FOR IMMEDIATE RELEASE

Please contact Laurence Msall at 312.201.9044
for further information

THE CIVIC FEDERATION SUPPORTS FY2007 CHICAGO BUDGET
Remains Concerned about Pension Funds in Crisis

(CHICAGO) – The Civic Federation released its independent analysis of Mayor Daley's proposed city of Chicago budget today. The Federation **supports** the proposed $5.7 billion FY2007 spending plan for holding the line on property tax increases and stabilizing personnel-related expenditures through reduced staffing levels and other management efficiencies.

"The taxpayers of Chicago should consider this budget to be a positive for their pocketbooks over the next year. The next ten to twenty years is another story. The city of Chicago must take action now, while times are good and revenues increasing, to make changes to reduce the unfunded liabilities of the pension funds and long-term debt levels. Such moves may sting, but they are better than the wholesale pain that is sure to result if the unfunded pension situation is allowed to continue," said Laurence Msall, President of the Civic Federation.

The Civic Federation's complete city of Chicago budget analysis, including detailed findings and recommendations, is available today on our website at www.civicfed.org.

While the Federation found much to be positive about in the budget, the group retained **serious concerns** about the state of the city's pension funds, the funded ratios of which dropped for the fifth consecutive year. Between FY2001 and FY2005, unfunded liabilities for the funds increased by 216.9%, from $2.7 billion to $8.5 billion. Three of the four funds are clearly in crisis, with funded ratios well under the generally-recommended level of 80-90%. "The city of Chicago's unfunded pension liabilities surpass all large cities in the United States by billions of dollars," said Msall. "This is a situation which requires immediate action; city officials cannot rely upon future asset sales alone to fix this problem. They must begin to adequately fund pensions and implement reforms without delay." The Federation's analysis provided many recommendations as to how the health of the pension funds can be improved, such as reducing pension benefits for new employees, requiring benefit enhancements to be matched by contribution increases, and tying city contributions to funding levels rather than an arbitrary multiplier.

The Civic Federation was also troubled that the city used $12 million in contingency funds to help reduce the $94 million budget shortfall. The reserve will fall to a mere 1.9% of Corporate Fund expenditures from 2.1% in FY2005, well below the minimum Government Finance Officers Association-recommended level of 5-15%. Reserve funds are necessary to provide for contingencies and emergencies and to help insulate governments from downward turns in the economy. While the Civic Federation appreciates the efforts of the city's financial team to increase reserves from the abysmal levels of five years ago, this year's budget marks a step in the wrong direction for the reserve fund. Following the GFOA's recommendations would require adding nearly $98 million to the $57.5 million the city has proposed. The Federation recommends doing this as soon as possible by using natural revenue growth or perhaps some of the proceeds from the privatization of an asset.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

CITY OF CHICAGO
FY2007 PROPOSED BUDGET

Analysis and Recommendations

Prepared By
The Civic Federation
November 1, 2006

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The City of Chicago proposes a FY2007 budget of $5.7 billion. It proposes no general tax increase this year. Proposed spending increases will be funded from natural revenue growth, revenues from cost recovery initiatives, and savings from management initiatives including healthcare cost control efforts. Overall, the City's financial situation has strengthened as the economy continues to improve.

The Civic Federation **supports** the City's FY2007 budget. In our view, this is a good news budget that avoids general tax increases and the use of one-time revenues while moving to stabilize personnel-related costs. While the City's proposed budget contains much to be pleased about, The Civic Federation cautions that mounting pension liabilities and reduced reserve funds require the continuing attention of City officials.

We applaud the City for freezing the property tax levy for the fourth year in a row at $713.5 million. The City's levy (including the library levy) will now represent roughly 20.8% of the typical Chicago property tax bill, down from 28.5% in 1988.

The Civic Federation also commends Mayor Daley and his financial team for taking important and prudent steps to control personnel-related expenses, the single largest component of any government budget. Although there remains great potential for attaining further efficiencies in city operations, we are pleased that the City is holding the line on the number of budgeted employees. There is no net increase in non-grant funded budgeted positions in FY2007. The City has also proactively negotiated and implemented health care cost containment measures that will help stabilize some budgetary pressures over the long term. By moving toward greater cost sharing with employees and entering with other governments into joint purchasing agreements for prescription drugs and healthcare plans, Chicago will save as much as $50 million in healthcare costs in FY2007.

The Civic Federation offers the following **key findings** on the City of Chicago FY2007 budget:

- The City proposes a total FY2007 budget of nearly $5.7 billion. This is an 8.2% or $430.4 million increase over the FY2006 appropriation of $5.2 billion. Much of the overall appropriation increase is due to a 14.1% appropriation increase for the Enterprise Funds. These funds, which are self supporting because they rely on non-tax user fees, will increase by $192.0 million, from $1.3 billion to $1.5 billion.
- The Corporate Fund budget proposal is $3.0 billion, a 4.9% or $145.6 million increase over the FY2006 proposal of $2.9 billion. The Corporate Fund represents 54.6% of the total budget in FY2007.
- The portion of Corporate Fund appropriations earmarked for personal services will fall from 83.1% in FY2006 to 80.4% this year even though the total amount of personal service appropriations will rise by 2.9%, from $2.42 billion to $2.49 billion. This is a relatively small increase.
- The property tax levy is frozen for the fourth consecutive year at $713.5 million. 93.3% of the property tax levy will be reserved to pay for pensions and debt service.

- The continued economic recovery has generated increases in economically sensitive taxes, including sales taxes (up 2.8%), income taxes (up 8.7%), hotel taxes (up 4.8%), and amusement taxes (up 2.0%).
- The budget is balanced by utilizing $12.2 million in surplus funds carried over from FY2006, $54.0 million in revenue enhancements, and $29.5 million in the natural growth of own source and intergovernmental revenues.

The Civic Federation **supports** many elements of the City's FY2007 proposed budget:

- The budget holds the property tax levy constant for the fourth year in a row.
- The City has made impressive strides in stabilizing personnel-related costs. The total number of positions will be reduced by 113 full-time equivalents, Corporate Fund personal service appropriation will increase only modestly, by 2.9%, and the amount of Corporate Fund appropriations earmarked for personal services will drop from 83.1% to 80.4%.
- The Civic Federation is pleased that Mayor Daley and his financial team are moving forward to privatize non-core assets such as Midway Airport, municipal parking garages, and recycling centers. We are also encouraged that the proceeds from the recently-announced parking garage transaction appear to be earmarked for capital improvements, and that, if and when Midway Airport is leased to a private operator, proceeds from the transaction will be used primarily to reduce unfunded pension liabilities and for infrastructure needs. Using these funds for recurring operating expenditures would be irresponsible.
- The City is implementing **health care cost control measures** that will save a projected $50 million in FY2007. Approximately $46 million in savings are expected from greater cost sharing with employees through increased co-payments, deductibles, and employee contributions that are comparable with private and other government plans. An additional $4 million to $5 million in savings is expected from the joint purchasing of health care plans that the City will enter into with other local governments. The Civic Federation commends the City of Chicago for proactively negotiating and implementing health care cost containment measures that will help stabilize some budgetary pressures over the long term.
- Chicago continues to implement **management efficiencies** to improve service and increase revenues. Examples of these initiatives include: the expanded use of red light cameras, which will enable the City to issue more tickets to violators and reallocate police resources; a proposal to offer a special parking permit allowing professionals like real estate agents and home service workers to park in otherwise restricted areas during daytime business hours for a fee; and a pilot recycling program to be launched in seven wards that should yield valuable lessons on how to improve the efficiency of the City's long neglected current program.
- The City's financial management team has made strong efforts to stabilize and improve Chicago's fiscal outlook, and these efforts have paid dividends. The three major rating agencies have awarded high credit ratings to recent City of Chicago bond issues, reflecting the agencies' confidence in the financial management of the government.

The Civic Federation has **concerns** about some important financial issues related to the budget:

- Three of the City of Chicago's four **pension funds are in a state of crisis**, and for the fifth consecutive year, the funded ratios of all four City pension funds have declined. The Fire Fund in FY2005 reported a funded ratio of only 41.8%, falling from 60.2% in FY2001. The Police Fund's funded ratio dropped from 70.5% to 50.7% over the same period. The once well-funded Municipal Fund dropped from a funded ratio of 93.3% in FY2001 to 68.5% in

FY2005. Only the Laborers Fund remains fiscally sound. The funded ratios of the Police, Fire, and Municipal Funds are **far below** levels considered financially healthy.

- The City is reducing the size of its reserve fund from $62.6 million in FY2006, which represented 2.1% of Corporate Fund appropriations that year, to $57.5 million or 1.9% of Corporate Fund appropriations this year. Since FY2002 the City has made important strides in increasing the size of its Corporate Fund balance. But the reduction this year is a step in the wrong direction. The fund balance still remains far below the GFOA recommended level of 5% to 15% of Corporate Fund appropriations. Meeting the minimum GFOA recommended level would require a reserve fund of $155 million in FY2007.
- The City of Chicago continues to have a relatively high debt burden. Between FY1996 and FY2005, Chicago net direct debt rose by 174.9% or $3.2 billion, up from $1.8 billion to approximately $5.1 billion. This rate of increase substantially exceeded the rate of increase for other governments in the region. Debt service appropriations in FY2007 are projected to be 19% of total appropriations, $1.1 billion out of $5.6 billion in total appropriations. Rating agencies consider a debt burden high if this ratio is between 15% and 20%. The City's high debt burden bears watching. Absent new revenues from new or increased taxes or asset leases, the City would be hard pressed to assume any substantial new debt obligations.

The Civic Federation has several **recommendations** to improve the City's financial management, including:

- The City must implement pension funding reform to contain its mounting costs and to remedy its failure to adequately fund the Police, Fire, and Municipal Funds. These reforms should include reducing benefit levels for new hires, fixing annuity increases for new hires at the lesser of CPI or 3%, requiring contribution increases for any benefit increases and requiring employer contributions to relate to funding levels rather than an arbitrary multiplier.
- The City should develop and implement a formal long-term financial planning process that would allow for input from the City Council and other key policy stakeholders, including the public.
- The City should adopt the practice employed by many other governments and present revenue information by source for All Funds in the Budget Overview document. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.
- The City must build adequate reserve funds that are at least 5% of Corporate Fund expenditures. Although the City is currently experiencing considerable revenue growth due to the general economic recovery, City officials should recall that between FY2001 and FY2003, the City saw three consecutive years of revenue declines for economically sensitive taxes like the Sales Tax and the State Income Tax. A review of the FY2003 CAFR, which shows that FY2003 Sales Tax revenue was 5.0% below FY2000 levels and FY2003 Income Tax revenue was 20.7% below FY2000 levels, would help reinforce the benefit of maintaining a reserve of 5-15% of Corporate Fund expenditures, as recommended by the Government Finance Officers Association (GFOA).

OVERVIEW OF ANALYSIS

The City of Chicago proposes a FY2007 budget of $5.66 billion. The City faced a $94 million Corporate Fund deficit, which will primarily be addressed through natural revenue growth, revenues from cost recovery initiatives, and savings from management initiatives including healthcare cost control efforts. Overall, the City's financial situation has strengthened as the economy continues to improve.

The Civic Federation **supports** the City's FY2007 budget. In our view, this is a good news budget. While moving to stabilize personnel-related costs, it avoids general tax increases and the use of one-time revenues for operating costs.

We applaud the City for freezing the property tax levy for the fourth year in a row at $713.5 million. The City's levy (including the library levy) will now represent about 20.8% of the typical Chicago property tax bill, down from 28.5% in 1988.

The Civic Federation commends Mayor Daley and his financial team for taking important and prudent steps to control personnel-related expenses, the single largest component of any government budget. First, the City continues to hold the line on the number of budgeted employees. There is no net increase in non-grant funded budgeted positions in FY2007. The City also has proactively negotiated and implemented health care cost containment measures that will help stabilize some budgetary pressures over the long term. By moving toward greater cost sharing with employees and entering with other governments into joint purchasing agreements for prescription drugs and healthcare plans, Chicago will save as much as $50 million in healthcare costs in FY2007.

Issues The Civic Federation Supports

No Property Tax Increase

The FY2007 City of Chicago budget contains no property tax increase for the fourth consecutive year. The levy will again be frozen at $713.5 million. The City's levy will represent about 20.7% of the typical Chicago property tax bill in tax year 2005, down from 28.5% in 1998.[1]

Stabilization of Workforce Size

The number of non-grant funded positions in the City of Chicago workforce will fall by two full-time equivalent (FTE) positions to 35,868. When all positions are considered, the number of FTEs will fall from 40,312 to 40,199, a decrease of 113 positions. The positions eliminated are vacancies. Corporate Fund personal service appropriations will increase in FY2007, from $2.4 billion to nearly $2.5 billion. However, this represents a relatively modest 2.9% increase. Overall, the percentage of Corporate Fund resources earmarked for personnel will drop from 83.1% to 80.4%, which is a positive sign.

[1] The 20.8% figure combines the City and Chicago Library property tax levies.

The City's continued efforts to control ever-escalating personnel expenses by capping the number of positions, holding the personal service appropriation increase to 2.9%, and reducing the amount of Corporate Fund appropriations earmarked for personnel are important components of the effort to stabilize ever-mounting personnel costs.

Privatization of Non-Core Assets: Midway Airport, Parking Garages, and Recycling Centers

The Civic Federation also commends Mayor Daley and his financial team on moving forward to privatize non-core assets such as Midway Airport, municipal parking garages, and recycling centers. During the preparation of this analysis, the City has moved forward on a deal with Morgan Stanley for a 99-year lease of the parking garages. This $563 million transaction will pay off outstanding parking garage bonded debt and provide funding for capital improvements, including $122 million for the Chicago Park District and $35 million to rebuild Daley Bicentennial Plaza.

We are particularly pleased that the City plans to use any proceeds from the Midway Airport privatization effort to reduce the City's large outstanding pension liabilities and to pay for debt service for capital obligations. Similarly, proceeds from the parking garage transaction are being used for non-operating expenses. We believe the City is following a fiscally responsible plan for using the proceeds of its asset transfers, and we urge other governments to follow this path.

The FY2007 budget does not contain anticipated revenue from the long-term lease of Midway Airport or other assets. This is prudent, since these transactions are far from complete. The Civic Federation withholds a formal opinion on the City's effort to privatize Midway Airport and other assets until actual proposals are formalized.

Management of Healthcare Costs

Between FY2000 and FY2006, the City of Chicago estimated that its share of health care costs rose by 59%. In an effort to contain these spiraling costs, the City has moved toward greater cost sharing with employees in much the same manner as the private sector and many other governments have done. It has also achieved substantial cost savings through joint purchasing of prescription drugs and healthcare plans. These cost management efforts are projected to save the City as much as $50 million in FY2007.[2]

- The City of Chicago's health care plan cost structure compares favorably with other local government and private sector plans. Employees in the City's PPO plans pay deductibles of $300-$900 compared to a national private company average of $473 to $1,034.[3] Co-payments for prescription drugs are $10 for generic, $30 for preferred, and $45 for non-preferred, which are more than equivalent to national private employee averages of $11, $24, and $38. As of July 2006, employee contributions for health care premiums as a percentage

[2] City of Chicago Benefits Management Division, personal communication, February 27, 2006.
[3] Gary Claxton, Jon Gabel, Isadora Gil, Jeremy Pickreign, Heidi Whitmore, Benjamin Finder, Bianca DiJulio, and Samantha Hawkins, *Employer Health Benefits 2006 Annual Survey* (Menlo Park, CA: Henry J. Kaiser Family Foundation, 2006).

of salary were increased from 1.5% to 2.0%. These efforts will save the City an estimated $30 million in 2006.

- By collaborating on joint Requests for Proposals for prescription drugs and basic health care plans (both HMO and PPO) with five other local governments, the City projects that it will have saved between $14.1 and $15.1 million by the end of FY2007.

The Civic Federation **commends** the City of Chicago for proactively negotiating and implementing health care cost containment measures that will help significantly stabilize some budgetary pressures in the long term.

Management Improvements

We applaud the City for continuing to implement management efficiencies that will improve services and increase revenues in a reasonable way. Specifically, we would like to note the following initiatives:

- The City continues in its prudent use of technology to increase revenue collections and reallocate personnel resources in a more efficient manner. For example, the expanded use of red light cameras will enable the City to issue more tickets to violators and reallocate police resources.

- The City proposes to offer a special parking permit that would allow professionals like real estate agents and home service workers to park in otherwise restricted areas during daytime business hours for a fee. This is good way to boost municipal revenues and provide businesses with expanded opportunities to generate additional income. Both the City and local businesses will benefit from this innovation.

- The City will launch a pilot recycling program in seven wards that should yield valuable lessons on how to improve the efficiency of the City's current program. It is imperative that Chicago dramatically improve the quality and efficiently of its long-neglected recycling program. We hope for the success of this program, which utilizes fewer personnel than standard refuse removal operations and therefore promises to bring greater efficiency to all City waste removal operations in the long-term.

Issues of Concern to The Civic Federation

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

Pension Funds in a State of Crisis

For the fifth consecutive year, the funded ratios of all four City pension funds has declined. The Fire Fund in FY2005 reported a funded ratio of only 41.8%, falling from 60.2% in FY2001. Over the same period, the Police Fund's funded ratio dropped from 70.5% to 50.7%. The funded ratio of the Municipal Fund, once a well-funded system, has dropped from 93.3% in FY2001 to 68.5% in FY2005. Only the Laborers Fund remains fiscally sound.

Three of the City of Chicago's pension funds are in crisis. The continued decline in the funded ratios of the Fire, Police and Municipal Pension Funds is a serious matter that requires immediate action. These retirement systems' funded ratios are **far below levels considered financially healthy**.

The Civic Federation is encouraged that the City proposes to use a portion of proceeds from asset leases or sales to help fund its retirement systems. However, the gravity of the situation demands that even more be done. The City simply cannot afford further increases in employee benefit levels that would continue to exacerbate liabilities. Reductions in the benefits of new employees must be made to reduce long-term costs.

Reserve Fund

It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a General Fund balance ratio of 5% to 15% of operating expenditures or revenues. For the City of Chicago, this would require a reserve of at least $155 million in FY2007.

We are very pleased that the City has made significant strides toward improving the size of its unreserved Corporate fund balance. That reserve fund will total $57.5 million in FY2007, a tremendous improvement over FY2002, when the City had a Corporate reserve fund of just $13.0 million. However, the City is reducing the size of its reserve fund from $62.6 million, 2.1% of Corporate Fund appropriations in FY2006, to 1.9% this year. Overall, the fund balance still remains far too low.

The Civic Federation urges the City to move toward establishing of a reasonable contingency fund that meets the minimum GFOA standard, perhaps utilizing natural revenue growth or some of the proceeds from the privatization of an asset.

City Maintains a High Debt Burden

The City of Chicago continues to have relatively high debt burden according to three key commonly-used indicators. Between FY1996 and FY2005, Chicago net direct debt rose by 174.9% or $3.2 billion. This represents an increase from over $1.8 billion to approximately $5.1 billion. During the five year period between FY2001 and FY2005, net direct debt rose by 37.6% or $1.4 billion. Debt service appropriations in FY2007 are projected to be 19% of total appropriations, or $1.1 billion out of $5.6 billion. Rating agencies consider a debt burden high if this ratio is between 15% and 20%. Finally, between FY1996 and FY2005, overlapping debt from other governments combined increased by 99.2% at the same time as the City of Chicago's debt rose by 174.9%. Total debt from all eight major governments rose by 124.1%. Thus, the rate of increase in City of Chicago is much greater than the rate of increase for other governments in the region.

The City's high debt burden bears watching. Absent new revenues from new or increased taxes or asset leases, the City would be hard pressed to assume any substantial new debt obligations.

Civic Federation Recommendations

The Civic Federation offers several **recommendations** on ways to improve the City's financial management and reporting.

Implement Pension Benefit Reform

The funding levels of the City retirement systems continue to deteriorate. It is imperative that Chicago move to reduce its long-term pension obligations. The Civic Federation has several suggestions on how to accomplish that goal.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the City should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Police and Fire pension fund beneficiaries receive 3% annual cost of living increases; this rate exceeds the rate of inflation in some years. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to pay for the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

Require Employer Contributions to Relate to Funding Levels

City of Chicago government employer contributions to each fund are determined by multipliers that are not tied to the fund's funded ratio. For example, the Chicago Police Fund multiplier is 2.0 times the total employee contribution made two years prior. Employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Implement a Formal Long-Term Financial Planning Process

Currently, the City of Chicago internally employs many of the techniques of a long-term financial planning process, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the City does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the City of Chicago develop and implement a formal long-term financial planning process to be reviewed not just internally, but to allow for input from the City Council and other key policy stakeholders, including the public.

Report All Fund Revenues by Source in Budget Overview Document

The City's Office of Budget and Management has made important and substantive improvements to the format of the Budget documents in recent years. We urge the Budget Office to go one step further and improve the presentation of revenue information. Information is currently provided for revenues by fund and for Corporate Fund revenues by source. It would be useful if the City were to follow the practice employed by many other governments and also present revenue information by source for All Funds. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.[4]

ACKNOWLEDGEMENTS

The Civic Federation is grateful to Office of Budget and Management (OBM) Director Paul Volpe, Managing Deputy Budget Director Russ Carlson, Assistant Budget Director Craig Lesner, Projects Administrator Ann McNabb and the OBM Department staff for their efforts in preparing the FY2007 budget. We also appreciate their willingness to provide us with a briefing and answer our budget questions.

FY2007 BUDGET HIGHLIGHTS

The City proposes a total FY2007 budget of $5.6 billion. This is an 8.0% increase from the FY2006 appropriation of $5.2 billion. The Corporate Fund budget proposal is $3.0 billion, a 4.9% or $145.6 million increase over the FY2006 budget of $2.9 billion. The Corporate Fund represents 54.6% of the total budget.

How the $94.4 Million Budget Deficit was Eliminated

The City's Preliminary Budget Estimates, released in July 2006, initially projected a $64.5 million deficit. That deficit grew to $94.4 million with projected increases in several municipal programs. The principal drivers of the deficit were contractual wage increases, benefit increases, increased costs for debt service, and program cost increases. The latter types of costs include a $15 million increase in the transitional housing for seniors program, $8 million in increased expenses for the Department of Public Health, $6 million in new costs for the Office of Emergency Management and Communications, and a $5 million increase in spending by the

[4] The State of Illinois provides summary information regarding revenues by source for All Funds and its General Fund in the Budget summary section of its annual operating budget. Cook County provides a table and narrative of all fund revenues except for Capital Improvements in its annual *Revenue Estimate* document.

Chicago Fire Department (primarily to pay for four new ambulance companies, bunker gear, and payroll support).[5]

The FY2007 budget deficit was closed by means of $12.2 million in surplus funds carried over from FY2006 and $82.3 million in revenue enhancements and natural revenue growth. These revenue increases include:

- $16.7 million in natural revenue growth from City own source revenues;
- $15.2 million from a combination of affordable housing program income and the downtown density bonus program. The density bonus program allows developers to put more units in downtown residential buildings if they contribute to the Affordable Housing Opportunity Fund, which supports housing for low-income and working families in city neighborhoods.[6]
- A variety of cost recovery initiatives - primarily in the Departments of Streets and Sanitation, Fire, and Administrative Hearings - are expected to generate $11 million.
- The City's new 2-year business year license will generate $8.5 million in this program's first year of operation.
- Increased enforcement and collection activities, including adding parking enforcement aides and improving booter technology, are expected to yield $8 million in revenue in FY2007.
- The City will receive $5 million in additional reimbursements.
- Intergovernmental revenues, primarily from City's share of shared income and sales taxes, are expected to increase by $2.9 million.
- The City is planning to offer a special parking permit that would allow professionals like real estate agents and home service workers to park in otherwise restricted areas during daytime business hours for a fee. This new permit is anticipated to generate $2.5 million in FY2007.
- Natural growth in other fees and taxes should generate $12.8 million.

REVENUES

This section of the analysis provides an overview of All Fund and Corporate Fund revenue trends and property tax levy trends.

All Fund Revenue Trends

The City of Chicago's total resources are projected to increase by 8.2% in FY2007, from $5.2 billion in FY2006 to $5.7 billion. Some of the highlights include:

- Aviation revenues from O'Hare and Midway Airports, the single largest revenue source in the budget, are expected to increase by $169.0 million or 20.1%, from $841.9 million in FY2006 to $1010.9 million.
- Sales tax revenues will rise by 8.2% or $42.0 million over FY2006 budgeted projections, from $515.1 million to $557.1 million.

---

[5] *FY2007 Chicago Budget Overview and Revenue Estimates*, pp. 8-9.
[6] See the Chicago Department of Planning and Development section of the City of Chicago Web site at http://egov.cityofchicago.org.

- Income tax receipts, including revenues from a corporate income tax called the Personal Property Replacement Tax (PPRT), will increase by $25.9 million or 8.1%. Almost one third of this increase, however, is attributable to a one-time, $8.0 million payment to the Fire and Police Pension Funds as part of a legal settlement reached in FY2006. Excluding this $8.0 million payment, the income tax and PPRT combined saw a 5.6% growth rate.
- Licenses & Permits revenues are projected to bring in $157.0 million in FY2007, a jump of 35.9% or $40.3 million over FY2006. This increase is largely due to the City's two-year business license initiative. Without increasing the current per-year license fee, the City will now offer business licenses that are valid for two years rather than one. This initiative will account for $18 million in additional revenues in FY2007. The program will be phased in over two years to ensure that the City will not experience a sharp drop off in Licenses & Permits revenues in FY2008.[7]
- Fines, Forfeitures & Penalties revenues will increase by $33.7 million or 16.0% in FY2007, climbing from $210.1 million in FY2006 to $243.8 million. The City estimates that the installation of additional red light cameras will contribute $13.0 million or 38.6% of this increase in FY2007. Increased enforcement and collection efforts will add another $8.0 million.

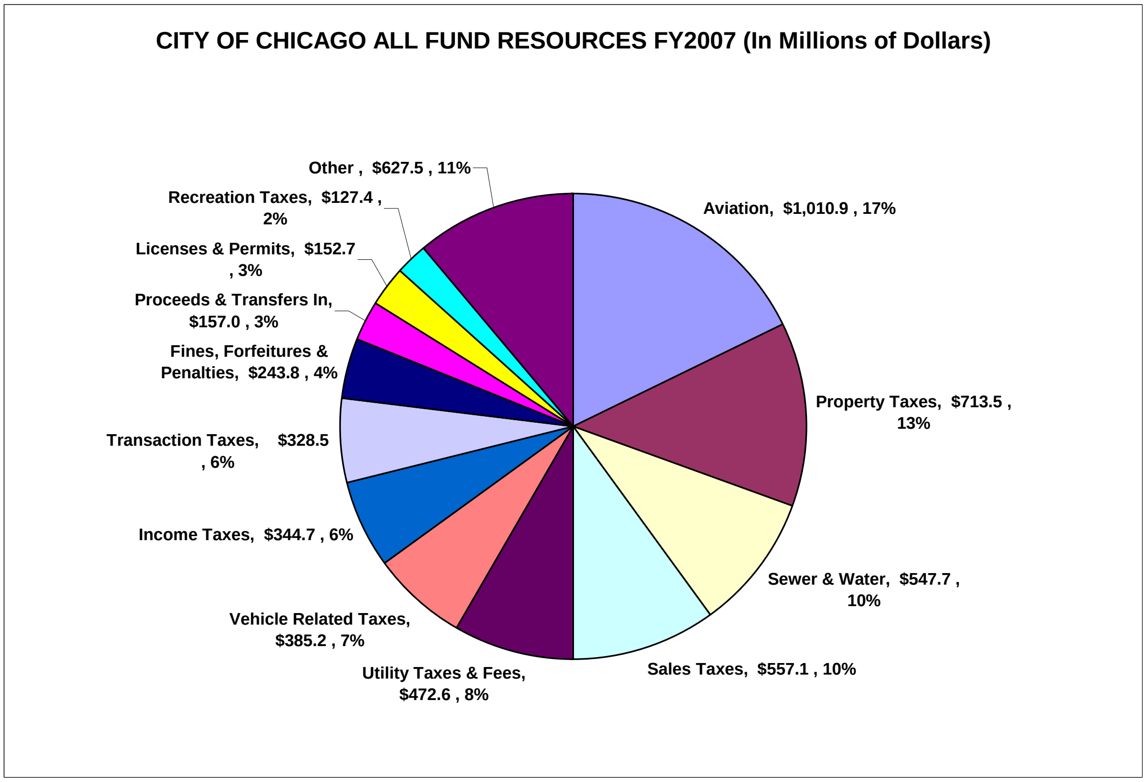
The following table compares the City of Chicago's total resources in FY2006 and FY2007. Resources will increase by 8.2% or $430.3 million in FY2007. The category "Other Resources," which is expected to rise by 47.4% in FY2007, includes debt proceeds, transfers-in from other governments, miscellaneous fees and charges, and revenues specified as "other" in the City's FY2007 budget document.

[7] Paul Volpe (Deputy Director of Budget and Management, City of Chicago), in communication with The Civic Federation, October 9, 2006.

CITY OF CHICAGO RESOURCES ALL FUNDS: FY2006 & FY2007 (In Milions of Dollars)				
Revenue	**FY2006**	**FY2007**	**$ CHG**	**% CHG**
Aviation	$ 841.9	$ 1,010.9	$ 169.0	20.1%
Property Taxes	$ 713.5	$ 713.5	$ -	0.0%
Sales Taxes	$ 515.1	$ 557.1	$ 42.0	8.2%
Sewer & Water	$ 524.7	$ 547.7	$ 23.0	4.4%
Utility Taxes & Fees	$ 487.2	$ 472.6	$ (14.6)	-3.0%
Vehicle, Transportation & Motor Fuel Taxes	$ 382.6	$ 385.2	$ 2.6	0.7%
Income Taxes/PPRT	$ 318.8	$ 344.7	$ 25.9	8.1%
Transaction Taxes	$ 315.5	$ 328.5	$ 13.0	4.1%
Other Resources	$ 189.2	$ 278.9	$ 89.7	47.4%
Fines, Forfeitures & Penalties	$ 210.1	$ 243.8	$ 33.7	16.0%
Proceeds & Transfers In	$ 153.5	$ 157.0	$ 3.5	2.3%
Licenses & Permits	$ 112.4	$ 152.7	$ 40.3	35.9%
Recreation Taxes	$ 125.7	$ 127.4	$ 1.7	1.4%
Charges for Services	$ 85.7	$ 87.1	$ 1.4	1.6%
Business Taxes	$ 74.4	$ 85.9	$ 11.5	15.5%
Emergency Communications Surcharge	$ 45.8	$ 45.0	$ (0.8)	-1.7%
Lease, Rentals & Sales	$ 36.1	$ 26.6	$ (9.5)	-26.3%
Municipal Utilities	$ 23.2	$ 26.0	$ 2.8	12.1%
Festival Fees & Charges	$ 20.3	$ 20.5	$ 0.2	1.0%
Revenue Subtotal	**$ 5,175.7**	**$ 5,611.1**	**$ 435.4**	**8.4%**
Prior Year Unreserved Fund Balance	**$ 62.6**	**$ 57.5**	**$ (5.1)**	**-8.1%**
TOTAL	**$ 5,238.3**	**$ 5,668.7**	**$ 430.4**	**8.2%**

Note: The sums of the figures in the "FY2007" and "$ CHG" columns do not equal the totals listed, due to rounding.
The totals listed in these columns are correct.
Sources: City of Chicago FY2006 & FY2007 Budget Overview & Revenue Estimates

The following exhibit shows the distribution of revenues by source in FY2007. Aviation revenues will constitute 17% of all revenues, followed by property taxes, which represent 13% of the City's resources. Sewer and water revenue and sales tax revenue each will provide approximately 10% of all fund resources for the City in FY2007. Combined, these four sources constitute approximately 50.0% of the City's total resources.



Over the five-year period between FY2003 and FY2007, all fund resources are projected to increase by 20.1%. Transaction taxes will increase by 56.2% ($118.2 million), income taxes, including the Personal Property Replacement Tax, by 54.6% ($121.7 million), aviation revenues by 50.0% ($337.0 million), and sales tax revenues by 30.0% ($128.5 million). Property taxes will remain flat over this five-year period.

CITY OF CHICAGO RESOURCES: ALL FUNDS: FY2003 & FY2007 (In Milions of Dollars)				
Revenue	**FY2003**	**FY2007**	**$ CHG**	**% CHG**
Aviation	$ 673.9	$ 1,010.9	$ 337.0	50.0%
Property Taxes	$ 713.5	$ 713.5	$ -	0.0%
Sales Taxes	$ 428.6	$ 557.1	$ 128.5	30.0%
Sewer & Water	$ 543.4	$ 547.7	$ 4.3	0.8%
Utility Taxes & Fees	$ 451.9	$ 472.6	$ 20.7	4.6%
Vehicle, Transportation & Motor Fuel Taxes	$ 383.0	$ 385.2	$ 2.2	0.6%
Income Taxes/PPRT	$ 223.0	$ 344.7	$ 121.7	54.6%
Transaction Taxes	$ 210.3	$ 328.5	$ 118.2	56.2%
Other Resources	$ 227.9	$ 278.9	$ 51.0	22.4%
Fines, Forfeitures & Penalties	$ 175.1	$ 243.8	$ 68.7	39.2%
Proceeds & Transfers In	$ 218.8	$ 157.0	$ (61.8)	-28.2%
Licenses & Permits	$ 91.2	$ 152.7	$ 61.5	67.4%
Recreation Taxes	$ 87.2	$ 127.4	$ 40.2	46.1%
Charges for Services	$ 71.6	$ 87.1	$ 15.5	21.6%
Business Taxes	$ 61.1	$ 85.9	$ 24.8	40.6%
Emergency Communications Surcharge	$ 50.0	$ 45.0	$ (5.0)	-10.0%
Lease, Rentals & Sales	$ 35.5	$ 26.6	$ (8.9)	-25.1%
Municipal Utilities	$ 25.1	$ 26.0	$ 0.9	3.6%
Festival Fees & Charges	$ 20.2	$ 20.5	$ 0.3	1.5%
Revenue Subtotal	**$ 4,691.3**	**$ 5,611.1**	**$ 919.8**	**19.6%**
Prior Year Unreserved Fund Balance	**$ 27.4**	**$ 57.5**	**$ 30.1**	**109.9%**
TOTAL	**$ 4,718.7**	**$ 5,668.7**	**$ 950.0**	**20.1%**

Note: The sums of the figures in the "FY2007" and "$ CHG" columns do not equal the totals listed, due to rounding. The totals listed in these columns are correct.

Sources: City of Chicago FY2003 Revenue Estimates & FY2007 Budget Overview & Revenue Estimates

Corporate Fund Revenue Trends

The Corporate Fund is the City's general fund. It supports a wide variety of services including public safety, public health, sanitation, and transportation. The City projects a 5.2%, $150.8 million increase in Corporate Fund revenues for FY2007. The Corporate Fund no longer receives any property tax dollars.

The Corporate Fund's tax revenues are projected to rise by 3.8% in FY2007, up from $1.97 billion in FY2006 to nearly $2.05 billion. Sales and Use Tax revenue, which includes both the City's own home rule sales tax and its share of sales taxes collected by the State, is expected to increase by 7.2% or $35.5 million. Income tax receipts, which include the personal property replacement tax levied on corporations and utilities, is projected to rise by 8.1% to $25.9 million. Almost one third of this increase, however, is attributable to a one-time, $8.0 million payment to the Fire and Police Pension Funds as part of a legal settlement reached in FY2006. Excluding this $8.0 million payment, the income tax and PPRT combined saw a 5.6% growth rate. Utility taxes and franchise fees will decrease by 3.0%, approximately $14.6 million.

Non-tax Corporate Fund revenues will increase by $67.0 million or 8.7% in FY2007. Most of these revenues, or 77.7% of the total, derive from three categories: Internal Service Earnings, Fines & Forfeitures, and Licenses & Permits. Internal Service Earnings revenue comprises payments from other governments and from other City funds for services provided by City departments that are initially paid for out of the Corporate Fund. As described above, due in large part to the City's two-year business permit initiative, Licenses & Permits revenue will increase by 35.9% or $40.3 million in FY2007, and Fines & Forfeitures will increase by 12.8% or $27.7 million as a result of more red-light traffic cameras and other enhanced enforcement measures.

The category of Proceeds and Transfers In will increase by 6.4% in FY2007, from $147.5 million to $157.0 million. This category includes tax revenue from the balance of property taxes after payments for debt service, pension, and library obligations. It also includes non-tax revenue derived from transfers of nonrecurring revenue sources. In FY2007, Transfers In will include $25.0 million in interest from the Skyway Investment Fund, $50.0 million from the proceeds of the Skyway Mid-Term Annuity Fund, and $19.0 million from the Skyway Neighborhood and Human Infrastructure Fund.[8]

CHICAGO CORPORATE FUND REVENUES: FY2006 & FY2007
(In Millions of Dollars)

Tax Revenue	FY2006	FY2007	$ CHG	% CHG
Sales & Use Taxes	$ 495.7	$ 531.2	$ 35.5	7.2%
Utility Tax & Franchise Fees	$ 487.2	$ 472.6	$ (14.6)	-3.0%
Income Taxes (Incl. PPRT)	$ 318.8	$ 344.7	$ 25.9	8.1%
Transaction Taxes	$ 315.5	$ 328.5	$ 13.0	4.1%
Transportation Taxes	$ 148.3	$ 151.5	$ 3.2	2.2%
Recreation Taxes	$ 127.7	$ 127.4	$ (0.3)	-0.2%
Business Taxes	$ 74.4	$ 85.9	$ 11.5	15.5%
Municipal Auto Rental Tax	$ 3.4	$ 3.5	$ 0.1	2.9%
Total Tax Revenue	**$ 1,971.0**	**$ 2,045.3**	**$ 74.3**	**3.8%**
Non-Tax Revenue				
Internal Service Earnings	$ 270.7	$ 277.3	$ 6.6	2.4%
Fines & Forfeitures	$ 216.1	$ 243.8	$ 27.7	12.8%
Licenses & Permits	$ 112.4	$ 152.7	$ 40.3	35.9%
Current Service Charges	$ 85.7	$ 87.1	$ 1.4	1.6%
Leases, Rentals & Sales	$ 36.1	$ 26.6	$ (9.5)	-26.3%
Municipal Utilities	$ 23.2	$ 26.0	$ 2.8	12.1%
Reimbursement,Interest,Other	$ 26.8	$ 24.4	$ (2.4)	-9.0%
Total Non-Tax Revenue	**$ 770.9**	**$ 837.9**	**$ 67.0**	**8.7%**
Proceeds & Transfers In	**$ 147.5**	**$ 157.0**	**$ 9.5**	**6.4%**
TOTAL CORPORATE REVENUE	**$ 2,889.4**	**$ 3,040.2**	**$ 150.8**	**5.2%**

Source: FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 41, and FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 53

The next exhibit presents a five-year trend for Corporate Fund revenues. Between FY2003 and FY2007, all Corporate Fund revenues will increase by 20.5%, a $517.7 million increase, that pushed Corporate Fund revenues from $2.5 billion up to $3.0 billion. During this period,

[8] *FY2007 City of Chicago Budget Overview and Revenue Estimates*, 57.

Corporate Fund tax revenues rose by 33.6% and non-tax revenues increased by 8.4%. Proceeds and Transfers In fell by 28.2%.

CHICAGO CORPORATE FUND REVENUES: FY2003 and FY2007 (In Millions of Dollars)				
Tax Revenue	**FY2003**	**FY2007**	**$ CHG**	**% CHG**
Sales & Use Taxes	$ 402.9	$ 531.2	$ 128.3	31.8%
Utility Tax & Franchise Fees	$ 451.9	$ 472.6	$ 20.7	4.6%
Income Taxes (Incl. PPRT)	$ 180.3	$ 344.7	$ 164.4	91.2%
Transaction Taxes	$ 210.3	$ 328.5	$ 118.2	56.2%
Transportation Taxes	$ 134.0	$ 151.5	$ 17.5	13.1%
Recreation Taxes	$ 87.2	$ 127.4	$ 40.2	46.1%
Business Taxes	$ 61.1	$ 85.9	$ 24.8	40.6%
Municipal Auto Rental Tax*	$ 3.1	$ 3.5	$ 0.4	12.9%
Total Tax Revenue	**$ 1,530.8**	**$ 2,045.3**	**$ 514.5**	**33.6%**
Non-Tax Revenue				
Internal Service Earnings	$ 290.3	$ 277.3	$ (13.0)	-4.5%
Fines & Forfeitures	$ 175.1	$ 243.8	$ 68.7	39.2%
Licenses & Permits	$ 91.2	$ 152.7	$ 61.5	67.4%
Current Service Charges	$ 71.6	$ 87.1	$ 15.5	21.6%
Leases, Rentals & Sales	$ 35.5	$ 26.6	$ (8.9)	-25.1%
Municipal Utilities	$ 25.1	$ 26.0	$ 0.9	3.6%
Reimbursement,Interest,Other	$ 84.1	$ 24.4	$ (59.7)	-71.0%
Total Non-Tax Revenue	**$ 772.9**	**$ 837.9**	**$ 65.0**	**8.4%**
Proceeds & Transfers In	**$ 218.8**	**$ 157.0**	**$ (61.8)**	**-28.2%**
TOTAL CORPORATE REVENUE	**$ 2,522.5**	**$ 3,040.2**	**$ 517.7**	**20.5%**

* In the FY2003 budget, the Municipal Auto Rental Tax was included as Non-Tax Revenue. In this chart, it has been separated and included as Tax Revenue for comparison with the FY2007 budget figures.

Source: FY2003 City of Chicago Revenue Estimates, p. 3, and FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 53

Property Tax Levy

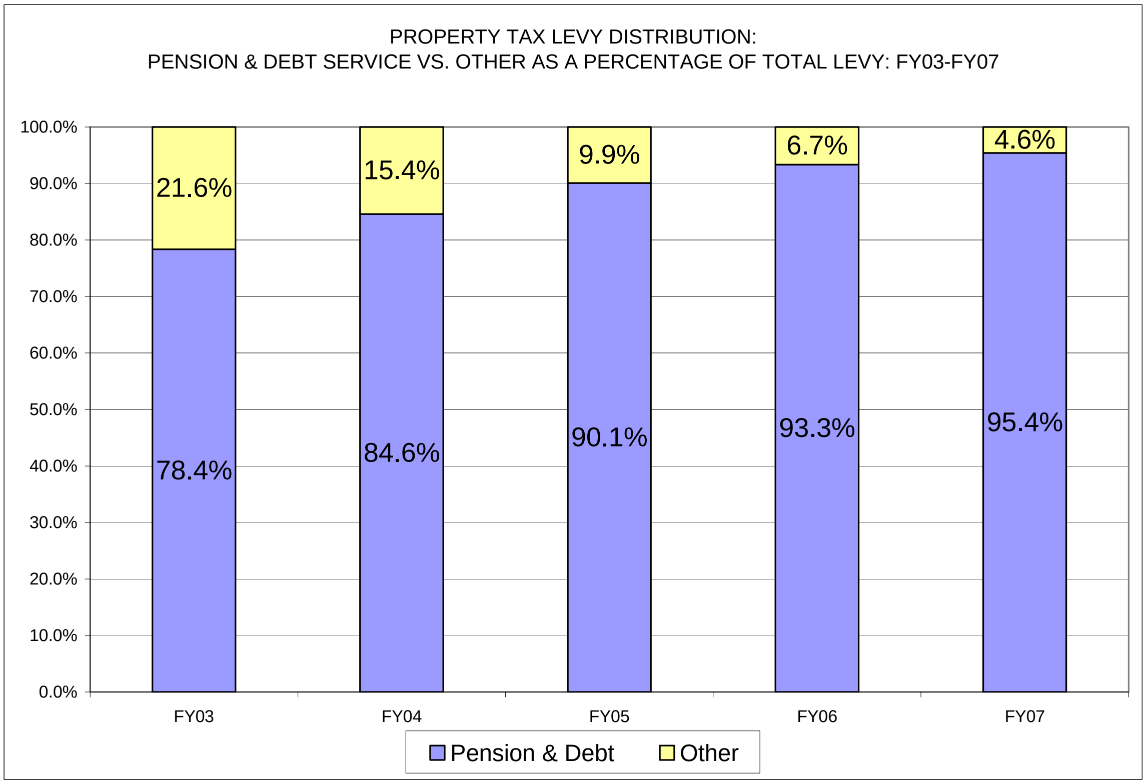
The City's property tax levy will be frozen at $713.5 million for the fourth consecutive year in FY2007. Property tax revenues are used primarily for three major purposes: pensions, debt service, and libraries.

In FY2007, 95.4% of the levy will be reserved for pensions and debt service. The largest share of the proceeds, approximately 48.5% of the levy or $345.8 million, will be earmarked for debt service. The City's four employee retirement systems will receive 46.9% of the total, or $334.7 million.

The share of the levy allocated for libraries will fall from $34.8 million in FY2006 to $29.1 million. Since FY2003 there has been a 60.9% reduction in the library's share of the property tax levy. Expressed as a percentage of the total property tax levy, the library system's share will drop from 10.4% in FY2003 to 4.1% in FY2007. The library's funding for debt service and equipment purchases now comes from the Corporate Fund rather than property tax revenues, since the City must devote a larger share of its property tax revenue to pensions and debt service. A total of $47.9 million for library debt service and equipment purchases, as well as a portion of the library's operating costs, will be appropriated from the Corporate Fund in FY2007.

Approximately 0.5% of the tax year 2007 levy or $3.9 million will be utilized for City Relief, which is used to reimburse the State of Illinois for certain public aid programs. City Relief will be phased out by 2007 as a result of General Assembly action.

During the five-year period between tax year 2003 and 2007, the percentage of the levy earmarked for pensions and debt service has risen from 78.4% to 95.4%. Pensions in 2003 consumed 40.9% of the levy; this amount will rise to 46.9% five years later. Levy funds earmarked for debt service will increase from 37.5% to 48.5%.



Skyway Revenues

The FY2007 budget contains approximately $90 million in proceeds from the Skyway sale two years ago. Of these proceeds, $25 million will be derived from interest on the $550 Skyway Investment Fund, $50 million will come from the Skyway Midterm Annuity Fund, and $19 million will be derived from the Neighborhood and Human Infrastructure Fund.[9] The $19 million will be allocated for a variety of human service, transportation and façade improvement programs.[10]

[9] Information provided by Chicago Office of Budget and Management.
[10] *FY2007 City of Chicago Over view and Revenue Estimates*, p. 3.

RESERVE FUNDS

Between FY2001 and FY2005, the City's audited financial statements report that unreserved, undesignated Corporate Fund balances increased by 73.4%, from \$33.2 million to \$57.6 million.[11] In those same years, the unreserved fund balance in the Corporate Fund as a percentage of Corporate Fund operating expenditures rose from 1.4% to 2.1%. These figures are far below the amount recommended by the Government Finance Officers Association (GFOA). GFOA recommends that general purpose governments establish a general fund balance of 5 to 15% of regular general fund operating revenues or expenditures.[12] A Corporate Fund reserve of 5% of Corporate Fund expenditures would have required approximately \$136.9 million for FY2005, over \$79.3 million more than what the City actually held in reserve that year.

The fund balance ratio dipped to a low of 0.5% in FY2002 and was only slightly increase to 0.7% one year later. Since FY2002, City financial policy has helped to increase the reserve fund.

In the FY2006 budget, the City proposed a Corporate Fund balance of \$62.6 million. The reserve fund will be approximately \$57.5 million in FY2007 or 1.9% of operating appropriations. Unfortunately, this is a decline from the FY2005 ratio of 2.1%. To meet GFOA standards, the City should have reserves of at least \$155.0 million in FY2007, approximately \$97.5 million more than the City has budgeted.

The trend of increasing the City of Chicago's Corporate Fund balance since FY2001 is a positive sign. However, the fund balance still remains quite low. The Civic Federation urges the City to move forward on the establishment of a reasonable contingency fund that meets the minimum GFOA standard.

CITY OF CHICAGO UNRESERVED, UNDESIGNATED CORPORATE FUND BALANCE RATIO (FY2001-FY2005)

	Unreserved, Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2001	\$ 33,241,000	\$ 2,440,426,000	1.4%
FY2002	\$ 13,014,000	\$ 2,527,642,000	0.5%
FY2003	\$ 19,458,000	\$ 2,661,102,000	0.7%
FY2004	\$ 42,246,000	\$ 2,567,658,000	1.6%
FY2005	\$ 57,648,000	\$ 2,739,570,000	2.1%

Sources: City of Chicago Comprehensive Annual Financial Reports, FY2001-FY2005

APPROPRIATIONS

The FY2007 City of Chicago budget proposes a net appropriation of approximately \$5.7 billion. This is an increase of 8.2% or approximately \$430.4 million from the previous fiscal year.

[11] See City of Chicago *Comprehensive Annual Financial Reports*, FY2000-FY2004.
[12] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).

Personal Services appropriations are projected to rise by 2.6% due to increases in salaries and benefits, even as the number of positions is held relatively constant.

CITY OF CHICAGO APPROPRIATIONS BY OBJECT: FY2006 & FY2007				
Object	**FY2006**	**FY2007**	**$ CHG**	**% CHG**
Personal Services	$ 2,953,315,959	$ 3,029,806,089	$ 76,490,130	2.6%
Contractual Services	$ 673,570,052	$ 715,107,214	$ 41,537,162	6.2%
Travel	$ 4,179,052	$ 4,365,396	$ 186,344	4.5%
Commodities	$ 112,602,591	$ 121,997,370	$ 9,394,779	8.3%
Equipment	$ 8,796,744	$ 10,676,790	$ 1,880,046	21.4%
Permanent Improvements	$ 2,000,000	$ 2,000,000	$ -	0.0%
Specific Items/Contingencies	$ 1,797,101,664	$ 2,101,959,141	$ 304,857,477	17.0%
Subtotal	**$ 5,551,566,062**	**$ 5,985,912,000**	**$ 434,345,938**	**7.8%**
Less Internal Transfers	$ 268,215,888	$ 285,542,000	$ 17,326,112	6.5%
Less Proceeds of Debt	$ 45,079,000	$ 31,651,000	$ (13,428,000)	-29.8%
Grand Total	**$ 5,238,271,174**	**$ 5,668,719,000**	**$ 430,447,826**	**8.2%**

Source: FY2006 City of Chicago Budget Recommendations, p. ix, and FY2007 City of Chicago Budget Recommendations, p. x.

Over the five-year period from FY2003 to FY2007, net appropriations have risen by 20.1%, or approximately $950.1 million. Personal Services appropriations have increased by roughly 13.3% over the five-year span from FY2003 to FY2007.

CITY OF CHICAGO APPROPRIATIONS BY OBJECT: FY2003 vs. FY2007				
Object	**FY2003**	**FY2007**	**$ CHG**	**% CHG**
Personal Services	$ 2,673,822,792	$ 3,029,806,089	$ 355,983,297	13.3%
Contractual Services	$ 579,169,640	$ 715,107,214	$ 135,937,574	23.5%
Travel	$ 3,494,775	$ 4,365,396	$ 870,621	24.9%
Commodities	$ 101,958,492	$ 121,997,370	$ 20,038,878	19.7%
Equipment	$ 8,712,114	$ 10,676,790	$ 1,964,676	22.6%
Permanent Improvements	$ 6,000,930	$ 2,000,000	$ (4,000,930)	-66.7%
Specific Items/Contingencies	$ 1,731,536,738	$ 2,101,959,141	$ 370,422,403	21.4%
Subtotal	**$ 5,104,695,481**	**$ 5,985,912,000**	**$ 881,216,519**	**17.3%**
Less Internal Transfers	$ 250,600,000	$ 285,542,000	$ 34,942,000	13.9%
Less Proceeds of Debt	$ 135,442,000	$ 31,651,000	$ (103,791,000)	-76.6%
Grand Total	**$ 4,718,653,481**	**$ 5,668,719,000**	**$ 950,065,519**	**20.1%**

Source: FY2003 City of Chicago Budget Recommendations, p. x, and FY2007 City of Chicago Budget Recommendations, p. x

Appropriations by Fund

The FY2007 budget projects that the largest increase in expenditures by fund will occur in the City's Corporate Fund, which accounts for the general operations of City government. Appropriations for the Corporate Fund will increase to nearly $3.1 billion, or 5.0% over the previous fiscal year. Debt Service and Enterprise Fund appropriations will see the largest increases, by 15.1% and 14.1% respectively.

CITY OF CHICAGO APPROPRIATIONS BY FUND: FY2006 & FY2007 (In Millions of Dollars)				
	FY2006	FY2007	$ CHG	% CHG
Corporate Fund	$ 2,950.0	$ 3,097.7	$ 147.7	5.0%
Special Revenue Fund	$ 395.5	$ 399.7	$ 4.2	1.1%
Pension Funds	$ 398.0	$ 421.7	$ 23.7	6.0%
Debt Service Fund	$ 441.6	$ 508.2	$ 66.6	15.1%
Enterprise Fund	$ 1,366.5	$ 1,558.5	$ 192.0	14.1%
Total Resources	**$ 5,551.6**	**$ 5,985.8**	**$ 434.2**	**7.8%**
Less Proceeds of Debt	$ 45.1	$ 31.7	$ (13.4)	-29.7%
Less Internal Transfer	$ 268.2	$ 285.5	$ 17.3	6.5%
NET APPROPRIATION	**$ 5,238.3**	**$ 5,668.6**	**$ 430.3**	**8.2%**

Source: FY2006 City of Chicago Budget Overview and Revenue Estimates, p. 45, and FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 50

Net appropriations are projected to rise by approximately 20.1% in the five-year period since FY2003. The largest increase of 23.3% is projected to be in appropriations for the City's Enterprise Fund. Corporate Fund expenditures are expected to rise by 21.5%, from approximately $2.5 billion to $3.1 billion. Appropriations for the Special Revenue Fund are expected to decrease the most, by 4.0% or $16.5 million.

CITY OF CHICAGO APPROPRIATIONS BY FUND: FY2003 & FY2007 (In Millions of Dollars)				
	FY2003	FY2007	$ CHG	% CHG
Corporate Fund	$ 2,549.8	$ 3,097.7	$ 547.9	21.5%
Special Revenue Fund	$ 416.2	$ 399.7	$ (16.5)	-4.0%
Pension Funds	$ 351.0	$ 421.7	$ 70.7	20.1%
Debt Service Fund	$ 523.7	$ 508.2	$ (15.5)	-3.0%
Enterprise Fund	$ 1,264.0	$ 1,558.5	$ 294.5	23.3%
Total Resources	**$ 5,104.7**	**$ 5,985.8**	**$ 881.1**	**17.3%**
Less Proceeds of Debt	$ 135.4	$ 31.7	$ (103.7)	-76.6%
Less Internal Transfer	$ 250.6	$ 285.5	$ 34.9	13.9%
NET APPROPRIATION	**$ 4,718.7**	**$ 5,668.6**	**$ 949.9**	**20.1%**

Source: FY2003 City of Chicago Revenue Estimates, p. 1, and FY2007 City of Chicago Budget Overview and Revenue Estimates, p. 50

Appropriations 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. Such departments include the Office of the Mayor and the Departments of Finance, Revenue, Law, and General Services.
- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections, and administer appropriations for the City Council and its various committees.

- **City Development** departments, including the City's Department of Planning and Development, handle community, economic, cultural, and infrastructure development in the City.
- **Community Services** departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs, and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Departments of Police and Fire and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and includes the Department of Buildings, the Department of Construction and Permits, and the Office of the Inspector General.
- **Streets and Sanitation** is the category label for the Department of Streets and Sanitation.
- **Infrastructure Services** appropriations go to the Chicago Department of Transportation (CDoT), which is responsible for the reconstruction of streets, sidewalks, and bridges, as well as the issuance of permits.
- **Public Service Enterprises,** comprising the Departments of Water Management and Aviation, manages O'Hare and Midway Airports.
- **General Financing Requirements** expenditures go toward City employees' pension benefits, the City's long term debt payments, and other cross-departmental expenses.

The largest increase in appropriations over the past fiscal year is projected to occur in the City Development program area. City Development appropriations will increase by 33.0%, or approximately $75.2 million. Legislative and Elections will rise by 17.5% and General Financing Requirements by 13.5%. The additional $282.3 million that will be appropriated for General Financing Requirements in 2007 is the largest single-year program area increase. The General Financing Requirements increase is driven by a $221.1 million spike in the appropriation required for the City's debt service, as well as a $23.6 million increase in the City's contributions to employee pensions and a $13.7 million increase in the cost of employee health care benefits.[13] The only projected decrease by program area is in Infrastructure Services, whose appropriations will fall by $88.7 million or 20.0%. Though the proposed Infrastructure Services appropriation was $442.5 million in FY2006, an appropriation of only $260.6 was approved for that year. The lesser, actual appropriation in FY2006 reflects the decision to defer some maintenance projects.[14] The FY2007 proposed appropriation of $353.8 million is therefore a 35.8% increase over the appropriation approved for FY2006.

[13] City of Chicago, *2007 Program and Budget Summary*, p. 275.
[14] Craig Lessner (Assistant Budget Director, City of Chicago), in an personal communication with the Civic Federation, October 25, 2006.

CITY OF CHICAGO APPROPRIATIONS BY PROGRAM AREA: FY2006 & FY2007				
	FY2006	FY2007	$ CHG	% CHG
Finance and Administration	$ 458,608,604	$ 477,982,387	$ 19,373,783	4.2%
Legislative and Elections	$ 36,029,905	$ 42,325,744	$ 6,295,839	17.5%
City Development	$ 227,594,958	$ 302,766,829	$ 75,171,871	33.0%
Community Services	$ 583,103,563	$ 626,993,318	$ 43,889,755	7.5%
Public Safety	$ 1,908,005,328	$ 2,033,912,197	$ 125,906,869	6.6%
Regulatory	$ 97,440,562	$ 104,551,471	$ 7,110,909	7.3%
Streets and Sanitation	$ 357,242,599	$ 358,721,274	$ 1,478,675	0.4%
Infrastructure Services	$ 442,468,223	$ 353,815,034	$ (88,653,189)	-20.0%
Public Services Enterprises	$ 657,073,041	$ 725,757,437	$ 68,684,396	10.5%
General Financing Requirements	$ 2,090,428,015	$ 2,372,688,508	$ 282,260,493	13.5%
SUBTOTAL	**$ 6,857,994,798**	**$ 7,399,514,199**	**$ 541,519,401**	**7.9%**
Proceeds and Reimbusements	$ 313,294,888	$ 317,193,000	$ 3,898,112	1.2%
Grant Funds	$ 1,306,428,736	$ 1,413,602,199	$ 107,173,463	8.2%
GRAND TOTAL	**$ 5,238,271,174**	**$ 5,668,719,000**	**$ 430,447,826**	**8.2%**

Source: FY2006 City of Chicago Program & Budget Summay, p. 1, and FY2007 City of Chicago Program & Budget Summary, p. 1

Appropriations by major program area between FY2003 and FY2007 are presented in the next exhibit. The two largest increases by percentage occurred in Public Safety and in Finance and Administration, with increases of 30.9% and 21.4% respectively. Since FY2003, Infrastructure Services appropriations have decreased by 24.7%, falling from $469.9 million to $353.8 million in FY2007. This reduction in funding for the Chicago Department of Transportation is the direct result of reorganizations that have allowed the department to focus on its core competencies.[15] A 0.7% decrease is also projected in Streets and Sanitation.

CITY OF CHICAGO APPROPRIATIONS BY PROGRAM AREA: FY2003 & FY2007				
	FY2003	FY2007	$ CHG	% CHG
Finance and Administration	$ 393,824,617	$ 477,982,387	$ 84,157,770	21.4%
Legislative and Elections	$ 37,266,228	$ 42,325,744	$ 5,059,516	13.6%
City Development	$ 261,462,447	$ 302,766,829	$ 41,304,382	15.8%
Community Services	$ 558,682,867	$ 626,993,318	$ 68,310,451	12.2%
Public Safety	$ 1,554,331,993	$ 2,033,912,197	$ 479,580,204	30.9%
Regulatory	$ 100,631,490	$ 104,551,471	$ 3,919,981	3.9%
Streets and Sanitation	$ 361,380,084	$ 358,721,274	$ (2,658,810)	-0.7%
Infrastructure Services	$ 469,859,721	$ 353,815,034	$ (116,044,687)	-24.7%
Public Services Enterprises	$ 617,539,855	$ 725,757,437	$ 108,217,582	17.5%
General Financing Requirements	$ 1,963,305,756	$ 2,372,688,508	$ 409,382,752	20.9%
SUBTOTAL	**$ 6,318,285,058**	**$ 7,399,514,199**	**$ 1,081,229,141**	**17.1%**
Proceeds and Reimbusements	$ 386,042,000	$ 317,193,000	$ (68,849,000)	-17.8%
Grant Funds	$ 1,213,589,577	$ 1,413,602,199	$ 200,012,622	16.5%
GRAND TOTAL	**$ 4,718,653,481**	**$ 5,668,719,000**	**$ 950,065,519**	**20.1%**

Source: FY2003 City of Chicago Program & Budget Summary, p. 3, and FY2007 City of Chicago Program & Budget Summary, p. 1

[15] For example, traffic management was transferred to the Office of Emergency Management (OEM) during this period, and seventy-three FTEs were consequently shifted from CDoT to OEM. Since 2003, the CDoT workforce has been reduced by a total of 337 FTEs, including the 73 positions transferred to OEM. Craig Lessner (Assistant Budget Director, City of Chicago), in an personal communication with the Civic Federation, October 25, 2006.

PERSONNEL: APPROPRIATIONS AND BUDGETED POSITIONS

Corporate Fund personal service appropriations are projected to increase by roughly $69.6 million in FY2007, a 2.9% increase over FY2006.

CITY OF CHICAGO CORPORATE FUND APPROPRIATIONS FOR PERSONAL SERVICES AND NON-PERSONAL SERVICES: FY2006 AND FY2007				
	FY2006	FY2007	$ Change	% Change
Personal Services	$ 2,422,426,484	$2,492,042,506	$ 69,616,022	2.9%
Non-Personal Services	$ 527,580,516	$605,693,494	$ 78,112,978	14.8%
Total	$ 2,950,007,000	$3,097,736,000	$ 147,729,000	5.0%

Source: FY2006 City of Chicago Budget Recommendations, p. v, and FY2007 City of Chicago Budget Recommendations, p. v

Between FY2003 and FY2007, personal service appropriations in the Corporate Fund will rise by 17.6%, from approximately $2.1 billion to $2.5 billion. The percentage of Corporate Fund appropriations earmarked for personal services, however, decreased, falling from 83.1% to 80.4% over the five-year period.

CITY OF CHICAGO CORPORATE FUND APPROPRIATIONS FOR PERSONAL SERVICES: FY2003 AND FY2007				
	FY2003	FY2007	$ Change	% Change
Personal Services	$ 2,118,490,497	$ 2,492,042,506	$ 373,552,009	17.6%
[% of Corporate Fund]	83.1%	80.4%		

Source: FY2003 City of Chicago Budget Recommendations, p. v, and FY2007 City of Chicago Budget Recommendations, p. v

For FY2007, the City of Chicago recommends funding 40,199 full time equivalent (FTE) positions. This represents a decrease of 0.3% or 113 positions from the number of FTE positions budgeted in 2006. There will be an increase of 89 FTEs in the Public Safety program area, representing a 0.4% rise. Most other program areas will experience reductions. These reductions are primarily being achieved by striking vacant positions from departmental budgets. The greatest reduction will occur in the area of Public Service Enterprises, which will see the elimination of 110 FTEs. The totals for full-time equivalents were obtained from the *City of Chicago FY2007 Program & Budget Summary* – these totals are larger than those reported in the *FY2007 Budget Overview and Revenue Estimates* because they include positions funded by grants.

FULL-TIME EQUIVALENT POSITIONS BY AGENCY: FY2006 AND FY2007				
Agency	FY2006 Budgeted	FY2007 Recommended	# Change	% Change
Finance & Administration	3,197	3,199	2	0.1%
Legislative & Elections	371	371	0	0.0%
City Development	601	549	(52)	-8.7%
Community Services	3,935	3,909	(26)	-0.7%
Public Safety	22,640	22,729	89	0.4%
Regulatory	1,014	999	(15)	-1.5%
Streets & Sanitation	3,577	3,609	32	0.9%
Transportation	862	829	(33)	-3.8%
Public Service Enterprises	4,115	4,005	(110)	-2.7%
TOTAL	**40,312**	**40,199**	**(113)**	**-0.3%**

Source: FY2007 City of Chicago Program and Budget Summary.

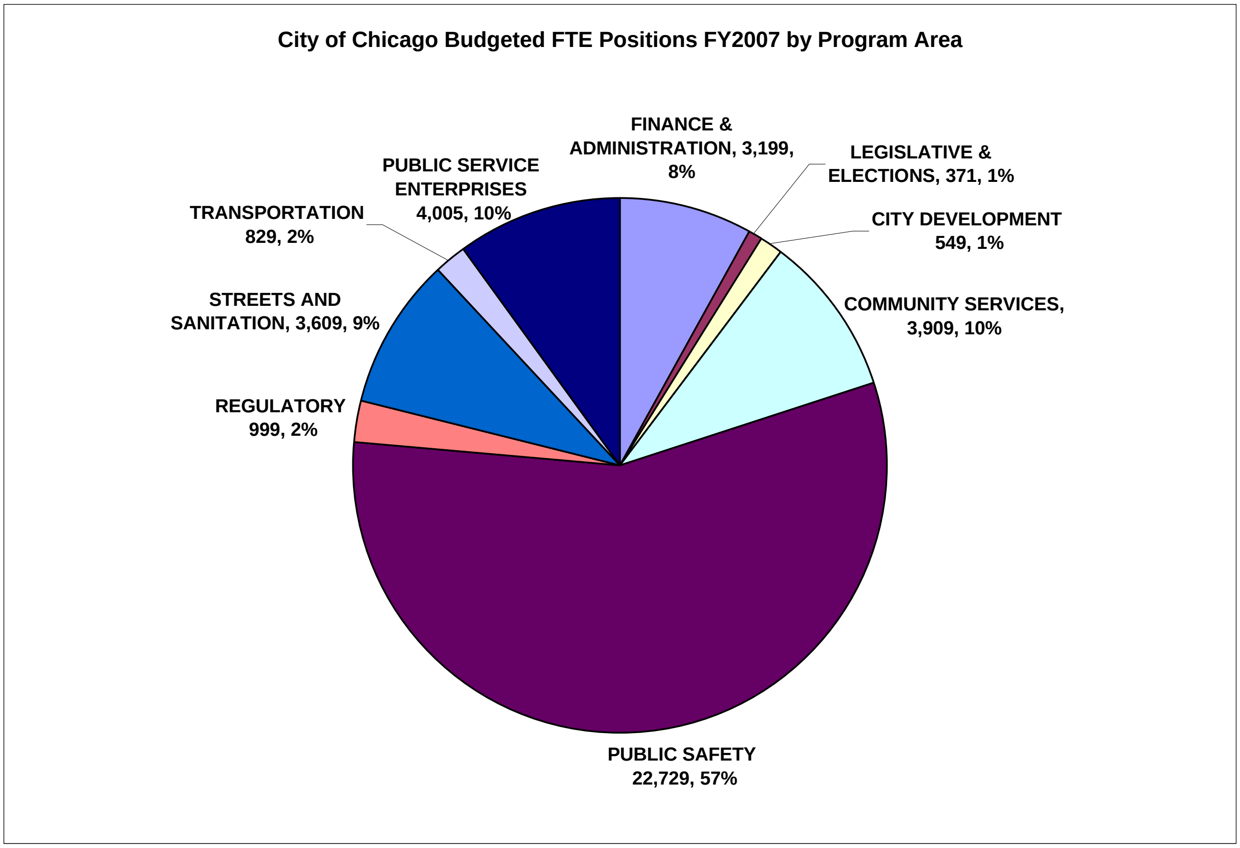
During the five-year period from FY2003 to FY2007, there has been a reduction of 4.9% in the level of total full-time equivalent positions. This is a reduction of 2,074 FTE positions from the 42,273 FTE positions budgeted in FY2003 to the 40,199 recommended for FY2007. There has been a trend of reduction in eight of the nine program areas, excluding only regulatory agencies, over this five-year period. The greatest unit decreases occurred in the areas of Public Service Enterprises and Transportation, which experienced reductions of 942 FTE positions and 383 FTE positions respectively. The greatest percentage declines for the years between FY2003 and FY2007 were in the program areas of Transportation and City Development, who saw decreases of 31.6% and 20.2%, respectively.

FULL-TIME EQUIVALENT POSITIONS BY AGENCY: FY2003 AND FY2007

Agency	FY2003 Budgeted	FY2007 Recommended	# Change	% Change
Finance & Administration	3,247	3,199	(48)	-1.5%
Legislative & Elections	382	371	(11)	-2.9%
City Development	688	549	(139)	-20.2%
Community Services	4,106	3,909	(197)	-4.8%
Public Safety	22,814	22,729	(85)	-0.4%
Regulatory	987	999	12	1.2%
Streets & Sanitation	3,890	3,609	(281)	-7.2%
Transportation	1,212	829	(383)	-31.6%
Public Service Enterprises	4,947	4,005	(942)	-19.0%
TOTAL	**42,273**	**40,199**	**(2,074)**	**-4.9%**

Source: FY2003 and FY2007 City of Chicago Program and Budget Summary

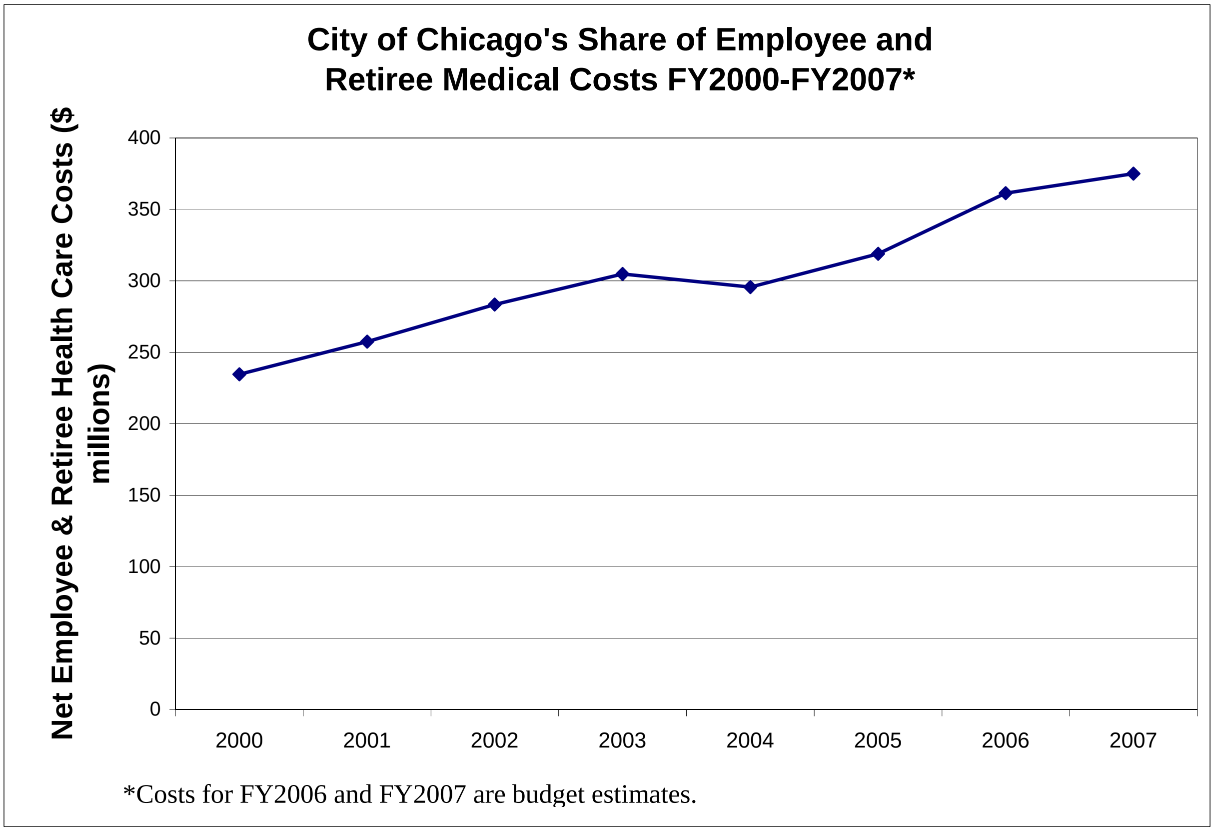
Approximately 57% of all budgeted FTE positions in the proposed FY2007 budget are in the area of Public Safety. The next largest percentage is in the category of Public Service Enterprises and Community Services, both at 10%.



EMPLOYEE HEALTH CARE TRENDS

Like most public employers, the City of Chicago has experienced substantial increases in health care costs in recent years. Between FY2000 and FY2006, the City estimated that its share of employee and annuitant medical costs rose by almost 59% or $104 million. It also estimated that, each year between 2000 and 2006, the City paid for more than 90% of the 9.5% average annual increase in employee and dependent health care costs.[16] The following graph shows the increase in the City's employee and retiree health costs net of employee and retiree contributions between FY2000 and FY2007.[17]

[16] Budget Overview and Revenue Estimates, *FY2006 City of Chicago Budget*, p 78.
[17] Data in graph from Sulan Tong, e-mail message to authors, August 21, 2006, Budget Overview and Revenue Estimates, *FY2006 City of Chicago Budget*, p. 67, and Budget Overview and Revenue Estimates, *FY2007 City of Chicago Budget*, p. 94. The FY2006 and FY2007 numbers are estimates.



Costs of Chicago Health Benefits

Employee and annuitant health benefits were budgeted at $361.4 million net of employee and retiree contributions in FY2006,[18] while gross medical costs will approach $500 million for the entire year.[19]

The City of Chicago pays for approximately 82% of employee only health care costs, while its 37,450 covered employees contribute nearly 12% of the cost of premiums.[20] The remainder is supported by federal and state contributions. The following table shows how much employees, the City, and the Federal and State governments contributed to City employee healthcare in 2005 (the most recent year for which this data is available).

[18] Budget Overview and Revenue Estimates, *FY2006 City of Chicago Budget*, p. 67.
[19] City of Chicago Benefits Management Division, Personal Communication, August 14, 2006.
[20] Ferhan Hamid, e-mail message to authors, May 31, 2006. The City's portion varies depending on how much the Federal and State Governments contribute.

Contributions to Costs of Employee Health Care in 2005		
	Costs and Contributions (In Millions)	**Percentage of Total Health Care Cost**
Employee Contributions	$34.3	11.7%
COBRA Contributions	$2.5	0.9%
Federal/State Contributions*	$16.0	5.5%
City Contributions	$256.7	87.5%
Total Employee Health Care Costs (Includes Dental, Life Insurance, and Vision)	$293.5	100.0%

*Estimated
Source: Ferhan Hamid, e-mail message to authors, June 20, 2006.

Employee Health Plans

The City of Chicago gives its employees a choice of two Health Maintenance Organization plans and two Preferred Provider Organization plans:

- Unicare HMO;
- Blue Cross Blue Shield HMO;
- Blue Cross Blue Shield PPO; and a
- Blue Cross Blue Shield PPO with a health reimbursement account.[21]

Prescription drug coverage is provided by each HMO plan from within the insurer's own system. Prescription drug coverage for employees in the PPO plans is provided by Caremark. Employees' prescription drug co-payments and the coverage they receive are the same for the HMO and PPO plans. The City also offers vision care within its PPO and HMO plans, and provides separate HMO and PPO dental plans. A flexible spending account (FSA) is also available to employees.[22] Employees earning more than $30,000 a year contribute different percentages of their salaries depending on whether they receive single, employee + 1, or family coverage.

Two-thirds of employees and their dependents are enrolled in PPO plans,[23] which is similar to the national average of 60% of private sector employees, but considerably higher than the national state and local government average of 41%.[24] The City requires new hires to enter one

[21] A health reimbursement account (sometimes "arrangement") or HRA is a "first dollar" coverage plan in which an employer annually sets aside a certain amount of money for health expenses for an employee. The account is then used by the employee to pay covered expenses (generally including the deductible) until it is exhausted. The employee is then responsible for all health costs incurred after the funds in the account have been spent, especially the remaining deductible.
[22] A flexible spending account or FSA is a pre-tax method of saving money to cover out-of-pocket expenses within a health care plan, such as over the counter drugs, deductibles, and co-payments. Expenses covered by the health care plan and premium costs cannot be paid with FSA funds. Balances cannot be carried over from year to year.
[23] Ferhan Hamid, e-mail message to authors, May 4, 2006.
[24] G. Claxton et al., *Employer Health Benefits 2006 Annual Survey* (Menlo Park, CA: Henry J. Kaiser Family Foundation, 2006), V-3.

of the PPO plans for their first eighteen months. Doing so lowers the average age and therefore increases the general health of its group, helping to lower the City's average premium-equivalent.

Retiree Health Plans

City of Chicago annuitants pay premiums based on years of service, number of family members covered, and whether they or their family members are covered by Medicare. A 2005 court-approved settlement (*City of Chicago v. Korshak*) held that the City has no commitment to continue to subsidize annuitant health care costs after June 30, 2013. Until July 1, 2013, annuitants who retired prior to July 1, 2005 with twenty or more years of City employment will have a City contribution of 55% toward their health premiums; those who retire after July 1, 2005 but before July 1, 2013 will have a City contribution of 50% or less, depending on how many years they have been employed by the City. A third party actuary calculates the estimated premiums for retirees, and then the pension fund makes a contribution toward annuitant coverage based on statute. Current rates of pension fund contribution are $55 per month for Medicare-eligible annuitants and $85 per month for non-Medicare-eligible annuitants. After the City and pension fund contributions, annuitants pay roughly 33% of the premium costs.[25]

Recent Changes and Cost Savings

The City of Chicago negotiated for increased cost sharing by employees in order to compensate for the increasing cost of health insurance during the 2005 union negotiations. These cost-saving changes included increased premium contributions, deductibles, and co-payments for employees. In the aggregate, the award raised the employee contribution to health care premiums from 1.5% of salary to 2.0%, effective July 2006. Prescription co-payments were also increased for all HMO and PPO plans. [26] The changes are expected to result in $30 million in savings in FY2006.[27]

City of Chicago Employee Prescription Co-Payments

	Prior to 7/1/06	After 7/1/06
Retail (30 day)		
Generic	$10**	$10**
Formulary Brand	$20	$30
Non-Formulary Brand	$35	$45
Mail Order (90-day)		
Generic	$5 ($10 non-formulary)*	$20
Formulary Brand	$15 ($20 non-formulary)*	$60

* Employees in HMO paid 2x 30-day retail co-payment
** Plus cost difference if brand is chosen
Source: City of Chicago Benefits Management Division website, *Medical and Dental Plan Summary Guide for 2006.*

[25] Ferhan Hamid, e-mail message to authors, June 20, 2006.
[26] Budget Overview and Revenue Estimates, *FY2006 City of Chicago Budget*, p 81.
[27] City of Chicago Benefits Management Division, Personal Communication, February 27, 2006.

City of Chicago Retiree Prescription Co-Payments		
	Non-Medicare*	Medicare
Retail (30 day)		
Generic	20% of cost	20% of cost**
Formulary Brand	20% of cost	20% of cost**
Non-Formulary Brand	20% plus $15	20% plus $15**
Mail Order (90-day)		
Generic	$17	$17
Formulary Brand	$44	$44

* A separate $100 prescription deductible applies
** Co-payments increase 5% per year
Source: City of Chicago Benefits Management Division website, *Medical and Dental Plan Summary Guide for 2006*.

Health Care Summary

The City of Chicago's health care plan costs compare favorably with other local governments in the region and nationally. Many provisions, in fact, closely resemble initiatives being pursued in the private sector. Active City employees pay a percentage of health costs (11.7%) which is comparable to national averages for state and local governments according to a recent survey (9% for individual coverage and 20% for family).[28] In terms of cost-sharing measures like co-payments and deductibles, the City has done better than most state and local governments, achieving provisions that are equivalent to those found in private sector plans. For example, employees in the City's PPO plans pay deductibles of $300-$900, while the national private sector average is $473-$1,034.[29] Co-payments for prescription drugs in all plans are $10 for generic, $30 for preferred, and $45 for non-preferred for a 30-day retail supply. These co-payment levels are more than equivalent to national private employee averages of $11, $24, and $38, respectively. The City also estimates that it will have saved $30 million in 2006 due to the premium-sharing and cost-sharing changes in implemented in 2005, as described above. The following charts compare plan highlights for each HMO and PPO plan with national averages.

[28] Claxton et al., *Employer Health Benefits 2006 Annual Survey*, VI-19.
[29] Claxton et al., *Employer Health Benefits 2006 Annual Survey*, VII-6, 11.

City of Chicago PPO Plan Highlights					
Benefit	National Average*	City of Chicago			
	PPO	Blue Cross/Blue Shield PPO		Blue Cross/Blue Shield PPO + HCA	
Average Premium					
Single	$4,385	$4,524		$4,154	
Family	$11,765	$12,179		$11,265	
Average % Premium Contributed by Employee	9% Single / 20% Family	11.7%			
		In Network	Out of Network	In Network	Out of Network
Deductible					
Single	$473[1]	$300	$1,500	$1,000	$3,500
Family	$1,034[1]	$900	$3,000	$ 2,000	$ 10,500
Coinsurance (% paid by employee after deductible)	17%	10%	40%	10%	40%
Physician Copayment/% Coinsurance					
	$18[2] / 20-25%[3]	10%	40%	10%	40%

*2006 Kaiser Foundation Survey Average of All Employers

[1]For covered workers with a deductible. Thirty-one percent of PPO-covered workers do not have a deductible.

[2]60% of PPO-covered workers with co-payments for doctor visits pay $15 or $20

[3]67% of PPO-covered workers with coinsurance for doctor visits pay 20-25% in-network

Sources: *Medical and Dental Plan Summary Guide for 2006* and Ferhan Hamid, e-mail communication to authors, May 30, 2006

City of Chicago HMO Plan Highlights			
Benefit	National Average*	City of Chicago	
		Unicare HMO	Blue Advantage
Average Premium			
Single	$4,049	$3,417	$3,234
Family	$11,278	$9,994	$9,620
Average % Premium Contributed by Employee	9% Single / 20% Family	11.7%	
Deductible			
Single	$352[1]	$0	
Family	$751[1]	$0	
Hospital Copayment			
Inpatient	$233	$0	
Outpatient	$118	$0	
Emergency Room	N/A	$100	
Physician Copayment			
	~$16[3]	$15	

*2006 Kaiser Foundation Survey Average of All Employers

[1]For covered workers with a deductible. Eighty-eight percent of HMO-covered workers **do not** have a deductible.

Sources: *Medical and Dental Plan Summary Guide for 2006* and Ferhan Hamid, e-mail communication to authors, May 30, 2006

City of Chicago Prescription Drug Plan Highlights (All Plans)		
Benefit	National Average*	City of Chicago
Prescription Drugs - 30-Day Retail		
Generic	$11	$10
Preferred Brand	$24	$30
Non-Preferred Brand	$38	$45
Prescription Drugs - 90-Day Mail Order		
Generic	N/A	$20
Preferred Brand	N/A	$60
Non-Preferred Brand	N/A	N/A

*2006 Kaiser Foundation Survey of All Employers
Source: *Medical and Dental Plan Summary Guide for 2006*

The City has also benefited from its participation in a consortium with five other local governments to collectively issue Requests for Proposal (RFPs), screen bidders based on past experience and research, and garner competitive rates for basic plan services.[30] The six governments have collaborated on RFPs for basic prescription drug plans since 2001, when the Civic Federation commissioned a study to explore the feasibility of consolidated purchasing. More recently, they have done the same for health care plans. Most of the six have negotiated and implemented prescription drug plans over the last two years, and half have completed negotiations and begun implementation of healthcare plans based on a joint RFP issued in mid-2005. The City estimates that hiring Caremark (to provide prescription drugs) and Unicare and Blue Cross-Blue Shield (to provide HMO services) through the consortium RFP process has saved Chicago taxpayers a total of $10.1 million in fiscal years 2005 and 2006. The RFP released by the group for PPO services in August 2006 is expected to net $4-5 million in savings for the City in FY2007.[31] The following table summarizes how much the City expects to save in FY2007 and has saved in the past two fiscal years due to various health care cost containment initiatives.

City of Chicago Savings Achieved Through Employee Health Care Cost Management Initiatives			
	FY2005 Savings	**FY2006 Savings**	**FY2007 Savings**
Plan Design Changes		$30 million*	$46 million*
Joint Purchasing Changes			
Caremark Rx	$4.4 million		
HMO		$5.7 million	
PPO			$4-5 million*
Disease Management and Wellness Program			$2 million*
Dependent Health Care Audit		$1.3 million	

**Expected*

Sources: City of Chicago Benefits Management Division personal communication with authors, February 27, 2006; FY2007 Budget; and *Chicago Sun-Times* , August 23, 2006

[30] The five governments with which the City participates in joint purchasing are Cook County, Chicago Transit Authority, Chicago Public Schools, City Colleges of Chicago, and Chicago Park District.
[31] "City pooling agencies to save on health care," *Chicago Sun-Times*, August 23, 2006, p. 46.

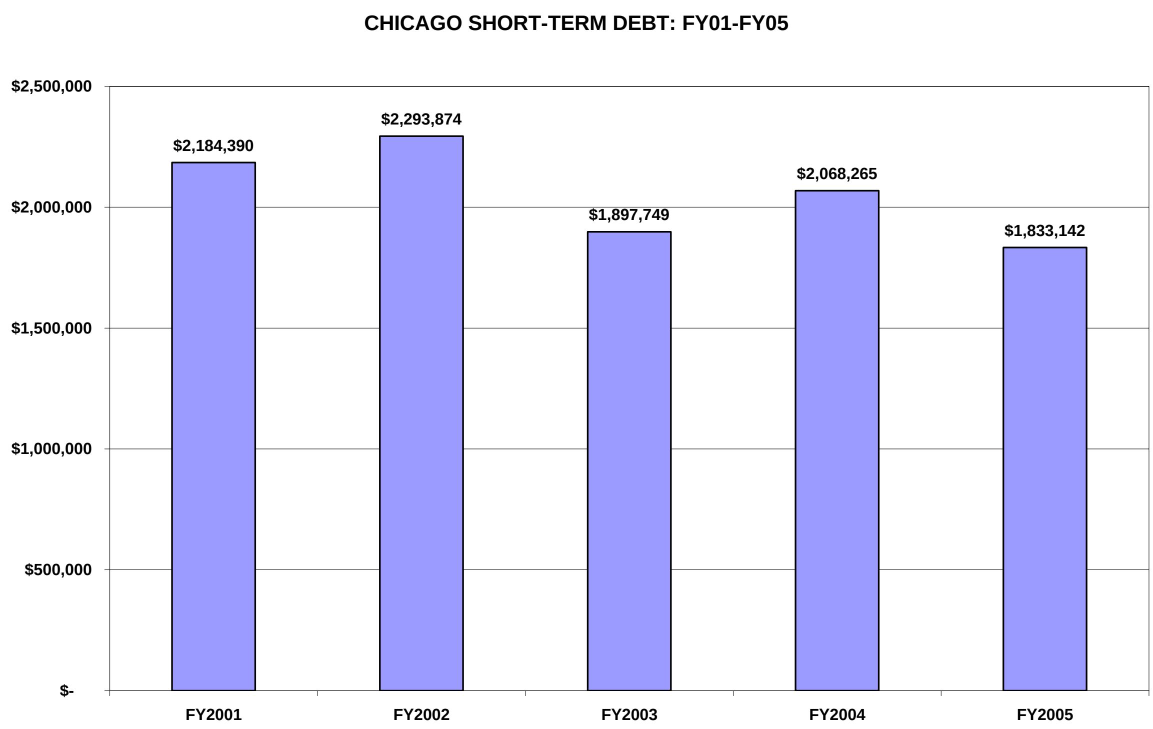
DEBT TRENDS

The Civic Federation employs several measures of debt for the purposes of this analysis: short-term debt trends, long-term net direct debt and net direct per capita trends, debt service appropriation trends, and bond ratings.

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. A trend of increasing short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. City of Chicago short-term debt includes all current liabilities except accrued salaries and wages, accrued payroll, compensated absences, accrued interest and accrued and other liabilities. For purposes of consistency over time, short-term debt is calculated for Governmental Activities, or activities in the four Governmental Funds: the Corporate Fund, the Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund.

In FY2005, short-term debt for the City of Chicago's Governmental Activities decreased by 11.4% from the previous fiscal year. This represented a $235 million decrease from $$2.0 billion to $2.0 billion to $1.8 billion. Since FY2001, short-term debt has declined by 16.1%. The amount of short-term debt has fluctuated over the five years analyzed here. However, the five-year decline is a positive sign.



Source: FY2005 City of Chicago CAFR

Long-Term Direct Debt Trends

Long-term direct debt per capita is a measure of a government's ability to maintain its current financial policies. Direct debt is a government's tax-supported debt. Increases bear watching as a potential sign of increasing financial risk.

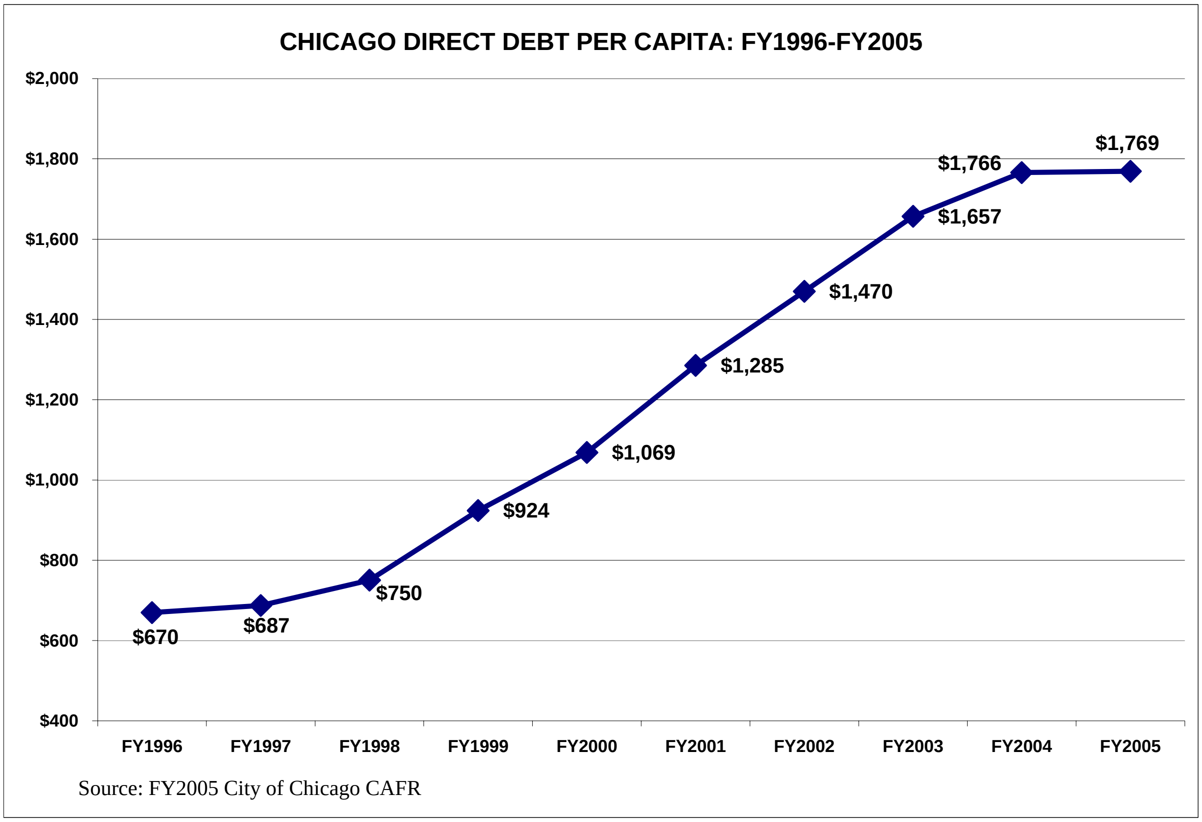
The exhibit below presents 10-year trend information for the total amount of City of Chicago net direct debt. During that time period, total net direct debt rose by 174.9% or $3.2 billion. This represents an increase from over $1.8 billion to approximately $5.1 billion. During the five-year period between FY2001 and FY2005, net direct debt rose by 37.6% or $1.4 billion.

CITY OF CHICAGO DIRECT DEBT: FY1996-FY2005		
FY1996	$	1,863,870,000
FY1997	$	1,913,120,000
FY1998	$	2,088,913,000
FY1999	$	2,571,412,000
FY2000	$	3,094,839,000
FY2001	$	3,722,403,000
FY2002	$	4,257,256,000
FY2003	$	4,798,541,000
FY2004	$	5,113,565,000
FY2005	$	5,123,729,000
$ CHG	**$**	**3,259,859,000**
% CHG		**174.9%**

Source: FY2005 Chicago Comprehensive Annual Financial Report, pp. 130-131

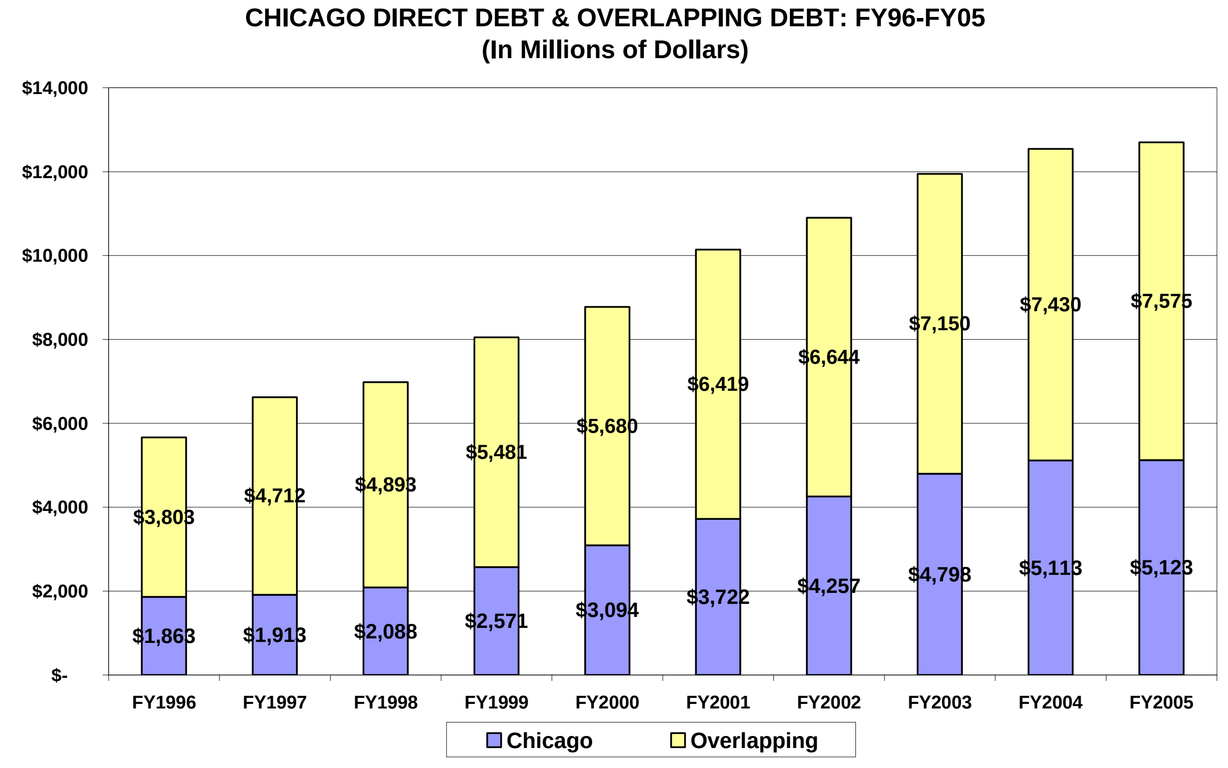
Long-Term Net Direct Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Between FY1996 and FY2005, net direct debt per capita rose by 164.2%, from $670 to $1,769. Over the five-year period between FY2001 and FY2005, net direct debt per capita increased by 37.6%.



Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with the overlapping net debt reported by seven other major Cook County governments whose boundaries are coterminous with the City or are 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, and the School Finance Authority. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY1996 and FY2005, overlapping debt from other governments combined increased by 99.2% at the same time as City of Chicago debt was rising by 174.9%. Total debt from all eight major governments increased by 124.1%. Thus, the rate of increase in City of Chicago direct debt greatly outstripped the rate of increase for the other governments in the region.



Sources: FY2005 City of Chicago CAFR

Debt Service Appropriations

Debt service appropriations in FY2007 are projected to be 19% of total appropriations, or $1.1 billion out of $5.6 billion. This figure is relatively high. Rating agencies consider a debt burden high if this ratio is between 15% and 20%.

CITY OF CHICAGO DEBT SERVICE APPROPRIATIONS

	Debt Service	Total Appropriation	Ratio
FY2003	$ 862,120,771	$ 4,718,653,481	18%
FY2004	$ 855,996,149	$ 4,818,892,000	18%
FY2005	$ 895,752,246	$ 5,088,409,000	18%
FY2006	$ 895,752,246	$ 5,247,120,808	17%
FY2007	$ 1,105,073,826	$ 5,668,719,000	19%

Source: FY2003 and FY2007 City of Chicago Program and Budget Summaries
(from Finance General: Other Operating Expenses section)

Bond Ratings and Rating Agency Outlook

As of December 31, 2005, the three major rating agencies have awarded various City of Chicago bond issues high credit ratings, reflecting the agencies' confidence in the financial management of the government. A comprehensive list of credit ratings for the City's General Obligation and Revenue bonds as well as a description of the meaning of the various ratings follows.

City of Chicago Credit Ratings (12/31/05)						
Rating Agency	**Moody's**	*Description*	**Standard & Poor's**	*Description*	**Fitch**	*Description*
General Obligation						
City	A1	Upper Medium Grade	AA-	Highest Quality	AA	Very High Credit Quality
Revenue Bonds						
O'Hare Airport						
First Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA-	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A	Strong capacity to pay	AA-	Very High Credit Quality
Third Lien	A2	Upper Medium Grade	A-	Strong capacity to pay	AA-	Very High Credit Quality
First Lien PFC	A1	Upper Medium Grade	A+	Strong capacity to pay	A+	High credit quality
Second Lien PFC	A2	Upper Medium Grade	A	Strong capacity to pay	A	High credit quality
Midway Airport						
First Lien	A2	Upper Medium Grade	A+	Strong capacity to pay	A+	High credit quality
Second Lien	A3	Upper Medium Grade	A-	Strong capacity to pay	A+	High credit quality
Water						
First Lien	Aa3	High Quality	AA-	Very Strong capacity to pay	AA+	Very High Credit Quality
Second Lien	A1	Upper Medium Grade	A+	Strong capacity to pay	AA+	Very High Credit Quality
Wastewater						
First Lien	n/a	n/a	n/a	n/a	n/a	n/a
Second Lien	A3	Upper Medium Grade	A-	Strong capacity to pay	AA-	Very High Credit Quality

Source: *City of Chicago FY2005 CAFR* , p. 27 and Douglas and Miranda, *Elected Official's Guide to Rating Agency Presentations* , p. 8.

PENSION TRENDS

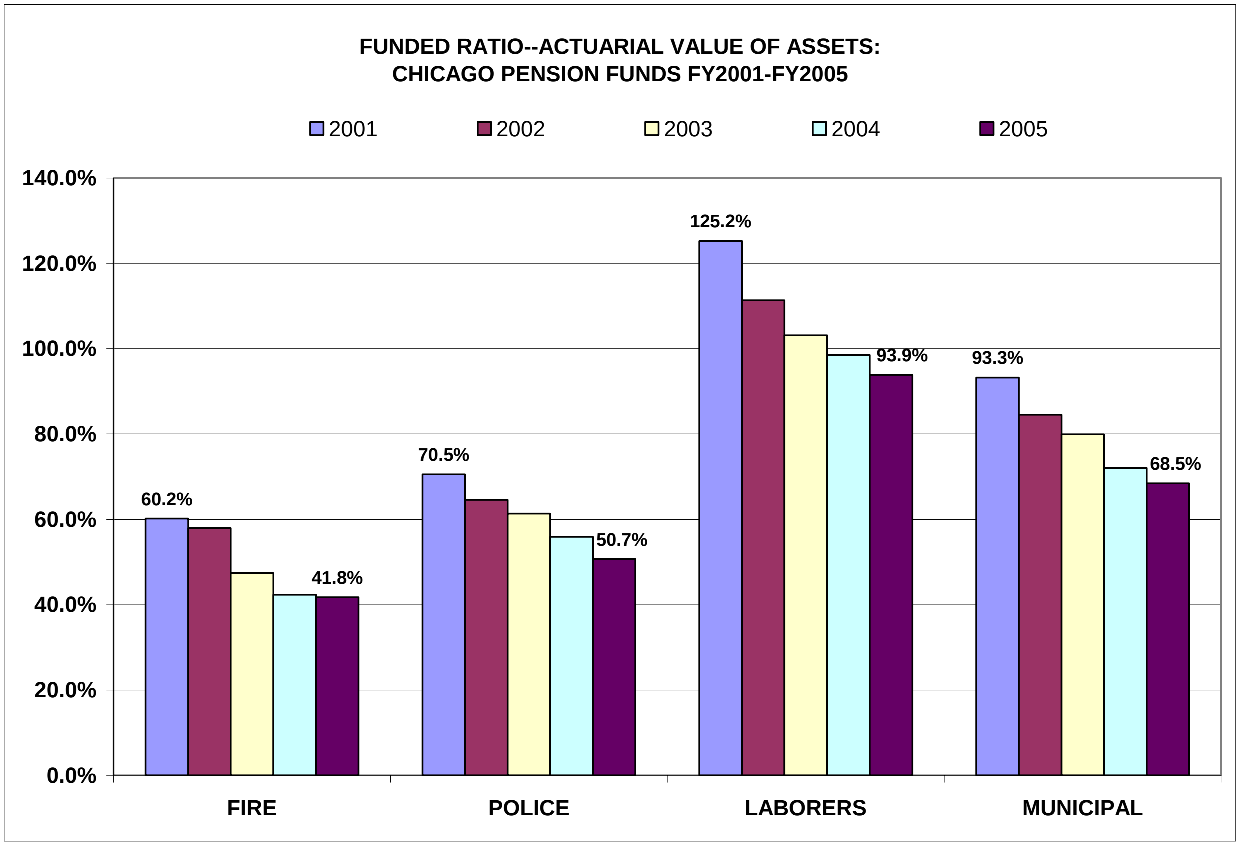
The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal, and Laborer's Funds. The Civic Federation used three measures to present a multi-year evaluation of the funds' fiscal health: funded ratios, the value of unfunded liabilities, and the investment rate of return.

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.

For the fourth year in a row, the funded ratios of all four City pension funds dropped. The Fire Fund in FY2005 reported a funded ratio of only 41.8 %, tumbling from 60.2% in FY2001. The Police Fund's funded ratio dropped from 70.5% in FY2001 to 50.7% in FY2005. The continued declines in the funded ratios of the Fire and Police Pension Funds are a cause for concern. They are far below levels considered financially healthy.

The Municipal Fund dropped to a funded ratio of 68.5%, declining sharply from a 93.3 % ratio in FY2001. The Laborers Funds continues to remain healthy, with a funded ratio of 93.9%. However, it experienced the sharpest drop of the four funds, falling over thirty percentage points in the last five years.

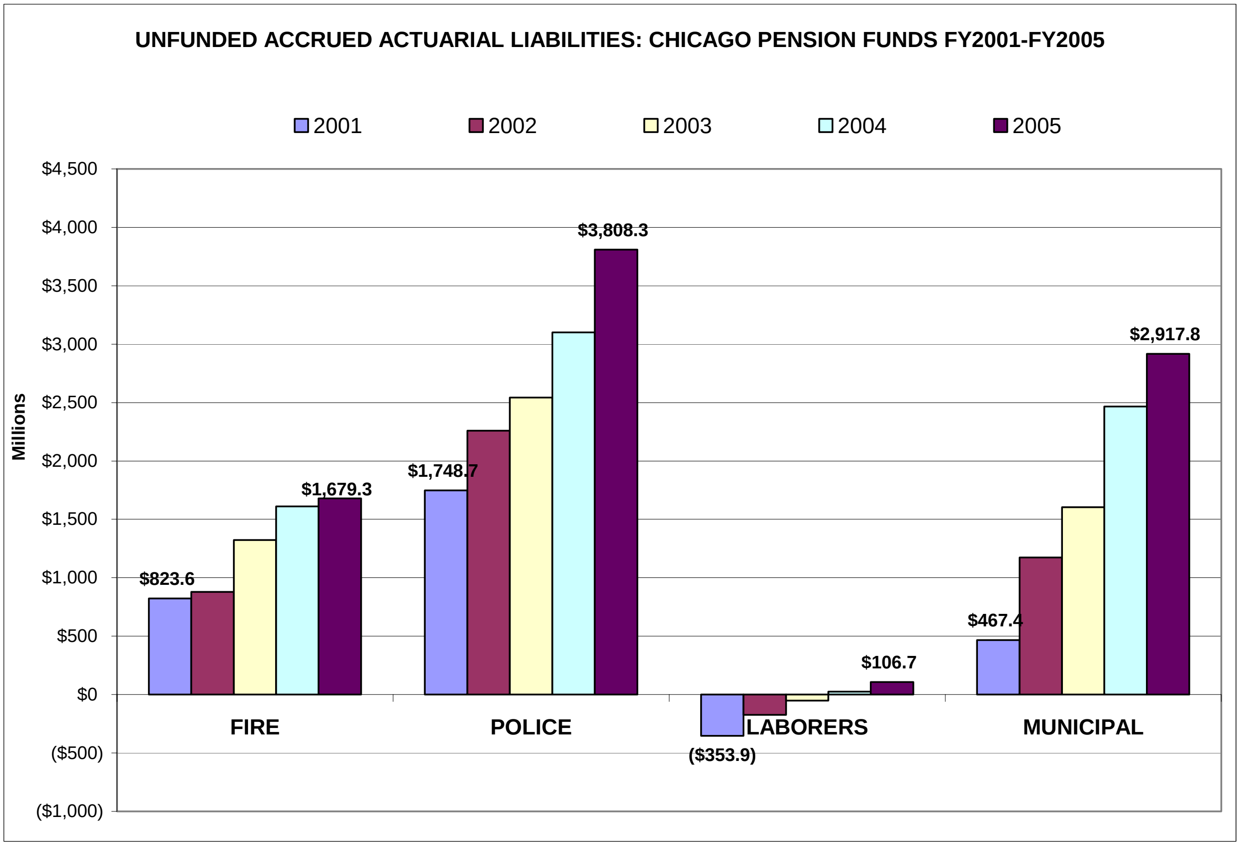


Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Between FY2001 and FY2005, unfunded liabilities for the City's pension funds increased by 216.9% or $5.8 billion, from $2.7 billion to $8.5 billion. This increase reflects the decreases in the funded ratios of all four City pension funds over the period analyzed. A summary of the five-year changes in unfunded liabilities is shown below:

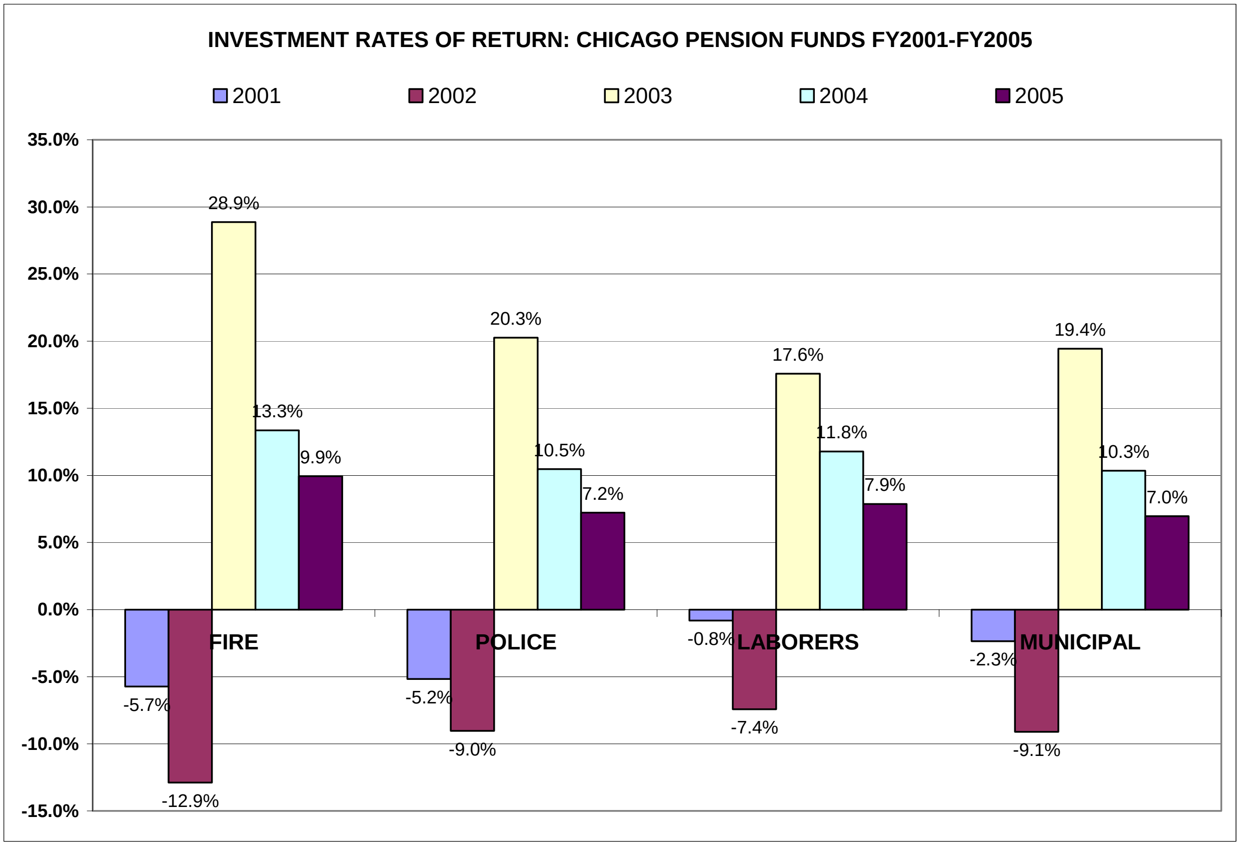
- Fire Pension Fund: 103.9% increase, from $823.6 million to $1.7 billion;
- Police Pension Fund : 117.8% increase, from $1.7 billion to $3.8 billion;
- Laborers Pension Fund: 130.1% increase, from -$353.9 million to $106.7 million;[32] and
- Municipal Pension Fund: 524.3% increase, from $467.4 million to $2.9 billion.

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



Investment Rates of Return

In FY2005, all four City pension funds reported positive rates of return on investments. However, the rates of return have fallen since their high in FY2003. The average market rate of return for all City of Chicago pension funds was 8.0% in FY2005. The highest rate of return was reported by the Fire Fund, 9.9%. The Police Fund reported a 7.2% rate of return, the Laborers Fund, 7.9%, and the Municipal Fund, 7.0%.



PRIVATIZATION OF MIDWAY AIRPORT AND OTHER ASSETS

Governor Rod Blagojevich signed Public Act 094-0750, the Local Government Facility Lease Act, on May 9, 2006. This Act clears the way for the City of Chicago to begin exploring the possibility of entering into long-term lease agreements with private operators for Midway Airport; municipally owned parking garages at Midway Airport, Millennium Park, Monroe Street, Grant Park North, and Grant Park South; and three transfer stations where recyclables are separated from ordinary garbage. It is likely that any privatization agreements will be similar in scope and content to the agreement negotiated for the lease of the Chicago Skyway.

Parking Garage Leases

The City announced on October 13, 2006 that Morgan Stanley would pay $563 million for 99-year leases on the municipal parking garages. Approximately $278 million of the proceeds would be used to pay outstanding garage debt. Of that amount, $208 million is debt associated with the Millennium Park garage. Revenue from the garages has been insufficient to pay debt service on the Millennium Park bonds, forcing the City to use reserve funds and General Fund revenues to cover those costs. Published reports indicate that the remaining $285 million will be apportioned as follows:[33]

---

[33] This information is derived from Gary Washburn, "City sees Windfall in Leasing Garages," in the *Chicago Tribune*, October 14, 2006, pages 1 and 16.

- $120 million to be placed in a reserve fund for the Chicago Park District to replace losses in annual parking revenues;
- $36 million to rebuild Daley Bicentennial Park after private operators rebuild the Monroe Street garage;
- $8 million for banking, legal, and transaction fees; and
- $122 million for Chicago Park District capital improvements.

Midway Airport Privatization

With respect to the proposed privatization of Midway Airport, highlights of Public Act 094-0750 include:

Section 10. Compliance with Ordinances.
The lessee must comply with all applicable municipal ordinances regarding contracting with minority or women-owned businesses, prohibiting discrimination sand requiring affirmative action.

Section 15. No Expansion of Midway Runways.
The runways of Midway Airport may not be expanded beyond the territory bounded by 55th Street on the north, Cicero Avenue on the east, 63rd Street on the south and Central Avenue on the west

Section 20. Use of Lease Proceeds by Lessor.

- At least 90% of the proceeds of the lease agreement shall be expended or obligated for:

  a. Construction and maintenance of infrastructure within the municipality;
  b. Contributions to municipal pension funds; or
  c. Any combination of the preceding.

- The amount of net proceeds expended or obligated for pension contributions may not exceed the amount of net proceeds expended or obligated to pay for infrastructure costs and maintenance. (Net proceeds = gross proceeds less debt service payments required to retire debt associated with the leased facility property.)

Section 40. Required Offers of Employment.

Lessees must offer employment, under similar terms and conditions, to municipal employees who are employed at the time of the lease and the municipality must offer employment, under similar terms and conditions, to municipal employees who are employed at the time of the lease.

Section 50. Home Rule Pre-Emption.

The City of Chicago may not exercise its home rule powers and functions in a manner inconsistent with the provisions of this Act.

Section 900. Property Tax Exemption.
All property owned by the City of Chicago shall remain exempt from taxation. Any leasehold interest in that property is exempt from taxation of that property is used by the City for the purpose of an airport or parking or for local waste disposal or processing and is leased for continuous use for the same purpose to another entity whose property is not exempt.

Section 910. Prevailing Wage Act.

The Prevailing Wage Act is amended to extend to all projects at leased facility property used for airport purposes.

Use of Revenues from Privatization Transactions

The FY2007 budget does not contain anticipated revenue from the long-term lease of Midway Airport or other assets. This is prudent as the transactions are far from complete.

The Civic Federation **commends** Mayor Daley and his financial team on moving forward on the privatization of non-core assets. We are particularly pleased that the proceeds of the parking garage transaction appear to be earmarked for non-operating expenses and that the proceeds of the Midway Airport transaction will be used to reduce the City's large outstanding pension liabilities and to pay for debt service for capital obligations. This is a fiscally responsible use of the proceeds of an asset transfer; we urge other governments to follow this path.

The Civic Federation withholds a formal opinion on the City's effort to privatize Midway Airport and other assets until an actual proposal is formalized.

The Civic Federation's Support for Reasonable Privatization Efforts

The Civic Federation has traditionally supported alternative service delivery or privatization efforts that contain appropriate safeguards. If properly implemented and monitored, these efforts can be effective means of reducing costs, improving efficiency, and/or improving service. In our view, competition from private, nonprofit, and even other public entities helps reduce the cost and operational inefficiencies inherent in a system of monopoly service provision by a single government.

General Guidelines for Alternative Service Delivery Efforts

In evaluating alternative service delivery proposals advanced by state or local governments, the Civic Federation uses the following criteria.

- Alternative service delivery or privatization is not a panacea for a government's financial problems.
- Transferring responsibility for service delivery to a private firm or nonprofit organization can be beneficial only if there is a marketplace of competitive, qualified vendors or service providers and strong, sustained management oversight by the government.

- Governments must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by any alternative service or privatization efforts. These efforts should include the public reporting of efficiencies and/or savings achieved.
- Privatization efforts, i.e., the transfer of service delivery responsibilities to the private sector, should be focused on non-essential services or programs.
- When transferring responsibility for service delivery by means of a long-term lease or sale, governments must carefully consider the policy implications of matters such as limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not constrict a government's ability to plan for future transportation needs in the vicinity of that toll road, including its power to acquire land and construct new roads.

Appropriate Disposition of the Revenues from Asset Sales or Leases

- Revenues from commercialization efforts such as asset sales or leases should **<u>not</u>** be used for recurring expenditures.
- These revenues should be used to reduce existing obligations, such as long-term debt or unfunded pension obligations.

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 Benefit Reform

The funding levels of the City retirement systems continue to deteriorate. It is imperative that Chicago move to reduce its long-term pension obligations. The Civic Federation has several suggestions on how to accomplish that goal.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the City should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Police and Fire pension fund beneficiaries receive 3% annual cost of living increases; this rate can and does exceed the rate of inflation in some years. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the City's pension funds.

Require Employer Contributions to Relate to Funding Levels

City of Chicago government employer contributions are determined by multipliers per each fund that are not tied to the fund's funded ratio. For example, the Chicago Police Fund multiplier is 2.0 times the total employee contribution made two years prior. Employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Implement a Formal Long-Term Financial Planning Process

Currently, the City of Chicago internally employs many of the techniques of a long-term financial planning process, including the projection of multi-year revenue trends and modeling of various revenue and expenditure options. However, the City does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the City of Chicago develop and implement a formal long-term financial planning process to be reviewed not just internally, but to allow for input from the City Council and other key policy stakeholders, including the public.

Report All Fund Revenues by Source in Budget Overview

The City's Office of Budget and Management has made important and substantive improvements to the format of the Budget documents in recent years. We urge the Budget Office to go one step further and improve the presentation of revenue information. 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. This would provide a more complete picture of the revenue base of the entire government, not just the Corporate Fund.