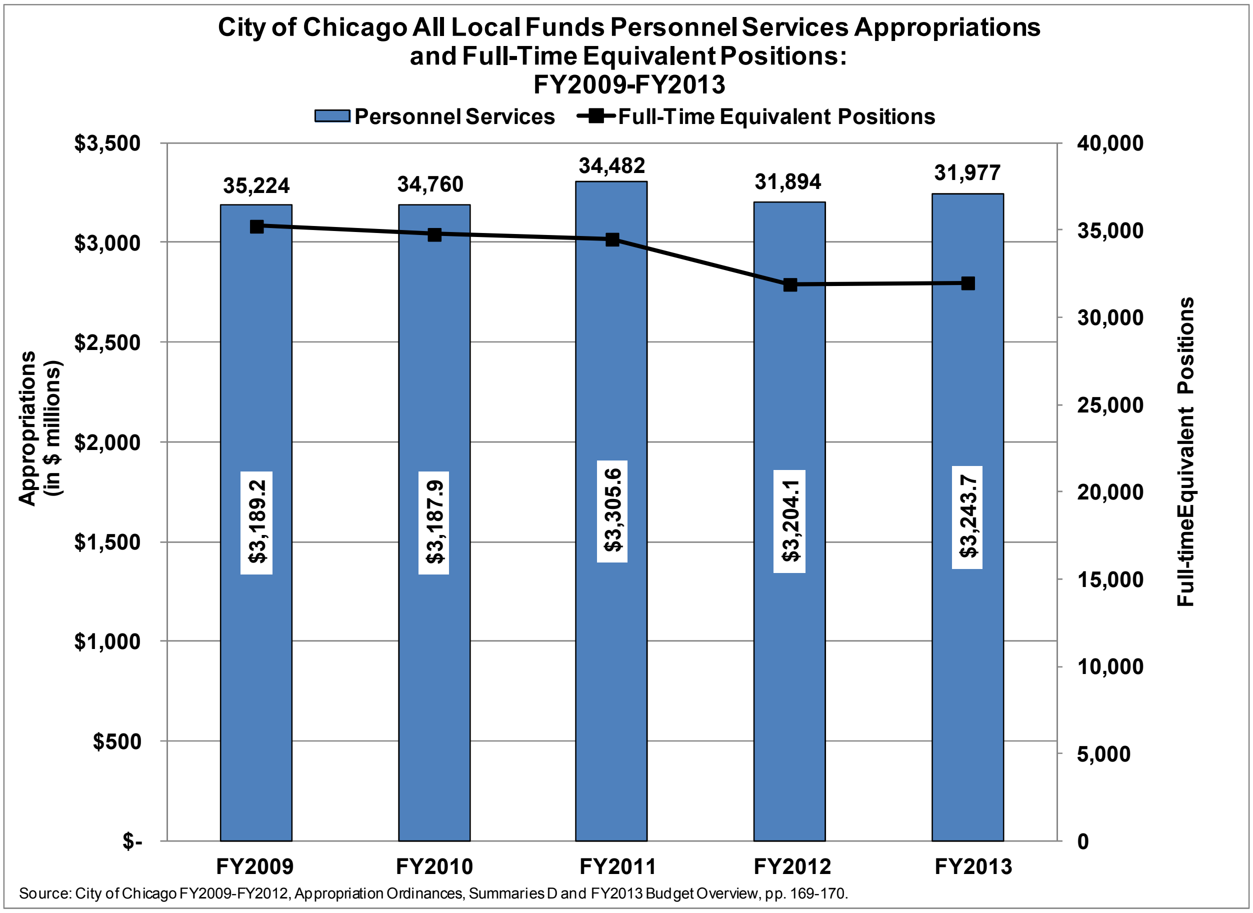
The personnel summaries in the City of Chicago FY2013 Budget Overview book describe personnel for all local funds, which includes the Corporate Fund, special revenue funds and enterprise funds, but excludes grant funds. The City proposes to increase its workforce from 31,894 FTEs proposed in FY2012 to 31,977 FTEs in FY2013 across all local funds.

The City of Chicago proposes to appropriate nearly $3.2 billion to personnel services across all local funds in FY2013. Approximately $1.8 billion, or 67.3% of all local funds personnel services appropriations, will be allocated to public safety. This appropriation level is relatively flat from FY2012 appropriations when public safety represented 57.5% of all local funds personnel services expenses. 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 19.3%, or $526.5 million, of all local funds for FY2013.



Source: City of Chicago, FY2013 Budget Recommendations, Summary D.

Between FY2009 and FY2013, approved local fund appropriations for personnel services, which include salaries, healthcare, overtime pay, workers' compensation, pension payments and other benefits, increased by 1.7%, or $54.5 million, from nearly $3.19 billion to a proposed $3.24 billion. The FY2012 proposed appropriation was the first significant decline in personnel expenditures since FY2004. From FY2009 to FY2011, personnel services appropriations across all local funds increased by $116.4 million, or 3.6%, despite a reduction of 742 full-time equivalent positions. Personnel services appropriations will increase slightly in FY2013 from FY2012 budgeted appropriations by 1.2%, or $39.6 million, due to contractual wages increases and adjustments resulting from changes in how the City budgets for personnel for FY2013, as described below.



Budgeted FTE position count will rise from 31,894 FTEs proposed in FY2012 to 31,977 FTEs in FY2013 across all local funds. This is a net increase of 83 FTE positions, or 0.3%. The most significant reduction in workforce will occur in the Finance and Administration departments. The proposed budget document reports that it eliminates approximately 275 positions from the FY2012 budget, including vacancies; however, this is not reflected explicitly in the budget book due to changes in how the City budgets for personnel. In previous budgets, the City accounted for some full-time employees under hourly positions, referred to as "open line positions." This year, the budget accounts for these employees under regular full-time budgeted positions and only actual seasonal and part-time employees will remain under consideration as "open line positions."[151]

In the five-year period from FY2009 to FY2013, the City proposes to reduce its budgeted workforce by 3,247 full-time equivalent positions (FTEs), or 9.2%, from 35,224 FTEs proposed in FY2009 to 31,977 FTEs proposed in FY2013. Over the same period, the most significant decrease in personnel count occurred in the public safety departments, primarily as a result of the FY2012 proposed budget when the City's budgeted payroll reductions included 517 layoffs and the elimination of more than 2,100 budgeted vacant positions including 1,252 vacant sworn officer positions from the Police Department.[152]

City of Chicago All Local Funds Full-Time Equivalent Positions by Function: FY2009-FY2013

Function	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,775	2,744	2,731	2,623	2,588	-35	-1.3%	-187	-6.7%
Legislative and Elections	357	358	358	360	355	-5	-1.4%	-2	-0.6%
City Development	145	140	234	235	240	5	2.1%	95	65.5%
Community Services	1,426	1,321	1,324	1,029	1,023	-6	-0.6%	-403	-28.3%
Public Safety	22,285	22,191	21,994	20,354	20,395	41	0.2%	-1,890	-8.5%
Regulatory	729	723	631	539	563	24	4.5%	-166	-22.8%
Infrastructure Services	3804	3627	3559	3232	3285	53	1.6%	-519	-13.6%
Public Service Enterprise	3,703	3,656	3,651	3,522	3,528	6	0.2%	-175	-4.7%
Total	**35,224**	**34,760**	**34,482**	**31,894**	**31,977**	**83**	**0.3%**	**(3,247)**	**-9.2%**

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

Source: City of Chicago, FY2013 Budget Overview, pp. 169-170.

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

Personnel service appropriations in the Corporate Fund are projected to increase slightly by $30.9 million, or 1.2%, from $2.58 billion in FY2012 to $2.61 billion in FY2013. The FY2013 appropriation represents 82.8% of the Corporate Fund budget of nearly $3.2 billion. Personnel service appropriations by department include salaries and wages, but personnel-related benefits such as healthcare, overtime pay, 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.[153]

[151] City of Chicago, FY2013 Budget Overview, pp. 22-23.
[152] City of Chicago, FY2012 Budget Overview, p. 2.
[153] City of Chicago, FY2013 Budget Overview, p. 24.

The most significant decrease in personnel services will occur in the Finance General department due to anticipated savings in healthcare in FY2013. Appropriations in the Finance General department will decline by $13.0 million, or 3.0%, from the FY2012 approved budget.[154]

The Departments of Streets and Sanitation will see a rise in Corporate Fund personnel appropriations for FY2013 of $13.4 million, or 10.5%.[155] The increase is due to a number of reasons including $5.0 million decrease in turnover of positions; $2.0 million increase in overtime budgeted based on prior year trends; $4.0 adjustment resulting from the changes in how the City budgets for personnel; $1.2 million increase in Forestry programs; $1.2 million in salary and contractual wages increases.[156] The proposed appropriation for public safety departments is nearly $1.8 billion in FY2013, which is increase of $26.4 million, or 1.5%, from the FY2012 approved budget.

Between FY2009 and FY2013, personnel services appropriations in the Corporate Fund will decrease slightly by 0.5%, or $13.8 million. During the five-year period, personnel services appropriations will decrease for all departments except for the public safety departments, Fleet and Facility Management and Transportation. Public safety personnel appropriations will increase by $99.1 million, or 5.9%. An increase in public safety personnel expenditures is tied to the interest arbitration award for police unions which set a cumulative 10 percent wage increase from 2007 to 2012.[157] Personnel services appropriations will rise by $4.5 million for the departments of both Fleet and Facility Management and Transportation.

The percentage of Corporate Fund appropriations earmarked for personnel services will increase minimally from 82.4% in FY2009 to 82.8% in FY2013.

City of Chicago Corporate Fund Personnel Services: FY2009-FY2013
(in $ millions)

Department	FY2009 Adopted	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,678.0	$ 1,700.3	$ 1,780.7	$ 1,750.7	$ 1,777.1	$ 26.4	1.5%	$ 99.1	5.9%
Streets and Sanitation	$ 170.4	$ 136.8	$ 135.9	$ 127.8	$ 141.2	$ 13.4	10.5%	$ (29.2)	-17.1%
Fleet and Facility Management**	$ 62.7	$ 60.4	$ 59.8	$ 62.1	$ 67.2	$ 5.1	8.2%	$ 4.5	7.2%
Transportation	$ 26.3	$ 50.6	$ 48.1	$ 31.8	$ 30.8	$ (1.0)	-3.3%	$ 4.5	17.2%
City Council	$ 19.6	$ 18.6	$ 18.6	$ 19.7	$ 19.5	$ (0.2)	-0.8%	$ (0.0)	-0.1%
Finance***	$ 33.2	$ 32.6	$ 32.4	$ 30.4	$ 33.0	$ 2.6	8.5%	$ (0.1)	-0.4%
Office of the Mayor	$ 5.9	$ 5.5	$ 5.4	$ 5.1	$ 5.3	$ 0.2	3.5%	$ (0.5)	-9.1%
Finance General	$ 488.5	$ 486.1	$ 500.2	$ 433.7	$ 420.6	$ (13.0)	-3.0%	$ (67.9)	-13.9%
All Other	$ 142.0	$ 134.7	$ 133.3	$ 120.4	$ 117.8	$ (2.5)	-2.1%	$ (24.2)	-17.0%
Total Personnel Services	**$ 2,626.4**	**$ 2,625.6**	**$ 2,714.5**	**$ 2,581.7**	**$ 2,612.6**	**$ 30.9**	**1.2%**	**$ (13.8)**	**-0.5%**
Total Corporate Fund	**$ 3,186.5**	**$ 3,179.7**	**$ 3,263.7**	**$ 3,095.7**	**$ 3,157.2**	**$ 61.5**	**2.0%**	**$ (29.3)**	**-0.9%**

*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 FY2009-FY2011, which merged to create the Department of Fleet and Facility Management in FY2012.

***Includes the Department of Revenue for FY2009-FY2011, which was absorbed by the Department of Finance in FY2012.

Source: City of Chicago, FY2009-FY2012 Appropriation Ordinances, Summaries D and FY2013 Budget Recommendations, Summary D.

The following exhibit presents Corporate Fund appropriations by object classification and are separated by public safety appropriations and non-public safety appropriations. Between FY2012 and FY2013, appropriations will increase by 1.0%, or $17.8 million, for public safety departments and by 3.5%, or $43.7 million, for non-public safety departments. In the two-year period, Personnel Services appropriations for public safety will increase by $26.4 million, or

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[154] Information provided by the City of Chicago Office of Budget and Management, October 23, 2012.
[155] City of Chicago, FY2012 Budget Overview, p. 16.
[156] Information provided by the City of Chicago, Office of Budget and Management, October 23, 2012.
[157] City of Chicago, 2011 Annual Financial Analysis, p. 29.

1.5%, while Personnel Service appropriations for non-public safety will increase slightly by $4.5 million, or 0.5%. Specific Items and Contingencies, which include personnel-related legal and medical expenses, will decline in both areas, by 3.7% for public safety departments and by 13.4% for non-public safety departments. Contractual services will decrease by $6.1 million, or 17.0% for public safety departments, but will increase by $54.2 million, or 23.5%, for non-public safety departments.

Over the five-year period between FY2009 and FY2013, only public safety appropriations for personnel services and Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase. Total Public Safety appropriations will increase by $81.7 million, or 4.6%, from FY2009. Non-public safety total appropriations will decrease by $111.0 million, or 7.9%, over the same period. Personnel Services appropriations for public safety will increase by $99.1 million, or 5.9%, while Personnel Services appropriations for non-public safety will fall by $112.9 million, or 11.9%.

Appropriations for Travel, Commodities and Equipment will decrease in both areas, by $4.0 million, or 33.8%, for public safety departments and by $4.4 million, or 7.5%, for non-public safety departments. Contractual services will decrease significantly in public safety departments, by $25.1 million, or 45.7%, but will increase for non-public safety departments by $31.3 million, or 12.3%.

City of Chicago Corporate Fund Appropriations by Object: FY2009 & FY2013 (in $ millions)

Object Classification	FY2009 Adopted	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*									
Personnel Services	$ 1,678.0	$ 1,700.3	$ 1,780.7	$ 1,750.7	$ 1,777.1	$ 26.4	1.5%	$ 99.1	5.9%
Contractual Services	$ 55.0	$ 40.2	$ 39.5	$ 36.0	$ 29.9	$ (6.1)	-17.0%	$ (25.1)	-45.7%
Travel, Commodities and Equipment	$ 12.0	$ 11.7	$ 10.2	$ 8.6	$ 7.9	$ (0.7)	-8.0%	$ (4.0)	-33.8%
Specific Items and Contingencies**	$ 35.2	$ 34.8	$ 47.1	$ 48.7	$ 47.0	$ (1.8)	-3.7%	$ 11.8	33.5%
Sub-Total Public Safety	**$ 1,780.2**	**$ 1,787.0**	**$ 1,877.4**	**$ 1,844.1**	**$ 1,861.9**	**$ 17.8**	**1.0%**	**$ 81.7**	**4.6%**
Non-Public Safety									
Personnel Services	$ 948.4	$ 925.3	$ 933.8	$ 831.0	$ 835.5	$ 4.5	0.5%	$ (112.9)	-11.9%
Contractual Services	$ 253.2	$ 261.7	$ 263.2	$ 230.3	$ 284.5	$ 54.2	23.5%	$ 31.3	12.3%
Travel, Commodities and Equipment	$ 58.5	$ 46.3	$ 45.9	$ 50.4	$ 54.2	$ 3.7	7.4%	$ (4.4)	-7.5%
Specific Items and Contingencies	$ 146.1	$ 159.4	$ 143.4	$ 139.8	$ 121.1	$ (18.7)	-13.4%	$ (25.0)	-17.1%
Sub-Total Non-Public Safety	**$ 1,406.3**	**$ 1,392.8**	**$ 1,386.2**	**$ 1,251.6**	**$ 1,295.3**	**$ 43.7**	**3.5%**	**$ (111.0)**	**-7.9%**
Total Corporate Fund	**$ 3,186.5**	**$ 3,179.7**	**$ 3,263.7**	**$ 3,095.7**	**$ 3,157.2**	**$ 61.5**	**2.0%**	**$ (29.3)**	**-0.9%**

*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, Appropriation Ordinances, FY2009-FY2012, Summaries D and FY2013 Budget Recommendations, Summary D.

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.[158] 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 Chicago and their dependents.[159] 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.[160] 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.[161] 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.

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158 Firemen’s Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report, December 31, 2011, p. 7-8.

159 Policemen’s Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2011, p. 5 and 29.

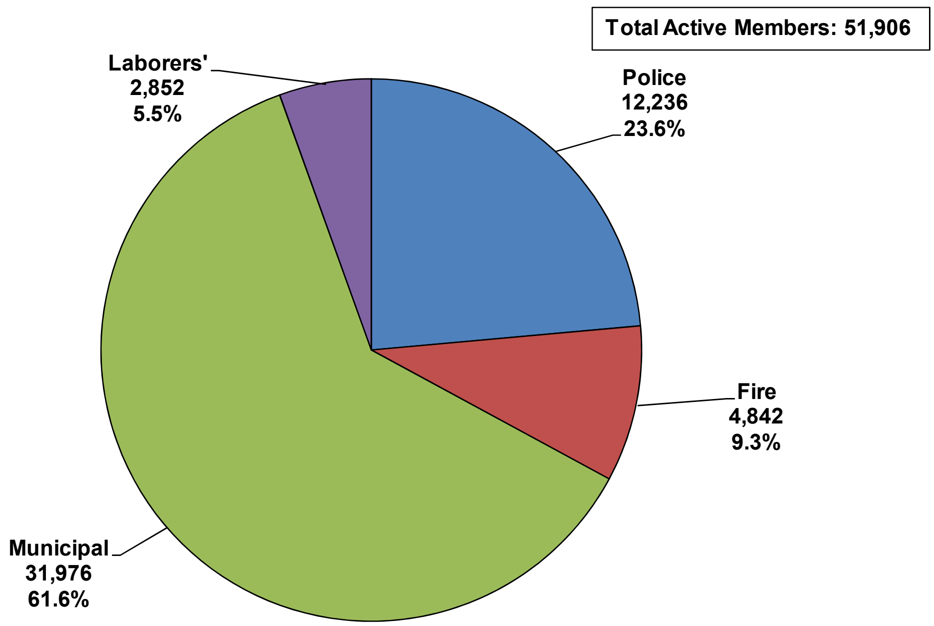
160 Municipal Employees’ Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2011, p. 36 and 37. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.

161 Laborers’ Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2011, p. 20.

Members

In FY2011 there were 51,906 employees participating in the four pension funds. The Municipal Fund constitutes 61.6% of total active employee membership. However, roughly half of the 31,976 active Municipal Fund members are not City employees, but are non-teacher employees of Chicago Public Schools.[162]

City of Chicago Four Pension Funds Active Employee Members: FY2011



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, FY2011.

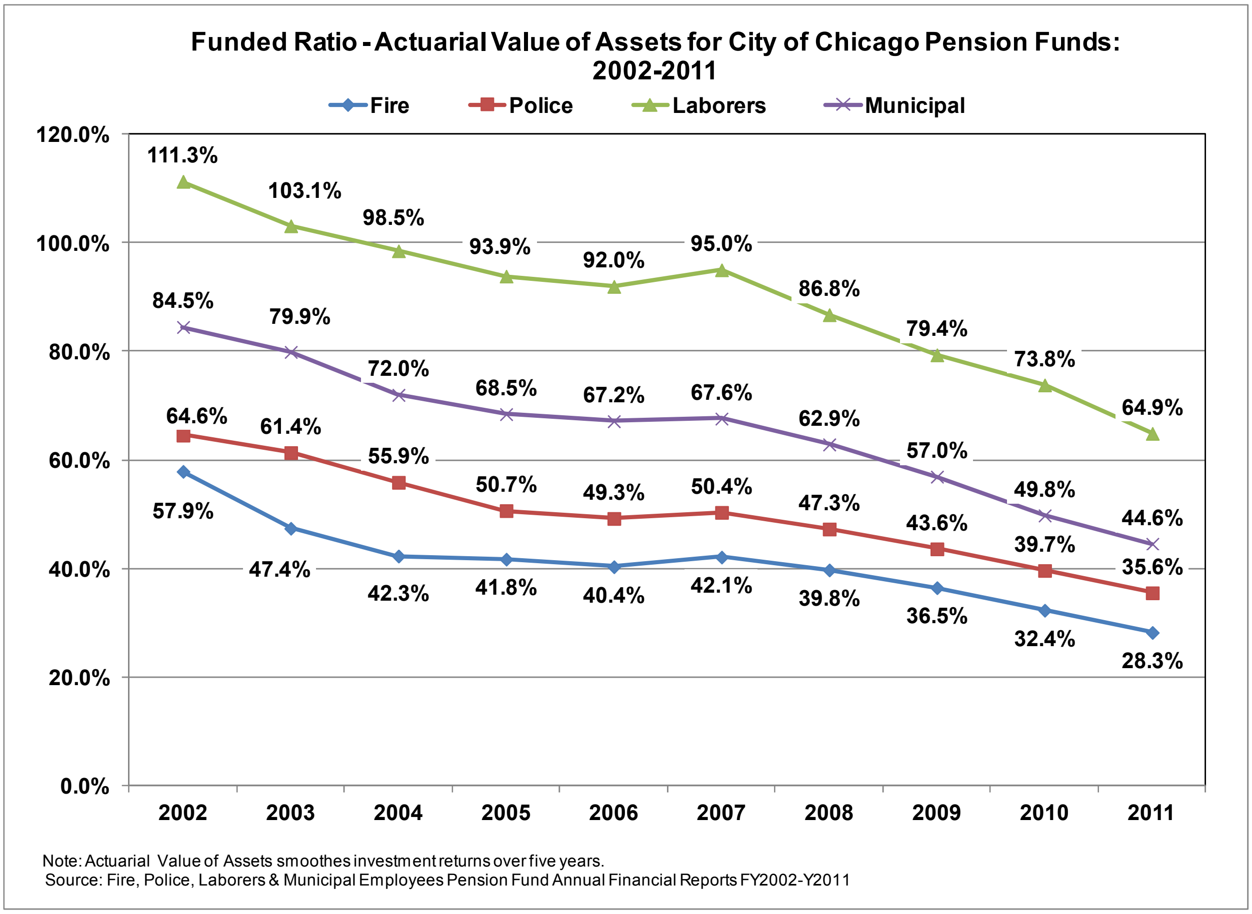
Funded Ratios – Actuarial Value of Assets

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 FY2011. The Fire Fund fell to 28.3% and the Police Fund fell to 35.6%. The funded ratio for the Municipal Fund was 44.6% and the Laborers' Fund was 64.9%. These ratios are roughly half of what they

[162] In FY2010 52.3%, or 16,061, of the 30,726 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, 2011*, p. 75.

were for each fund in 2002. 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.



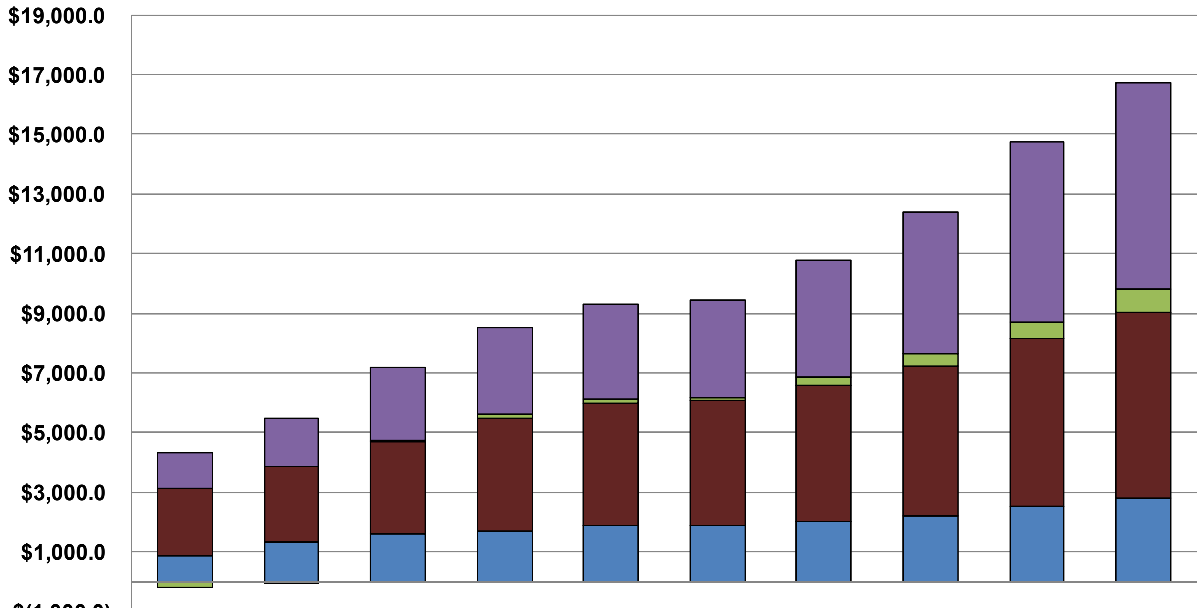
Unfunded Liabilities

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 $12.6 billion or 303.9%. The total unfunded liabilities reached $16.7 billion in FY2011, of which $6.9 billion was in the Municipal Fund followed by the Police Fund at $6.2 billion.

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

- Fire Pension Fund: 218.2% increase or $1.9 billion;
- Police Pension Fund: 176.2% increase or $4.0 billion;
- Laborers Pension Fund: 540.6% increase or $0.9 billion;[163] and
- Municipal Pension Fund: 488.5% increase or $5.7 billion.

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: 2002-2011 (in $ millions)



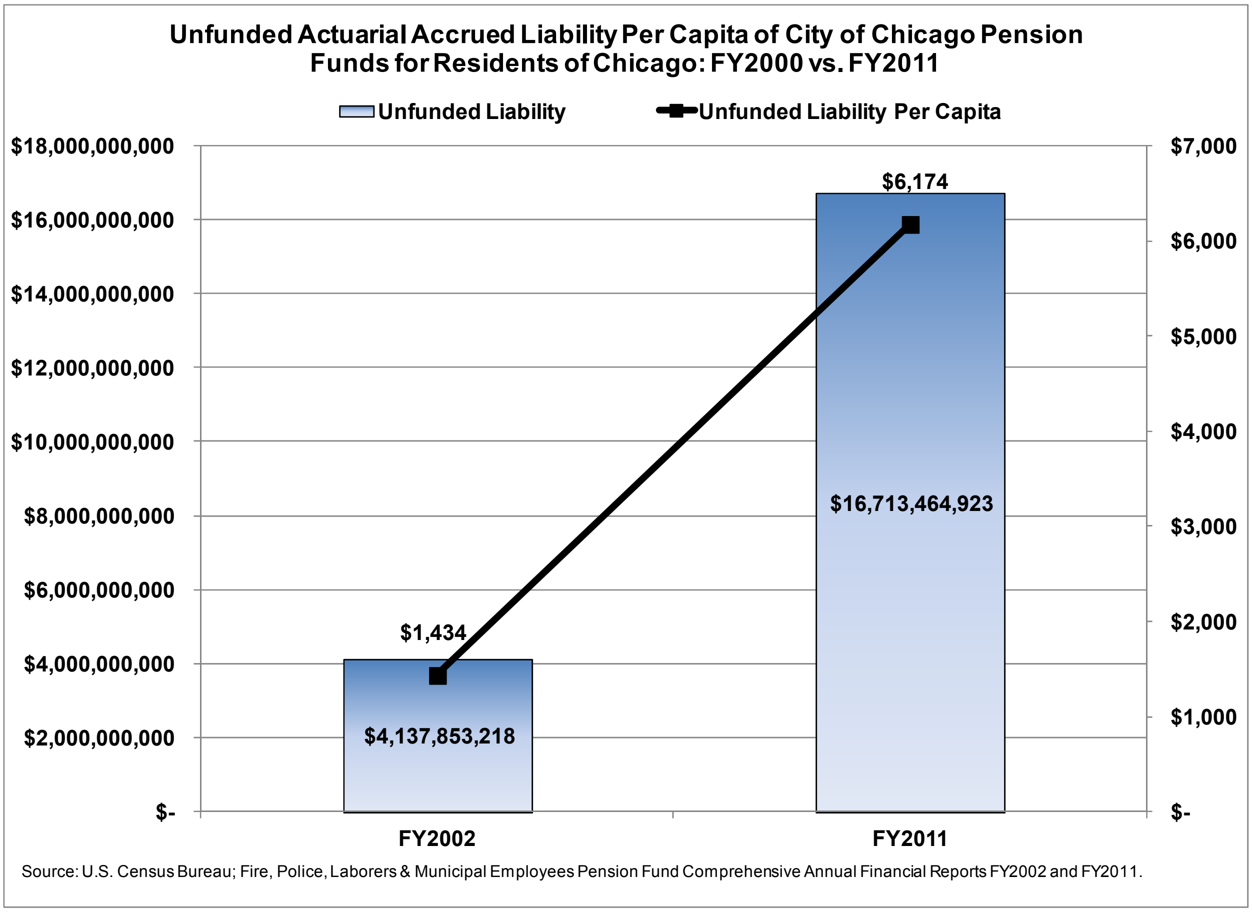
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Municipal	$1,173.1	$1,604.5	$2,465.4	$2,917.8	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8	$6,903.9
Laborers	$(174.5)	$(51.2)	$24.7	$106.7	$145.2	$92.0	$259.0	$416.1	$542.0	$768.8
Police	$2,260.3	$2,541.7	$3,101.2	$3,808.3	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9	$6,243.7
Fire	$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	$2,797.2
TOTAL	$4,137.9	$5,418.3	$7,202.3	$8,512.1	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,751.9	$16,713.5

Source: Fire, Police, Laborers & Municipal Employees Pension Fund Comprehensive Annual Financial Reports FY2002-FY2011.

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.

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

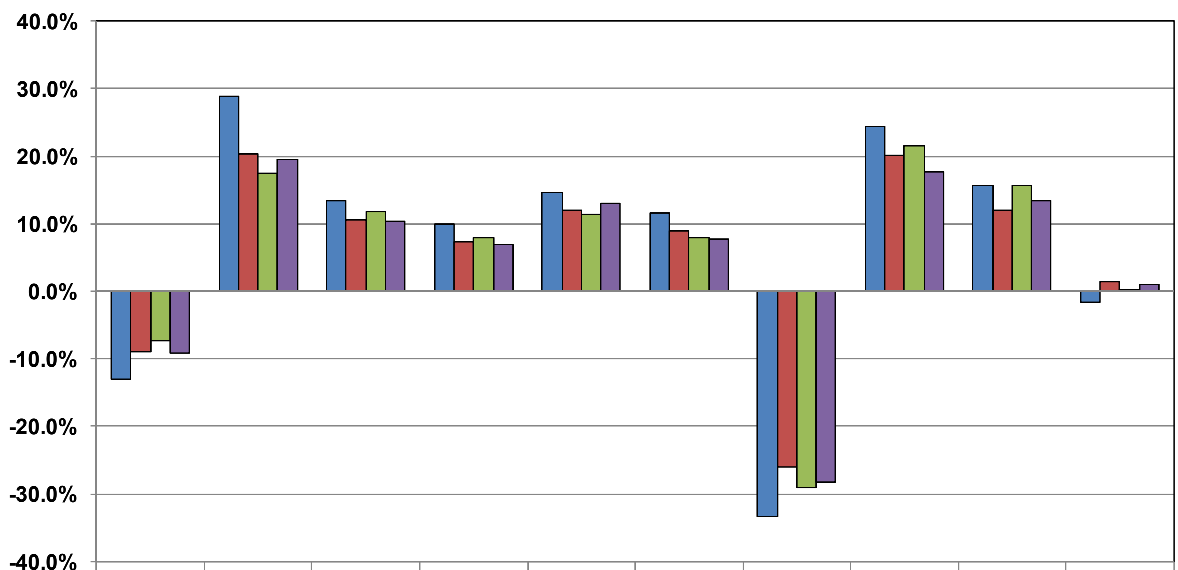
Between Fiscal Year 2002 and 2011, total unfunded liabilities per resident of Chicago grew from $1,434 per capita to $6,174 per capita. This is an increase of 330.6%.



Investment Rates of Return

In FY2011 all four City pension funds reported weak or negative returns on their investments, ranging from 1.3% for the Police Fund to -1.5% for the Fire Fund. This reflected national public pension fund trends of low investment returns for 2011.[164] This was a reversal from the strong returns in FY2009 and FY2010 that marked a recovery from negative FY2008 returns experienced as a result of the financial market crisis and corresponding sharp decline in equities.

Investment Rate of Return - City of Chicago Pension Funds: 2002-2011



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fire	-12.9%	28.9%	13.4%	10.0%	14.6%	11.6%	-33.3%	24.4%	15.6%	-1.5%
Police	-9.0%	20.3%	10.5%	7.2%	12.0%	9.0%	-25.9%	20.1%	11.9%	1.3%
Laborers	-7.4%	17.6%	11.8%	7.9%	11.3%	7.8%	-29.1%	21.6%	15.7%	0.3%
Municipal	-9.1%	19.5%	10.4%	7.0%	13.0%	7.7%	-28.3%	17.7%	13.4%	1.1%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: Fire, Police, Laborers & Municipal Employees Pension Fund Annual Financial Reports FY2002-FY2011.

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.[165] 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.

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[164] National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.

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

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 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 $56,000 final average salary could retire with a $32,256 annuity: 24 x $56,000 x 2.4% = $32,256.[166] 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, 2011; Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; 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

[166] The average FY2011 benefit at retirement for Municipal fund participants was $32,269; the average age at retirement was 62.1 and the average years of service at retirement was 24.86. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2011, p. 47.

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 $100,000 final average salary could retire with a $75,000 annuity: 30 x $100,000 x 2.5% = $75,000.[167]

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.[168] 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.[169]

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, 2011; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2011; Public Act 96-1495.

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167 The average FY2011 annuity at retirement for Fire fund participants was $70,893; the average age at retirement was 58.5; the average years of service at retirement was 29.4; and the average final average salary at retirement was $101,775. Firemen's Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2011, p. 35.

168 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.

169 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.

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 a $730.1 million contribution increase in 2015.[170] 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 State revenue transferred to the City (not to exceed total amount of delinquency): one-third of total State funds to the City in 2016, two-thirds of total State funds to the City in 2017, and 100% of State funds 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.[171] Because the employer contribution has not been changed for the Municipal and Laborers' funds, they are still projected to run out of assets in 2025 and 2028, respectively.[172]

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.[173]

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.[174] 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

[170] City of Chicago, 2012 Annual Financial Analysis, July 31, 2012, p. 84.
[171] 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.
[172] Testimony by Municipal and Laborers' Pension Funds to Chicago City Council, October 1, 2012.
[173] GASB Statements 25 and 27 allow governments and pension funds to report assets on a smoothed or market value basis. GASB Statements 67 and 68, approved in July 2012, which revised government pension and pension fund reporting requirements, will only allow reporting at market value when they go into effect in 2013 and 2014, respectively (City pension fund fiscal year 2014 and City of Chicago fiscal year 2015).
[174] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure starting in 2013 and 2014. No substitute measure of a government's annual pension funding adequacy has been proposed.

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 of how well a public entity is actually funding its pension plan.[175]

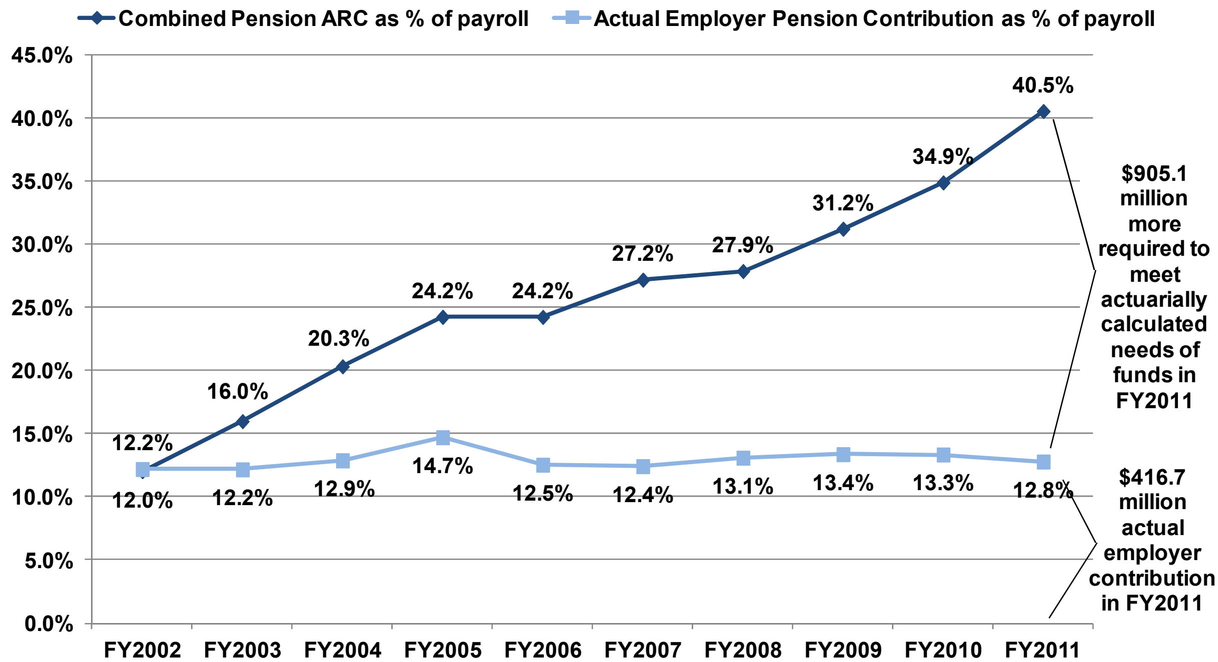
Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2002 the Municipal Fund ARC was 6.7% of payroll and the actual employer contribution was greater than the ARC, at 9.5% of payroll. The Fund had a stronger 84.5% actuarial funded ratio at that time. Ten years later the ARC had risen to 38.1% of payroll while the actual employer contribution was only 9.2% of payroll.

The cumulative ten-year difference between ARC and actual employer contribution for all four pension funds combined is a $4.0 billion shortfall. In 2011 the combined ARC for the four funds was $1.3 billion or more than three times the actual employer contribution of $416.7 million. The combined employer pension contribution shortfall in FY2011 was $905.1 million.

[175] See Appendix A on page 107 for more historical data on the four City of Chicago pension funds' annual required contributions.

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 FY2002 of 0.2 percentage points, or $4.5 million, to a gap of 27.8 percentage points in FY2011. 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 27.8% of payroll, or $905.1 million, in FY2011.

Four City of Chicago Pension Funds Combined
Annual Required Contribution vs. Actual Employer Contribution: FY2002-FY2011
(Calculated According to Governmental Accounting Standards Board Statement 25)



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, FY2002-FY2011.

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 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 FY2011, the City would need to contribute a multiple of 7.47 for the Fire Fund, 4.45 for the Police Fund, 5.37 for the Municipal Fund and 5.41 for the Laborers Fund.[176]

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	**7.47**	2.26
Police*	level % of payroll, open	**4.45**	2.00
Municipal	level dollar, open	**5.37**	1.25
Laborers	level dollar, open	**5.41**	1.00

*Police Fund also computes that the FY2011 annual required multiple using a level dollar amortization would be 6.26. See Police Fund FY2011 Actuarial Valuation p. 18.

Source: Respective Pension Fund FY2011 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 FY2011 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 20.1%.

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)	**FY2011 Employer Contribution** (shown as % of payroll)
Fire	9.125%	2.26	20.1%
Police	9.00%	2.00	17.7%
Municipal	8.50%	1.25	9.7%
Laborers	8.50%	1.00	7.9%

Source: Police, Fire, Municipal and Laborers' Pension Fund Financial Statements FY2011.

Employer Contributions for Chicago Public Schools Members of the Municipal Fund

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

[176] Chicago Policemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2011, p. 18; Chicago Firemens' Annuity and Benefit Fund Actuarial Valuation for the year ended December 31, 2011, p. 10; Laborers' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2011, p. 87; and Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation for the year ended December 31, 2011, p. 92.

grants.[177] The City makes the full statutory Municipal Fund employer contribution through its property tax levy and personal property replacement tax revenue.[178]

Beginning with the FY2012 City budget, CPS was supposed to 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 was $32.5 million.[179] However, due to financial distress at the Chicago Public Schools, the City has postponed the start of reimbursements.[180]

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.[181] The settlement agreement calls for the creation of a Retiree Healthcare Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any retiree healthcare benefits after July 1, 2013." The agreement says the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[182]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, who met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree healthcare benefits and make recommendations.[183] Members of the Commission include City of Chicago Comptroller Amer Ahmad; Leemore Dafney, Associate Professor of Management and Strategy, and the Herman Smith Research Professor in Hospital and Health Services at the Kellogg School of Management at Northwestern University; Will Irving, Laborers Union, Local 1001; and Michael Knitter, Executive Director of Compensation

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[177] 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.
[178] City of Chicago, 2012 Annual Financial Analysis, p. 83.
[179] City of Chicago, FY2012 Budget Overview, p. 6 and 15.
[180] Communication between the Civic Federation and the Office of Budget and Management, October 8, 2012.
[181] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 89. 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.
[182] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan,* Settlement Agreement, p. 8-10.
[183] Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_healthcarebenefitscommissionmeeting.html.

and Benefits at the University of Chicago.[184] The Commission is expected to finish its work and issue its findings sometime in the fall of 2012.[185]

Until June 30, 2013, 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 pension funds provide $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants.[186] 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.[187]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree healthcare plan totaled $805.1 million in FY2011. This is a decline from the $1.0 billion total unfunded liability reported in FY2010. 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 FY2011 unfunded OPEB liability of $414.5 million for the portion subsidized by the pension funds and a FY2010 unfunded OPEB liability of $390.6 million for the portion subsidized by the City.[188] The City does not pre-fund OPEB, so there are 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 $805.1 million.

City of Chicago OPEB Unfunded Liabilities: FY2011 (in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Unfunded Actuarial Accrued Liability--Pension Funds	$ 163,242	$ 38,328	$165,955	$ 46,980	**$ 414,505**
Unfunded Actuarial Accrued Liability--City					**$ 390,611**
TOTAL					**$ 805,116**

Source: City of Chicago FY2011 CAFR, pp. 89 and 91.

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184 Retiree Healthcare Benefits Commission, June 22, 2012 Meeting Minutes. Available at http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/retiree_healthcarebenefitscommissionjune222012.html.

185 The Chicago City Council passed an ordinance on March 14, 2012 to indemnify the non-City employee members of the RHBC against lawsuits arising from their participation as members of the Commission. Ordinance O2012-1422.

186 City of Chicago, *Comprehensive Annual Financial Report for the year ended December 31, 2010*, p. 87.

187 Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 6, 2012.

188 City of Chicago, FY2011 Comprehensive Annual Financial Report, pp. 89 and 91. The FY2011 financial statements state that December 31, 2010 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.

RESERVE FUNDS

The City of Chicago's reserves, or its fund balance, are terms commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.[189] Fund balance is an important financial indicator for local governments. Fund balance is the difference between the assets and liabilities in a governmental fund. Fund balance is more a measure of liquidity than of net worth and can be thought of as the savings account of the local government.[190]

This section discusses four aspects of fund balance: recent changes to fund balance reporting, fund balance policy and definitions, a presentation of historical audited data and analysis of the City's long-term asset lease reserves.

Recent Changes to Fund Balance Reporting

The FY2011 audited financial statements for the City of Chicago include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[191]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[192]

New Components of Fund Balance

GASB Statement No. 54 creates five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.

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[189] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[190] Stephen J. Gauthier, *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.
[191] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009 and GASB Statement No. 54, paragraph 5.
[192] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009.

- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[193]

Historically, the focus of the Civic Federation fund balance analysis has been on the unreserved general fund balance, or in other words, how much is left in the savings account, not how much is being withdrawn. Given the new components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government's unrestricted fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are nearly synonymous.[194]

A ten-year trend analysis of the City's fund balance ratio including the most recent FY2011 numbers is not possible because the data has been classified differently with implementation of GASB No. 54. In the interest of government transparency, the Civic Federation recommends that all local governments, if possible, provide ten years of fiscal data in the GASB No. 54 format in the statistical section of their audited financial statements. Each government should also provide a guide as to how different fund balance lines were reclassified. An accurate trend analysis can only be conducted with reclassified data.

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[193] Gauthier, Stephen J., "Fund Balance: New and Improved," Government Finance Review, April 2009.
[194] Gauthier, Stephen J., *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

Audited Fund Balance

The exhibit below shows eleven years of the City's Corporate Fund fund balance and its ratio to general fund expenditures. Prior to FY2011 and GASB Statement No. 54, the City categorized their unreserved fund balance into *designated for future appropriations* and *undesignated – major funds, undesignated – special revenue funds* and *undesignated – capital projects funds*.

The first chart below includes only the undesignated unreserved fund balance to determine the portion of the fund balance without any constraints. 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 in the eleven-year comparison.

City of Chicago Unreserved, Undesignated Corporate Fund Fund Balance Ratio: FY2000-FY2010

	Unreserved Undesignated 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%

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

The following chart presents unrestricted fund balance for FY2011. In this exhibit, the City's net resources including self-imposed constraints amount to $311.5 million, or 10.2% of Corporate Fund expenditures. These resources include an assigned portion of $143.5 million and an unassigned portion of fund balance of $167.9 million. The unassigned portion is made up of the City's net resources without constraints, self or externally imposed and represents 5.5% of Corporate Fund expenditures.[195]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%

Source: City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 34-38.

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%.[196] 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.[197]

The City's discussion of its financial policies does not include an explicit Corporate Fund fund balance target. To meet the GFOA standard of two months of operating expenditures, the City would need approximately $517 million. The City's current unrestricted Corporate Fund fund balance is $311.5 million, or 10.2% of its operating expenditures. As noted above, according to the GFOA a large government with a diverse revenue base and home-rule authority may effectively maintain a smaller ratio.

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 reserves created through the Skyway and parking meter lease transactions.[198] As a result of the changes to GASB Statement No. 54, the Service Concession Agreement Fund, which accounted for deferred inflows from long-term concession and lease transactions, such as the Skyway and parking meter lease reserves, and the Reserve Fund, which accounted for the City's Mid-Term and Long-Term reserves, were combined to create the Service Concession and Reserve Fund as a new major special revenue fund.[199]

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[195] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 34.
[196] Previously, the GFOA had recommended a general fund balance of 5 to 15%.
[197] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[198] City of Chicago, FY2011 Comprehensive Annual Financial Report, pp. 51-53.
[199] City of Chicago, FY2011 Comprehensive Annual Financial Report, p. 49.

Upon the onset of each lease agreement, 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. By the end of FY2011 approximately $320 million, or 80%, of the parking meter reserves had been transferred out of the parking meter Long-Term Reserve Fund. Beginning in FY2012, the City began replenishing the parking meter reserves with a transfer of $20 million in FY2012 and a proposed transfer of $15 million in FY2013.[200] The City is also continuing to transfer interest generated in the reserve funds to the Corporate Fund as part of its Proceeds and Transfers In revenue. For more information on the City's long-term asset leases, see page 59 of this report.

The table below shows transfers of non-recurring lease fund revenues to the Corporate Fund from 2005 to 2012 and projected transfers for FY2013.[201] Nearly $1.3 billion in non-recurring revenues will have been transferred from asset lease proceeds to the Corporate Fund between 2005 and 2012 (not including amounts spent on human infrastructure programs). 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. With the approval of the FY2012 budget, the City ordered that principal from these reserves will no longer be used to pay for the City's operating expenditures and only interest generated from these reserve funds will be transferred to the Corporate Fund.[202]

[200] City of Chicago, FY2013 Budget Overview, p. 15.
[201] 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 until 2012, 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 were 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.
[202] See the FY2012 Annual Appropriations Ordinance, Section 12.

from Long-Term Asset Lease Proceeds: FY2005-FY2013 (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	$ 150,000	$ 20,000	$ 217,625	$ 437,625
2010	$ 50,000	$ 100,000	$ 160,000	$ 103,787	$ 413,787
2011	$ 50,000	$ 80,000	$ 139,900	$ -	$ 269,900
2012	$ -	$ -	$ 2,000	$ -	$ 2,000
2013 Proposed	$ -	$ -	$ 2,000	$ -	$ 2,000
	$ 325,000	**$ 330,000**	**$ 321,900**	**$ 321,412**	**$ 1,298,312**

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.

Source: City of Chicago, Annual Financial Analysis 2012, Long-Term Asset Lease and Reserve Funds.

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 Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2011, 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 (called accounts payable by most other local governments);
- *Accrued Interest:* includes interest due on deposits payable by the City in the next fiscal year; and
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year.[203]
- *Accrued and Other Liabilities:* includes self insurance funds, unclaimed property and other unspecified liabilities.

[203] City of Chicago FY2011 Comprehensive Annual Financial Report, p. 54.

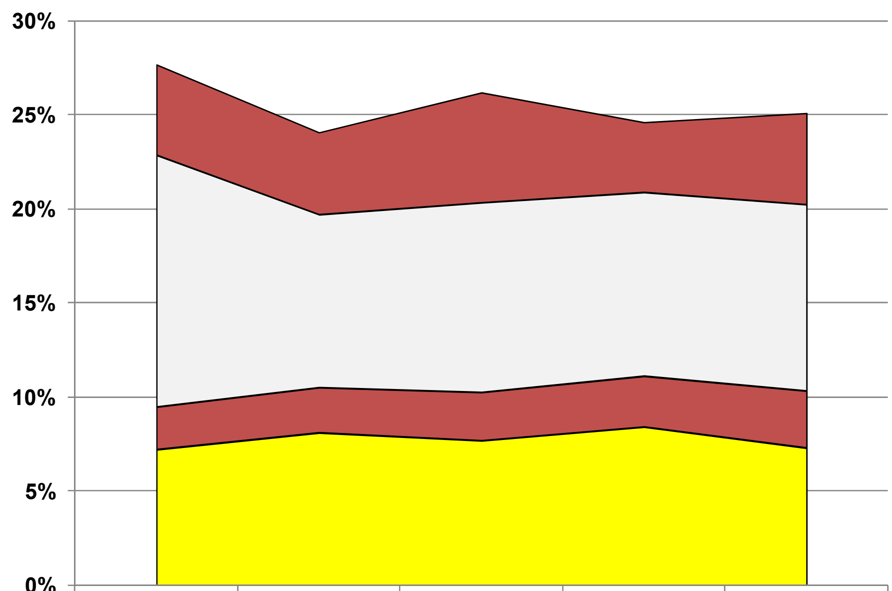
During the five-year period of this review, total short-term liabilities decreased by 3.0%, falling from $1.51 billion to $1.47 billion. The following chart shows short-term liabilities by category and the percent change between FY2007 and FY2011.

City of Chicago Short-Term Liabilities in the Govermnental Funds: FY2007 - FY2011 (in $ thousands)							
Type	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**5-Year Change**	**5-Year % Change**
Voucher Warrants Payable	$ 395,564	$ 453,717	$ 410,820	$ 454,162	$ 428,259	$ 32,695	8.3%
Accrued Interest	$ 123,709	$ 133,412	$ 136,679	$ 144,935	$ 177,026	$ 53,317	43.1%
Due to Other Funds	$ 733,643	$ 513,640	$ 538,196	$ 525,993	$ 580,254	$ (153,389)	-20.9%
Accrued & Other Liabilities	$ 262,052	$ 242,496	$ 310,907	$ 199,324	$ 283,313	$ 21,261	8.1%
Total	**$ 1,514,968**	**$ 1,343,265**	**$ 1,396,602**	**$ 1,324,414**	**$ 1,468,852**	**$ (46,116)**	**-3.0%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2007-FY2011.

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.[204] 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 ratio has remained relatively stable between FY2007 and FY2011, falling slightly from 27.7% to 25.1%. The average ratio during this period was 25.5%. The following graph shows the five-year trend in the City's short-term liabilities by category.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2007-FY2011



	FY2007	FY2008	FY2009	FY2010	FY2011
Accrued & Other Liabilities	4.8%	4.3%	5.8%	3.7%	4.8%
Due to Other Funds	13.4%	9.2%	10.1%	9.8%	9.9%
Accrued Interest	2.3%	2.4%	2.6%	2.7%	3.0%
Voucher Warrants Payable	7.2%	8.1%	7.7%	8.4%	7.3%

Source: City of Chicago ,CAFR FY2007-FY2011.

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.[205]

[204] 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.

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

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 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;
- *Due from other funds or governments*: receivables from those sources that are outstanding at the end of the fiscal year; and
- *Inventories:* The value of materials or supplies that will be used to provide goods or services within a one year period.

Chicago's current ratio was 3.9 in FY2011, the most recent year for which data is available. In the past five years, the City's current ratio averaged 3.9, 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 3.9 to 4.3. This change was largely due to a $148.2 million or 18.5% increase in the value of investments and a $11.6 million or 35.9% decrease in the amount of accrued and other liabilities. Between FY2007 and FY2011, the current ratio rose from 3.7 to 3.9.

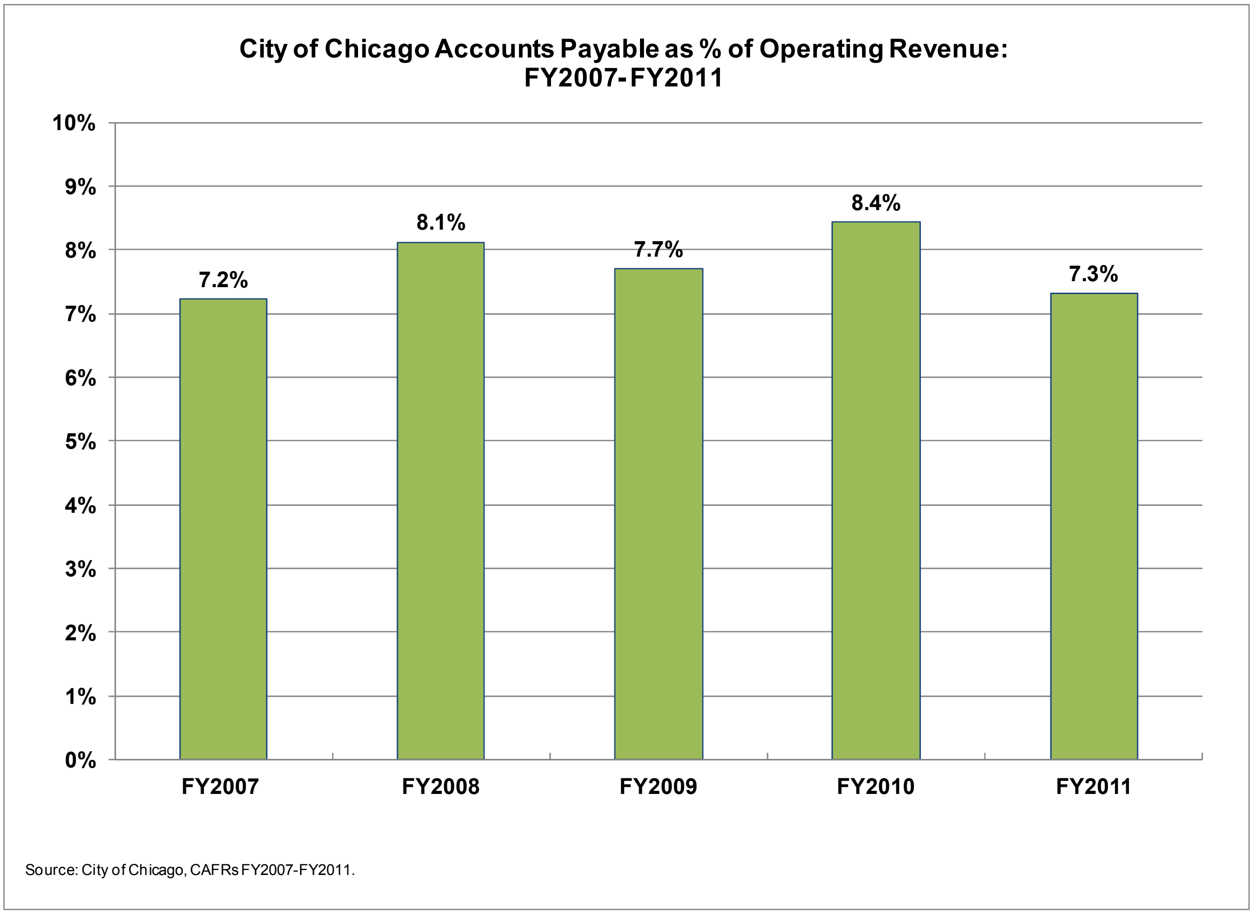
City of Chicago Current Ratio in the Governmental Funds: FY2007-FY2011
(in $ thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011	5-Year Change	5-Year % Change
Current Assets							
Cash and Cash Equivalents	$ 1,254,007	$ 1,092,143	$ 1,606,394	$ 1,594,798	$ 664,643	$ (589,364)	-47.0%
Investments	$ 1,073,559	$ 763,171	$ 801,904	$ 950,161	$ 1,869,980	$ 796,421	74.2%
Cash and Investments with Escrow Agent	$ 501,680	$ 440,339	$ 491,626	$ 457,748	$ 498,483	$ (3,197)	-0.6%
Receivables (Net of Allowances): Property Taxes	$ 1,300,941	$ 1,279,226	$ 1,323,772	$ 1,423,922	$ 1,350,049	$ 49,108	3.8%
Receivables (Net of Allowances): Accounts	$ 285,963	$ 311,914	$ 318,862	$ 318,331	$ 309,947	$ 23,984	8.4%
Due from Other Funds	$ 715,225	$ 473,761	$ 502,384	$ 504,225	$ 518,329	$ (196,896)	-27.5%
Due from Other Governments	$ 398,282	$ 390,523	$ 383,396	$ 417,476	$ 526,139	$ 127,857	32.1%
Inventories	$ 15,332	$ 18,116	$ 19,658	$ 18,180.00	$ 24,055	$ 8,723	56.9%
Total Current Assets	**$ 5,544,989**	**$ 4,769,193**	**$ 5,447,996**	**$ 5,684,841**	**$ 5,761,625**	**$ 216,636**	**3.9%**
Current Liabilities							
Voucher Warrants Payable	$ 395,564	$ 453,717	$ 410,820	$ 454,162	$ 428,259	$ 32,695	8.3%
Accrued Interest	$ 123,709	$ 133,412	$ 136,679	$ 144,935	$ 177,026	$ 53,317	43.1%
Due to Other Funds	$ 733,643	$ 513,640	$ 538,196	$ 525,993	$ 580,254	$ (153,389)	-20.9%
Accrued & Other Liabilities	$ 262,052	$ 242,496	$ 310,907	$ 199,324	$ 283,313	$ 21,261	8.1%
Total Current Liabilities	**$ 1,514,968**	**$ 1,343,265**	**$ 1,396,602**	**$ 1,324,414**	**$ 1,468,852**	**$ (46,116)**	**-3.0%**
Current Ratio	**3.7**	**3.6**	**3.9**	**4.3**	**3.9**	**-**	**-**

Source: City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds, FY2007-FY2011.

Accounts Payable as a Percentage of Operating Revenues

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 and falling slightly in successive years. Over the five-year period, the ratio averaged 7.8%, which is less than one month's worth of outstanding bills and is not considered to be a cause for concern. The following graph shows the City's ratio of accounts payable to operating revenue between FY2007 to FY2011.



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 is 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.[206]

- **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.[207]

- **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.[208]

The two-year increase in long-term liabilities from FY2010 to FY2011 was 12.3% or a $1.7 billion increase. The five-year increase in total long-term obligations between FY2007 and FY2011 was 42.6%. This is a $4.5 billion increase. In the same five-year period, long-term debt (bonds, notes and certificates payable) rose by 21.1%, from $7.4 billion to over $9.0 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 91.7%. The single largest percentage and dollar increase over the five-year period was for pension obligations, which increased by 126.4% or $3.0 billion. The steady increases in long-term obligations, particularly the large pension obligation increase, are a cause for concern.

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[206] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 66.
[207] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 19.
[208] City of Chicago, Comprehensive Annual Financial Report FY2010, p. 91.

City of Chicago Long Term Liabilities for Governmental Activities FY2007 - FY2011 (in $ thousands)							
	FY2007	FY2008	FY2009	FY2010	FY2011	5-Year Change	5-Year % Change
General Obligation Debt	$ 6,379,034	$ 6,455,979	$ 6,863,427	$ 7,504,739	$ 7,777,667	$ 1,398,633	21.9%
Installment Purchase Agreement	$ 7,500	$ 5,500	$ 3,500	$ 1,200	$ -	$ (7,500)	-100.0%
Tax Increment	$ 299,765	$ 210,213	$ 186,158	$ 163,578	$ 131,561	$ (168,204)	-56.1%
Revenue	$ 512,585	$ 562,690	$ 564,842	$ 559,417	$ 776,027	$ 263,442	51.4%
Subtotal Bonds, Notes and Certificates Payable	**$ 7,198,884**	**$ 7,234,382**	**$ 7,617,927**	**$ 8,228,934**	**$ 8,685,255**	**$ 1,486,371**	**20.6%**
Less unamortized debt refunding transactions	$ (134,253)	$ (134,773)	$ (159,810)	$ (171,150)	$ (166,065)	$ (31,812)	23.7%
Add unamortized premium	$ 178,569	$ 179,514	$ 173,347	$ 198,730	$ 196,637	$ 18,068	10.1%
Add accretion of capital appreciation bonds	$ 186,147	$ 185,454	$ 207,878	$ 235,412	$ 264,402	$ 78,255	42.0%
Less converted portion of conversion bonds	$ (11,153)	$ (7,637)	$ (3,923)	$ -	$ -	$ 11,153	-100.0%
Total Bonds, Notes and Certificates Payable	**$ 7,418,194**	**$ 7,456,940**	**$ 7,835,419**	**$ 8,491,926**	**$ 8,980,229**	**$ 1,562,035**	**21.1%**
Pension Obligations	$ 2,379,703	$ 2,874,722	$ 3,453,365	$ 4,216,250	$ 5,386,668	$ 3,006,965	126.4%
Lease Obligations	$ 245,685	$ 207,065	$ 169,282	$ 177,011	$ 166,787	$ (78,898)	-32.1%
Pollution Remediation	$ -	$ 33,200	$ 37,368	$ 14,263	$ 11,235	$ 11,235	……
Claims and Judgments	$ 625,833	$ 609,230	$ 627,370	$ 641,762	$ 667,650	$ 41,817	6.7%
Total Other Liabilities	**$ 3,251,221**	**$ 3,724,217**	**$ 4,287,385**	**$ 5,049,286**	**$ 6,232,340**	**$ 2,981,119**	**91.7%**
Grand Total	**$ 10,669,415**	**$ 11,181,157**	**$ 12,122,804**	**$ 13,541,212**	**$ 15,212,569**	**$ 4,543,154**	**42.6%**

Source: City of Chicago Comprehensive Annual Financial Reports: FY2007-FY2011. Note 10: Long-Term Obligations

Long-Term Direct Debt Trends

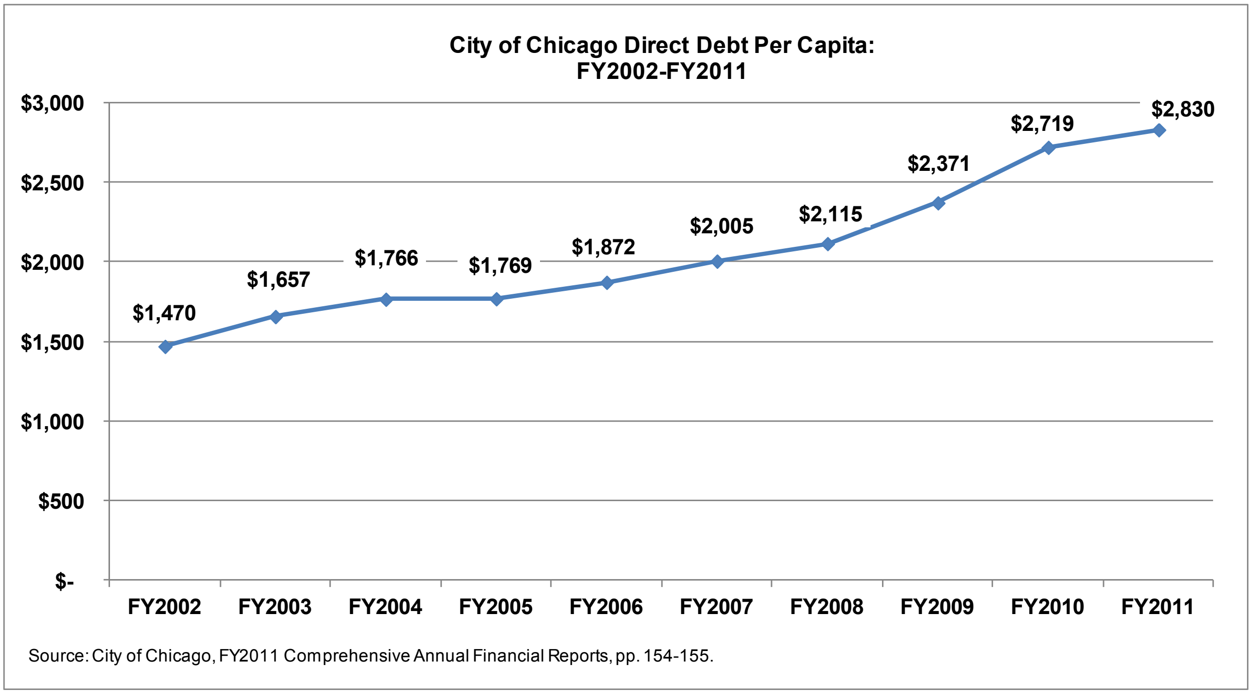
Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 79.2% or $3.4 billion. This represents an increase from nearly $4.3 billion in FY2002 to approximately $7.6 billion ten years later.

City of Chicago Direct Debt: FY2002-FY2011		
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
FY2011	$	7,628,222,000
$ Change	**$**	**3,370,966,000**
% Change		**79.2%**

Source: City of Chicago FY2011 CAFR, pp. 154-155.

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 FY2007 and FY2011, direct debt per capita rose by 41.1% from $2,005 to $2,830. This upward trend comes amidst a ten-year increase in the City of Chicago's debt per capita of 92.5%, which is a $1,360 per capita increase. This sharp upward trend in debt per capita between FY2002 and FY2011 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.

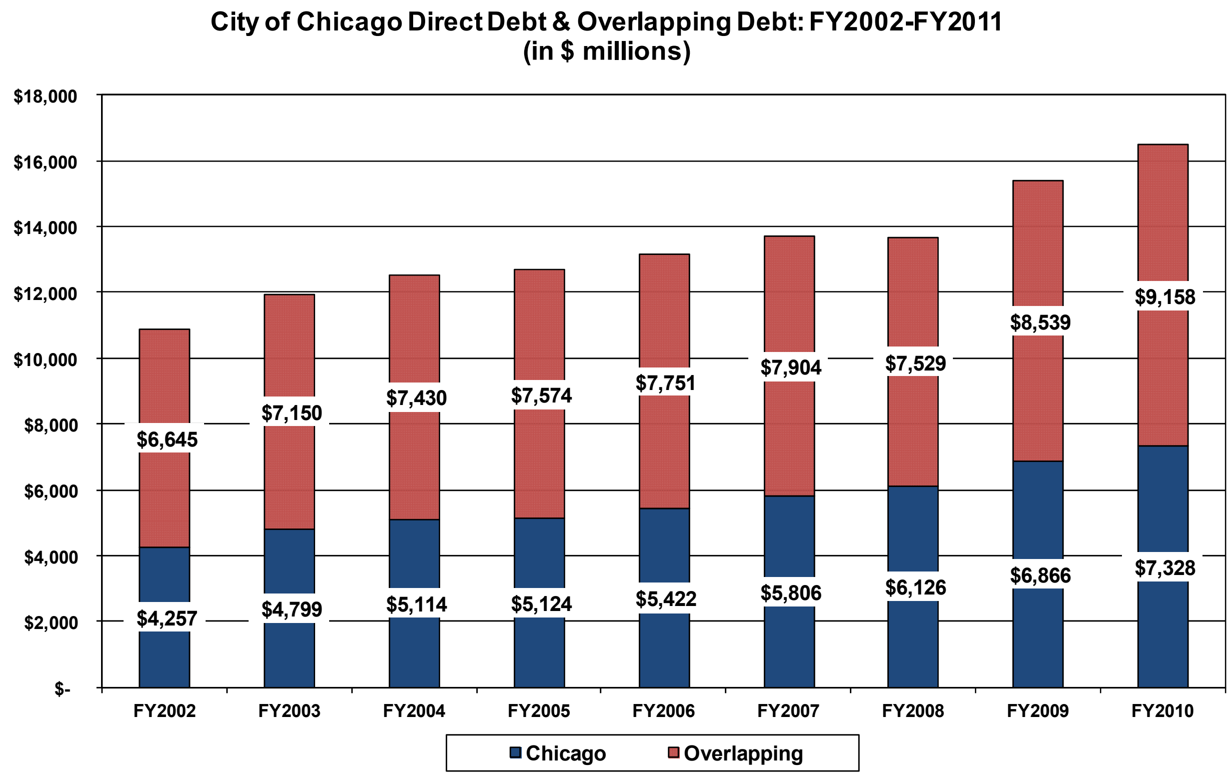


Overlapping Debt: Chicago vs. Other Governments

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.[209] Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2002 and FY2011, direct debt from other overlapping governments combined increased by 48.7% at the same time

[209] 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.

City of Chicago debt rose by 79.2%. Total direct debt from all eight major governments rose by 60.6%. The rate of increase in direct debt issued by the City of Chicago has far outpaced the increase for the other overlapping governments in the region.



Source: City of Chicago FY2011 CAFR, pp. 154-155.

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2012 are projected to be 23.2% of total local fund appropriations, or $1.5 billion out of expenditures totaling nearly $6.5 billion. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[210]

City of Chicago Debt Service Appropriations as a Percentage of Total Appropriations: FY2009-FY2013

	Debt Service	Total Appropriation	Ratio
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%
FY2013	$ 1,520,332,540	$ 6,540,147,000	23.2%

Source: City of Chicago Program and Budget Summaries: FY2009-FY2013.

[210] 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

As of September 12, 2012 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 (9/12/12)			
	Rating Agency		
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation Bonds			
City	Aa3	A+	AA-
Revenue Bonds			
O'Hare Airport			
Senior Lien General Airport Revenue Bonds	A2	A-	A-
Passenger Facility Charge Revenue Bonds	A2	A-	A
Midway Airport			
First Lien - Revenue Bonds	A2	A	A
Second Lien - Revenue Bonds	A3	A-	A-
Water			
Senior Lien - Revenue Bonds	Aa2	AA	AA+
Junior Lien - Revenue Bonds	Aa3	AA-	AA
Wastewater			
Senior Lien - Revenue Bonds	Aa2	AA-	Not Rated
Junior Lien - Revenue Bonds	Aa3	A+	AA
Sales Tax	Aa3	AAA	AA-
Motor Fuel Tax	Aa3	AA+	A-

Source: City of Chicago website at
http://www.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.[211] 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.[212] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds from AA to AA-, again citing the City's accelerated use of asset lease reserves

[211] 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.
[212] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010.

and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[213]

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 City 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.[214]

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.[215]

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. At that time, the rating agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[216]

In July 2012, Moody's downgraded O'Hare Airport senior lien general revenue bonds from A1 to A2 over concerns about slow growth in passengers and the bankruptcy of American Airlines, he airport's second largest carrier. The rating agency noted that the ongoing O'Hare runway expansion effort faces considerable risk in its ability to contain costs and complete work on time because of the size and complexity of the project. Moody's affirmed the A2 rating for O'Hare passenger facility revenue bonds at this time.[217]

CAPITAL PROGRAM

Mayor Emanuel announced a Building a New Chicago initiative in mid 2012. It is a ten year infrastructure program that involves coordination and cooperation between the City, coordinate agencies such as the Chicago Public Schools and the private sector. One of the elements of the initiative is the creation of an *Infrastructure Trust*, which is described below.

As part of the Building a New Chicago initiative, the City has released a FY2012-FY2016 Capital Improvement Program (CIP) that focuses on plans for City-owned infrastructure and

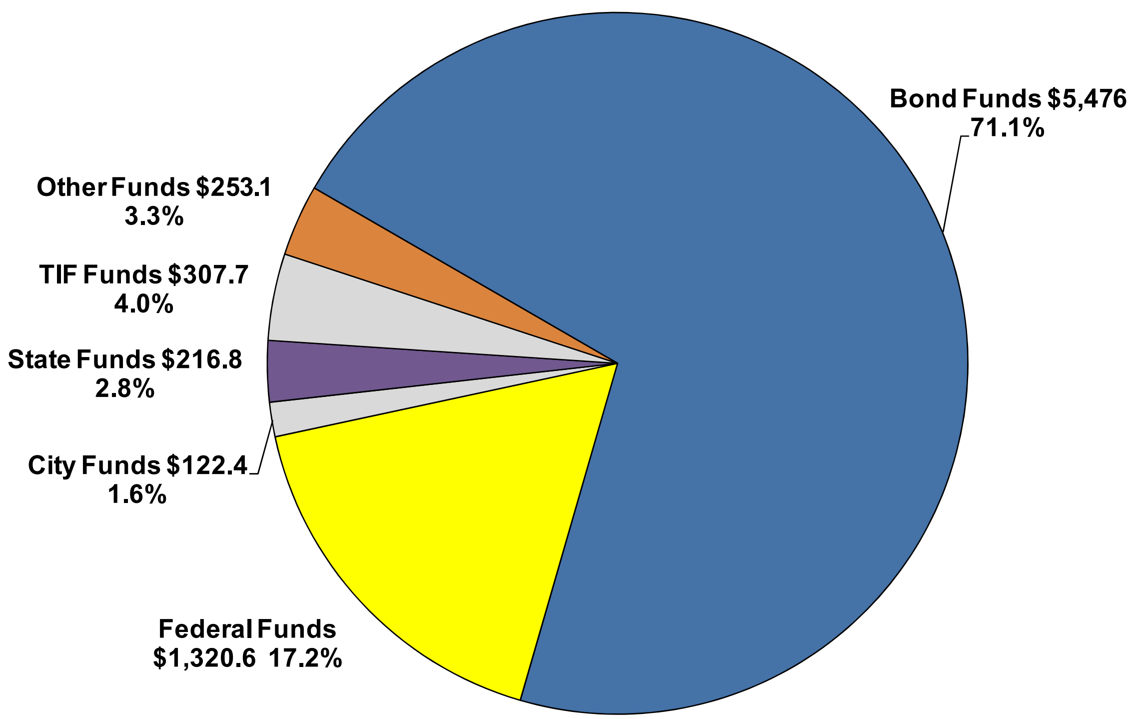
[213] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.
[214] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.
[215] Martin Z. Braun. "Chicago's Bond Rating Reduced One Level to Fourth-Highest AA- by Fitch," Bloomberg News. Oct 28, 2010.
[216] 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.
[217] Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.

facilities.[218] This comes after a one-year hiatus; no CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and to provide an estimate of the size and timing of future debt issuance. The first year of a CIP is the capital budget for that fiscal year. Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

The FY2012-FY2016 CIP lists $7.7 billion in planned projects. They will primarily be funded with bond funds (71.1% of the total or $5.5 billion). Federal funds will be used to finance 17.2% or $1.3 billion in projects. Smaller sums will be derived from the state, tax increment financing districts and other funds.

City of Chicago Capital Funding by Source: FY2012-FY2016 ($ millions) Total = $7.7 Billion

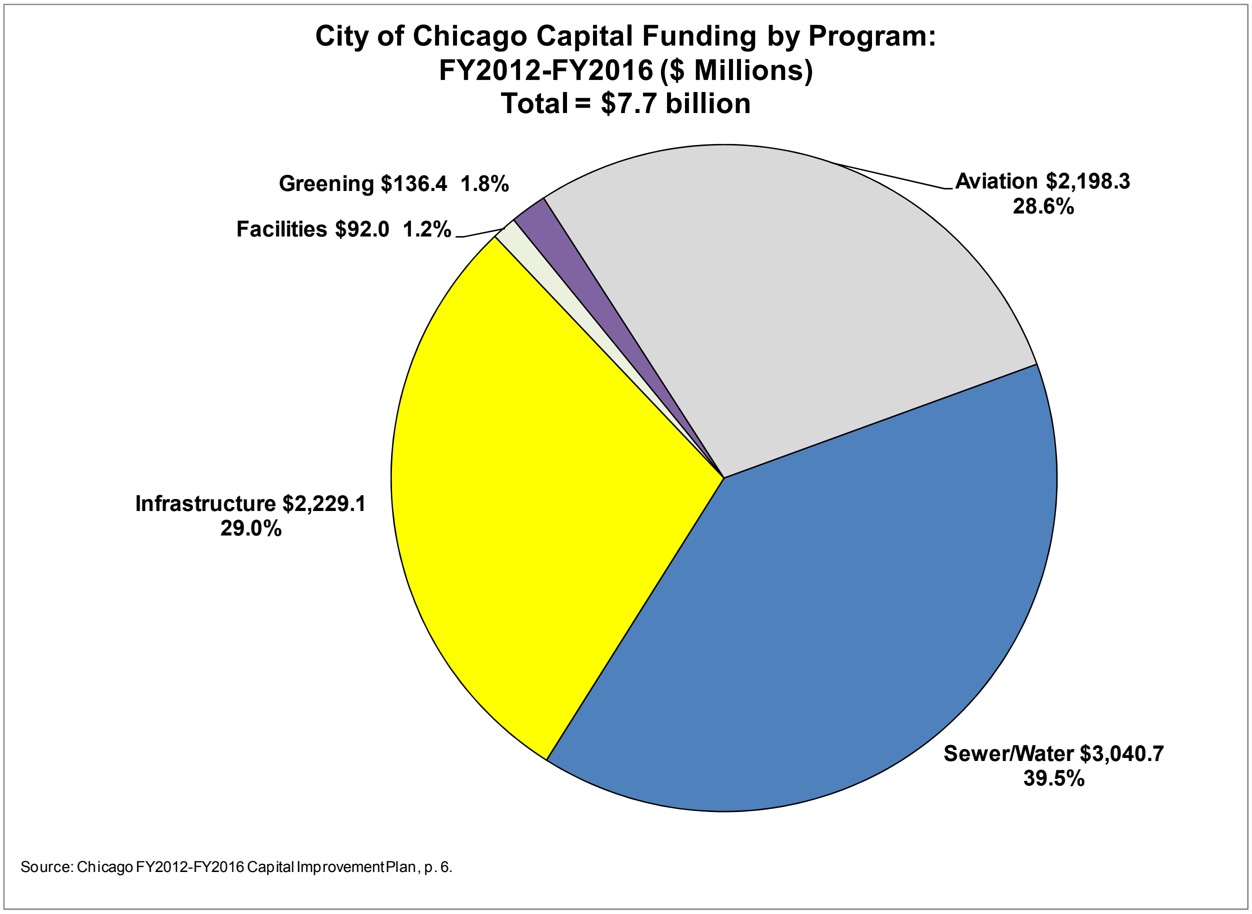


Source: Chicago FY2012-FY2016 Capital Improvement Plan, p. 4.

The next exhibit shows the distribution of CIP funds by program. The largest component of the capital program will be $3.0 billion for sewer and water infrastructure construction and

218 The FY2012=2016 Capital Improvement Plan is available on the City's website at http://www.cityofchicago.org/city/en/depts/obm/provdrs/cap_improve.html.

rehabilitation. Infrastructure projects, including the $377 million rehabilitation of Wacker Drive, will total $2.2 billion or 29.0% of all funding. Aviation projects will total nearly $2.2 billion or 28.6% of funding. Smaller amounts will be used for facilities and greening projects such as greenways, street medians, neighborhood parks, streetscaping and natural areas.



The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines.[219] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes

[219] See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.

How often is the CIP updated?	Annually, although no CIP was produced for the FY2011-2015 period.
Does the capital improvement plan include: • *A narrative description of the CIP process?* • *A five year summary list of projects and expenditures per project as well as funding sources per project?* • *Information about the impact and amount of capital spending on the annual operating budget for each project?* • *Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project?* • *The time frame for fulfilling capital projects?*	 No Yes No No Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens? • *Is the CIP published in the budget or a separate document?* • *Is the CIP available on the Web?*	 It is published in a separate document. Yes
Are there opportunities for stakeholders to provide input into the CIP? • *Is there stakeholder participation on a CIP advisory or priority setting committee?* • *Does the governing body hold a formal public hearing at which stakeholders may testify?* • *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	 Unclear No Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear
Sources: National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.	

Chicago Infrastructure Trust

On April 24, 2012 the Chicago City Council approved an ordinance proposed by Mayor Rahm Emanuel establishing the Chicago Infrastructure Trust. The law enables the city to shift capital project funding responsibilities from the City and its coordinate governments to a separate Trust funded by private investors. This will allow the local governments to access funding for much needed capital improvements outside of the usual bond funding or pay-as-you-go method. It is a novel and necessary move according to the Mayor due to the City's already high debt burden, ongoing operating deficits and its employee pension crisis.

On the same day the ordinance passed the City Council by a vote of 41-7, Mayor Emanuel issued an executive order aimed at expanding the transparency of the Trust, including requiring that an independent financial advisor analyze each transaction with the trust prior to the approval of any project. The order also called for additional annual reporting and requires a minimum of at least 15 days between when the advisor's report is issued on a project and when the City Council can vote on a matter.

Under the enacting ordinance, the Trust's dealings will be subject to the Illinois Open Meetings Act and attainable through the Freedom of Information Act. Projects undertaken by the Trust will also be subject to the City's existing procurement rules and conflict of interest policies.

When first proposed in March, Mayor Emanuel suggested that the Trust could fund a large portion of the estimated $7 billion in citywide capital projects proposed for the next three years. It has been reported that initial commitments total $1.7 billion from J.P. Morgan Asset Management's Infrastructure Investments Group, Citibank, Citi Infrastructure Investors, Macquarie Infrastructure and Real Assets, and the Union Labor Life Insurance Company.[220] The first project proposed by the Mayor is a $225 million energy retrofit of city owned property to be repaid with an estimated $20 million a year savings in heating bills. However, in order for this project to be funded by the Trust it must first undergo analysis by an independent financial advisor, receive approval from the Board of the Trust and approval from the City Council and Mayor.

On June 11, 2012 the Mayor announced the following nominations to the Trust's oversight board:

- James Bell (Chair), Executive Vice President, Boeing Corporation (Retired)[221]
- Diana Ferguson, Former Chief Financial Officer, Sara Lee Foodservice; Former CFO, Chicago Public Schools
- David Hoffman, Partner, Sidley Austin LLP, Former City of Chicago Inspector General
- Alderman John Pope, 10th Ward
- Jorge Ramirez, President, Chicago Federation of Labor

[220] Fran Spielman. "Emanuel, Clinton announce $1.7 billion trust for Chicago projects," Chicago Sun-Times, March 1, 2012 at http://www.suntimes.com/news/politics/10986386-418/emanuel-clinton-announce-creation-of-17-billion-trust-to-build-chicago-infrastructure.html.

[221] Mr. Bell was specified as the chair of the board in the enacted ordinance as approved by the City Council.

The City Council has voted to approve the board members. Since the establishment of the Trust, leaders from the other local units of government have mentioned the Trust as a solution for the funding gaps within their own capital budgets. The Chicago Public Schools included $40 million worth of Trust funding in its FY2013 Capital Plan and Budget document, which accounts for approximately 32% of its total proposed FY2013 capital spending of $110 million.[222]

Under the enacted ordinance, investments by the Trust would not involve the pledge of full faith and credit like typical capital-purpose General Obligation Bonds. Therefore, these transactions shift some risk to the Trust and its investors. The overall concept is innovative and at face value seems reasonable given the City's current financial limitations and need to provide ongoing infrastructure maintenance and construction.

However, the nature of the risk to the City and other local governments is not defined in the enacting ordinance. Funding projects through the Trust will create a contractual liability to be repaid based on terms negotiated between the Trust and the governments during the initial review and authorization. If estimates of annual savings or newly available revenues are not met, the agreements could have a negative effect on the City's or coordinate government's operating resources. Consequences of underperformance of projects and potential default by a government on repayment to the Trust would need to be explicitly defined prior to the approval of any project. Questions also remain about how projects will be chosen and how competition among governments for Trust investments will be managed.

To date the Trust is in the process of incorporating as a non-profit organization and has yet to consider any formal project proposals or accept any investments.

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[222] Chicago Public Schools FY2013 Budget, p. 127.

APPENDIX A – ANNUAL REQUIRED CONTRIBUTIONS FOR THE FOUR CITY OF CHICAGO PENSION FUNDS

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 separately since FY2005.[223] In FY2011 the Municipal Fund had the largest ARC, at $611.8 million, followed by the Police Fund at $402.8 million. The Municipal Fund also had the largest shortfall between its ARC and actual employer contribution, $464.7 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 year 2002 (also 2003 for Laborers) but the shortfalls emerged and grew in subsequent years.

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
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%
2011	$ 402,751,961	$ 174,034,600	$ 228,717,361	43.2%	$ 1,034,403,526	38.9%	16.8%	35.6%

*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, 2011 pp. 76 and 77.

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
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%
2011	$ 250,056,273	$ 82,869,839	$ 167,186,434	33.1%	$ 425,385,354	58.8%	19.5%	28.3%

*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, 2006 p. 28 and Financial Statements For the year ended December 31, 2011, p. 29.

[223] The pension fund OPEB subsidy adds approximately 1-2% to ARC as a percent of payroll and 0-1.3% to Actual Employer Contribution as a Percent of Payroll. See Civic Federation, *Status of Local Pension Funding Fiscal Year 2010*, June 25, 2012 for more information.

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
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%
2011	$ 611,755,657	$ 147,009,321	$ 464,746,336	24.0%	$ 1,605,993,339	38.1%	9.2%	44.6%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so one was 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, 2011, p. 49.

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
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%
2011	$ 57,258,593	$ 12,778,697	$ 44,479,896	22.3%	$ 195,238,332	29.3%	6.5%	64.9%

*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, 2007, p. 90, Actuarial Valuation for the year ended December 31, 2011, p. 90.