EMBARGOED UNTIL 12:01 A.M.
Wednesday, December 5, 2007

For more information,
call Laurence Msall, 312-201-9044

CIVIC FEDERATION APPLAUDS PARK DISTRICT'S TAXING RESTRAINT

Supports Rare "Good News" Budget for Overburdened Chicago Taxpayers

In a year when far too many governments in the Chicago region have proposed huge tax increases, the Chicago Park District has held the line on its property tax levy and responsibly contained spending. For these reasons, the Civic Federation **supports** the district's proposed FY2008 budget of $396.9 million. The Federation's complete budget analysis, including detailed findings and recommendations, will be available Wednesday, December 5, 2007 on our website, www.civicfed.org.

With a proposed budget increase of only 0.8% over last year, the Chicago Park District is continuing a decade-long record of fiscal restraint. For the fourth year in a row, the district's property tax levy will be frozen as well. Park District administration has made a commendable effort to diversify the district's revenue structure to include more user fees for non-core services the district provides. Importantly, the Park District has successfully contained its personnel expenses, the largest expenditure category for any government. Employee health care and other benefit costs will rise by only one percent, well below average national health care cost growth in recent years of 6-7%. "Good news for Chicago taxpayers has been all too infrequent this year," said Laurence Msall, president of the Civic Federation. "The Civic Federation is pleased to see that the Chicago Park District has chosen another, more responsible direction, holding the line on taxes and spending." The Federation was also pleased that the Park District released its first Comprehensive Annual Financial Report (CAFR) this year, which is an important step toward providing greater transparency in financial reporting.

Unfortunately the financial outlook for the district is not so rosy unless it addresses issues that will affect its future fiscal stability. Between FY2002 and FY2006, the funded ratio of the Chicago Park District Retirement Fund dropped from a healthy 94% to a worryingly low 76.8%. Unfunded liabilities have risen 326.6% or $132.1 million. Ill-advised CPD pension holidays taken in FY2004 and FY2005, which the Civic Federation vigorously opposed, accelerated the deterioration of the funds. The Park District should reject such fiscally irresponsible moves in the future. Instead it should seek authorization from the General Assembly to implement cost saving measures that can slow the growth of pension benefit costs before the retirement fund slides into a funding crisis.

The Civic Federation's analysis also expressed concern about the district's very low Corporate Fund reserves. The FY2008 budget was balanced in part by using $10 million or 62.5% of the CPD's contingency fund, leaving only $6 million or 2.3%. The Government Finance Officers Association (GFOA) recommends a minimum reserve of 5% of general funds.

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.

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CHICAGO PARK DISTRICT FY2008
OPERATING BUDGET RECOMMENDATIONS
Analysis and Recommendations

Prepared By
The Civic Federation
December 5, 2007

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EXECUTIVE SUMMARY

The Chicago Park District (CPD) recommends an FY2008 budget of $396.9 million, which is a modest increase of 0.8% or $3.0 million over FY2007 budgeted appropriations. The District also will freeze the property tax levy at $259.9 million for the fourth consecutive year. Personnel costs will be successfully contained, increasing by 3.6% for all personal services and just 1.0% for benefits. The full-time workforce will be trimmed by 30 full-time positions over the FY2007 budgeted number. Rentals, permits, and fees will be increased, but these increases are appropriate and preferable to general tax increases, since they target those who directly benefit from a program or service. In a year when far too many governments in the Chicago region have proposed huge new tax increases, the CPD administration has followed a more responsible course. The Civic Federation applauds the District for successfully avoiding a property tax increase and finding alternative revenue sources.

The Civic Federation <u>supports</u> the Chicago Park District's FY2008 budget because it is a fiscally responsible plan and demonstrates a commendable emphasis on cost containment.

The Civic Federation cautions the District about several issues that must be addressed to maintain fiscal stability in the future. The fiscal health of the CPD Pension Fund is steadily being eroded; since FY2002, the funded ratio of the Pension Fund has dropped, falling from 94.0% to 76.8% and unfunded liabilities have risen dramatically, by 326.6% or $132.1 million. The District has reduced its Corporate Fund balance from $16 million to $6 million to balance this year's budget. The $6 million figure is just 2.3% of all operating resources, a figure far below the 5% deemed to be appropriate for a healthy reserve fund. Finally, the Chicago Park District will face some significant fiscal challenges next year as union contracts are negotiated. CPD should not tap into diminished reserves nor should it defer pension obligations to balance the FY2009 budget.

FY2008 Budget Highlights

- The FY2008 proposed budget is $396.9 million, a 0.8% or $3.0 million increase over FY2007 budgeted appropriations.
- The property tax levy will be frozen at $259.9 million for the fourth consecutive year.
- Certain fees will be increased this year, resulting in a 7.0% increase in fee revenues. This represents a $2.6 million increase from nearly $37.3 million in FY2007 to $39.9 million. There will be an average 3% increase in boat slip fees at the District's marinas and varied increases in other selected fees, such as fees for hourly rental of artificial surfaces, parking, athletic permits and commercial photography permits.
- Personal Property Replacement Tax (PPRT) revenues are projected to increase by $6.0 million or 14.0%, from $43.0 million to $49.0 million.
- Facility rental revenues will increase by $1.0 million, from $25.0 million to $26.0 million.
- The District has budgeted for a decrease of 1.7% or 30 full-time positions over the 1,752 full-time positions budgeted in FY2007. Since FY1999, the CPD will have reduced its full-time workforce by 20.4%, or from 2,162 to 1,722. The total number of full-time equivalent (FTE) positions, which includes calculations of part-time and seasonal workers, will increase by 3 FTEs, from 3,265 to 3,268. Over time, the District has shifted some of its workforce from full-time to part-time positions.

- Total personnel costs are budgeted at $159.6 million. This is a 3.6%, $5.5 million increase over the $154.1 million that was budgeted for total personnel costs in FY2007. These costs include salaries and benefits.
- Projected expenditures in FY2008 for prescription drug, health, dental, and life insurance benefits will be $17.7 million, a 0.9% increase.

Civic Federation Concerns

- In FY2006, the Chicago Park District Pension Fund reported a funded ratio of 76.8%. Since FY2002, the funded ratio has declined from a robust 94.0%. Correspondingly, unfunded liabilities have risen dramatically, by 326.6% or $132.1 million. This is an increase from $40.4 million to $172.5 million.
- The District has reduced its contingency fund by 62.5% this year to $6 million. This amount is just 2.3% of the total $255.9 million in Corporate Fund resources available in FY2008, and is far below the 5% minimum amount ($12.8 million) recommended by the Government Finance Officers Association (GFOA).
- The Chicago Park District will face some significant fiscal challenges next year. First, union contracts expire in 2008, which will bring pressure to increase salaries and benefits. Second, for two years, the CPD has enjoyed the benefit of two separate $10 million transfers from the Pension Fund and its Corporate Fund balance. As the Corporate Fund reserve has now dropped to $6 million, the CPD cannot readily access those funds without further harming its fiscal stability. Turning once again to reducing pension payments and transferring funds to pay for operations also would be a financially irresponsible action.

Civic Federation Recommendations

- The District should seek legislation in Springfield that authorizes the District to implement measures to control pension costs. These measures should include: reducing benefits for new employees; fixing annual annuity increases for new hires at the projected Consumer Price Index or 3%, whichever is less; prohibiting benefit enhancements unless the plan is over 90% funded; and requiring that employer contributions be related to funding levels rather than set by arbitrary multipliers.
- The District should seek legislation in Springfield to reform the Park District Employees' Fund governing structure to ensure a greater balance of interests between employees, management and taxpayers.
- The District should continue to develop and utilize a performance measurement system for all District programs as part of a broader strategic planning strategy. The performance measures should be published in the Budget Book.
- The District should adopt a formal fund balance or reserve policy that would require a certain percentage of expenditures or revenues to be set aside for contingencies. The Government Finance Officers Association (GFOA) standard of 5% to 15% of operating revenues or expenditures is a good guideline for such a policy.
- The CPD should develop and implement a formal long-term financial planning process that is not just reviewed internally, but that solicits input from the District's Board of Commissioners and other key policy stakeholders, including the public.

OVERVIEW

The Civic Federation supports the Chicago Park District's FY2008 budget because it is a fiscally responsible plan and demonstrates a commendable emphasis on cost containment.

The Chicago Park District (CPD) recommends an FY2008 budget of $396.9 million, which is a modest increase of 0.8% or $3.0 million over FY2007 budgeted appropriations. The District also will freeze the property tax levy at $259.9 million for the fourth year. Personnel costs will be successfully contained, increasing by 3.6% for all personal services and just 1.0% for benefits. The full-time workforce will be trimmed by 30 full-time positions. Rentals, permits, and fees will be increased, but these increases are appropriate and preferable to general tax increases, since they target those who directly benefit from a program or service. In a year when far too many governments in the Chicago region have proposed huge new tax increases, the CPD administration has followed a more responsible course. The Civic Federation applauds the District for successfully avoiding a property tax increase and finding alternative revenue sources.

The Civic Federation congratulates the CPD financial management for developing a Comprehensive Annual Financial Report (CAFR) for the first time for FY2006. This is an important step toward providing greater transparency in financial reporting, and one that greatly benefits all Park District stakeholders. We also applaud the District's use of internal borrowing from its Long Term Reserve Fund rather than issuing Tax Anticipation Warrants to maintain cash flow while waiting for property tax revenues. This saves transaction costs and is a prudent fiscal practice.

The Civic Federation cautions the District about several issues that must be addressed to maintain fiscal stability in the future. The fiscal health of the CPD Pension Fund is being steadily eroded; since FY2002, the funded ratio of the Pension Fund has dropped, falling from 94.0% to 76.8% and unfunded liabilities have risen dramatically, by 326.6% or $132.1 million. The District has reduced its Corporate Fund balance from $16 million to $6 million to balance this year's budget. The $6 million figure is just 2.3% of all operating resources, a figure far below the 5% deemed to be appropriate for a healthy reserve fund. Finally, the Chicago Park District will face some significant fiscal challenges next year as union contracts are negotiated. CPD should not tap into diminished reserves nor should it defer pension obligations to balance the FY2009 budget.

Reasons for Civic Federation Support

The Civic Federation supports the FY2008 budget for the following reasons.

Exercising Spending Restraint

The Chicago Park District budget will increase modestly in FY2008 to $396.9 million, a 0.8% increase over FY2007 budgeted appropriations of $393.9 million. This budget is fiscally responsible and demonstrates a commendable emphasis on cost containment.

Between FY1999 and FY2008, total Chicago Park District appropriations have grown by 23.3%, or $75.0 million. This means that annual budgeted appropriation growth for the District averaged 2.3%. The FY2008 CPD budget, therefore, continues a decade-long record of fiscal restraint.

No Property Tax Levy Increases for Four Years

The CPD has frozen its property tax levy for the fourth consecutive year at $259.9 million. The District has managed to avoid property tax increases over the past four years in part thanks to a combination of steadily increasing fee revenues and prudent management strategies, including privatization and utilization of public-private partnerships.

In a year when far too many governments in the Chicago region have proposed huge new tax increases, the CPD administration has followed a more responsible course. The Civic Federation applauds the District for successfully avoiding a property tax increase and finding alternative revenue sources.

Continued Focus on Funding Non-Core Services With User Fees and Charges

The CPD will increase several fees and charges in FY2008. Overall, fee revenues are expected to generate $39.9 million in FY2008. An additional $26.0 million will be derived from facility rental fees. These combined resources will total 16.6% of the total $396.9 million in budgeted revenues. Revenues from user fees and charges are used in part to maintain facilities and provide important, but non-essential services.

The Civic Federation strongly supports the use of user fees and charges by governments such as the Chicago Park District for the provision of non-core services. Those who voluntarily use the service pay the fee or charge, not the general public. In contrast, critical services, whose provision benefits everyone in the jurisdiction either directly or indirectly, are appropriately financed through taxes.

The CPD administration is to be commended for its efforts to diversify its revenue sources and move toward aligning programs with appropriate funding sources.

Holding the Line on Personnel Costs

In FY2008, the Chicago Park District will successfully contain a variety of personnel costs. Total personal service costs for salaries and benefits will rise by 3.6%, or from $154.1 million in FY2007 to $159.6 million in FY2008. Prescription drug, health, dental and life insurance benefit costs, often a key driver of public budgets, will increase by a modest 0.9% in FY2008. This is an increase from $17.5 million to $17.7 million.[1]

The CPD full-time workforce will be reduced in FY2008 through the elimination of 27 full-time positions, cutting the number of employees from 1,749 to 1,722. Since FY1999, the CPD will have reduced its full-time workforce by 20.4%, or from 2,162 to 1,722.

Because total CPD personal service costs account for 40.2% of total appropriations, holding the line on salary and benefit costs and reducing full-time staff goes a long way toward relieving spending pressure and is a testament to prudent fiscal management.

[1] These benefit costs include costs for current employee and retiree health insurance, prescription drug coverage, life insurance and dental insurance.

Civic Federation Concerns

The Civic Federation cautions the Chicago Park District about two items: the decline in the financial status of the District's pension fund and its low corporate fund balance. We are also concerned about several fiscal challenges that are expected in FY2009.

Erosion in Pension Fund Health

The Civic Federation is concerned about the steady erosion of the CPD Pension Fund's fiscal health of over the last five years.

In FY2006, the last year for which complete data are available, the audited financial statements of the Chicago Park District Retirement Fund reported a 76.8% funded ratio. Since FY2002, the funded ratio has dropped every year, falling from a robust 94.0%. Unfunded liabilities have risen dramatically, by 326.6% or $132.1 million. This is an increase from $40.4 million to $172.5 million.

The CPD accelerated the decline of its Pension Fund's fiscal health by taking an ill-advised partial pension holiday in both FY2004 and FY2005, thereby reducing its annual contributions from $9.8 million to $4.8 million.[2] The Federation **strongly opposed** these actions. The CPD compounded the negative impact of this action by transferring $10 million from its Pension Fund into the Corporate Fund in FY2007; pension funds should never be viewed as opportunities to balance a government budget.

The Civic Federation urges the CPD to seek authorization from the General Assembly to begin implementing cost-saving measures that can slow the growth of retirement benefit costs. Left unchecked, the steady decline of the CPD Pension Fund's fiscal health could become a crisis rather than simply a concern.

Low Corporate Fund Balance

The District's FY2008 budget is balanced in part with the use of $10 million in Corporate Fund reserves. Approximately $6 million will remain in the fund balance, carried over from FY2007.[3] Therefore, the District has reduced its contingency fund by 62.5% this year. The $6 million remaining is just 2.3% of the total Corporate Fund resources of $255.9 million available in FY2008.[4] This amount is far below the 5% minimum amount or $12.8 million recommended by the Government Finance Officers Association (GFOA) for a prudent reserve. It is important to note that the CPD has established a Long Term Income Reserve Fund with some of the proceeds of the long term lease of its parking garages. This money could in theory be used as an operating reserve. However, the District's policy of only using earnings from the fund as replacement

[2] A 2004 law, Public Act 93-654, allowed the District to levy the full pension amount for 2004 and 2005, while reducing its employer contributions to the fund by $5 million each year. The $10.0 million withheld from the District's 2004 and 2005 annual pension contributions was transferred to the District's Corporate fund in FY2007 and used for District operating expenses. Steve Hughes (Chief Financial Officer, the Chicago Park District), in a telephone conversation with the Civic Federation, November 30, 2006.
[3] Information provided by Chicago Park District Chief Financial Officer Steve Hughes, November 27, 2007.
[4] This figure equals the $6 million unappropriated Corporate Fund balance plus the total appropriation of $249.9 million.

revenue for lost parking garage fees for operating costs is prudent. It would not be fiscally responsible to tap into this fund for day-to-day operations.

Future Fiscal Challenges

The Chicago Park District will face some significant fiscal challenges next year.

First, union contracts expire in 2008, which will bring pressure to increase salaries and benefits. Second, for two years, the CPD has enjoyed the benefit of two separate $10 million transfers from the Pension Fund and its Corporate Fund balance.

As the Corporate Fund reserve has now dropped to $6 million, the CPD cannot readily access those funds without harming its fiscal stability. Turning once again to reducing pension payments and transferring funds to pay for operations would be a financially irresponsible action.

Managing the budget challenges coming in FY2009 and beyond will be difficult. It will require continuing to hold the line on personnel costs, prioritizing spending and reducing costs wherever possible, and ensuring that costs for non-core activities are recovered through the judicious use of fee and charge schedules.

ACKNOWLEDGEMENTS

The Civic Federation would like to thank General Superintendent Timothy Mitchell, Chief Financial Officer Steve Hughes, Budget Director Tanya Anthony, and the Chicago Park District's financial management staff for their efforts in preparing this budget. We greatly appreciate the cooperation we have received from all of them in preparing our analysis.

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to affect the District's financial situation in the upcoming fiscal year, including expenditure, appropriation, and revenue trends.

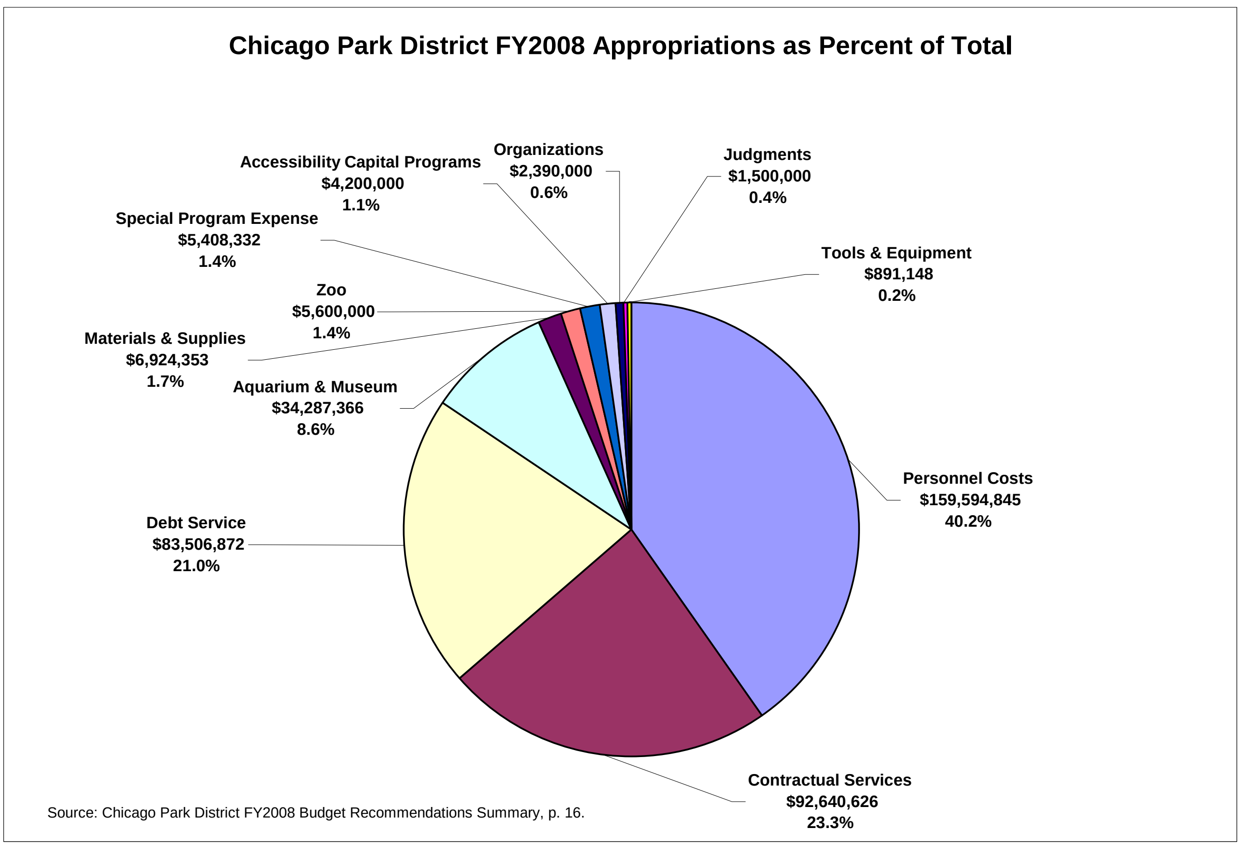
All Fund Appropriations

Total Chicago Park District appropriations are projected to increase from $393.9 million in FY2007 to $396.9 million in FY2008, a $3.0 million or 0.8% increase. Personnel services appropriations, the largest single category of appropriations, are expected to increase by 3.6%, from $141.1 million to $146.2 million. Total personnel costs, including workers' compensation, unemployment insurance, and pensions, will also increase 3.6%, from $154.1 million to $159.6 million. Appropriations for pensions will increase by 7.7% or $0.7 million in FY2008, rising to $9.8 million. The District's contribution is set by statute at 1.1 times the amount contributed by District employees two years prior. More information about personnel services appropriations is provided in the personnel section of this report on page 16. Debt service appropriations will fall by 4.8%, from $87.7 million to $83.5 million. The decrease in debt service appropriations is due to debt being retired following the long-term lease of the parking garages, as well as a reduction in the use of tax anticipation warrants. These items are explained in more detail beginning on page 20 of this report.

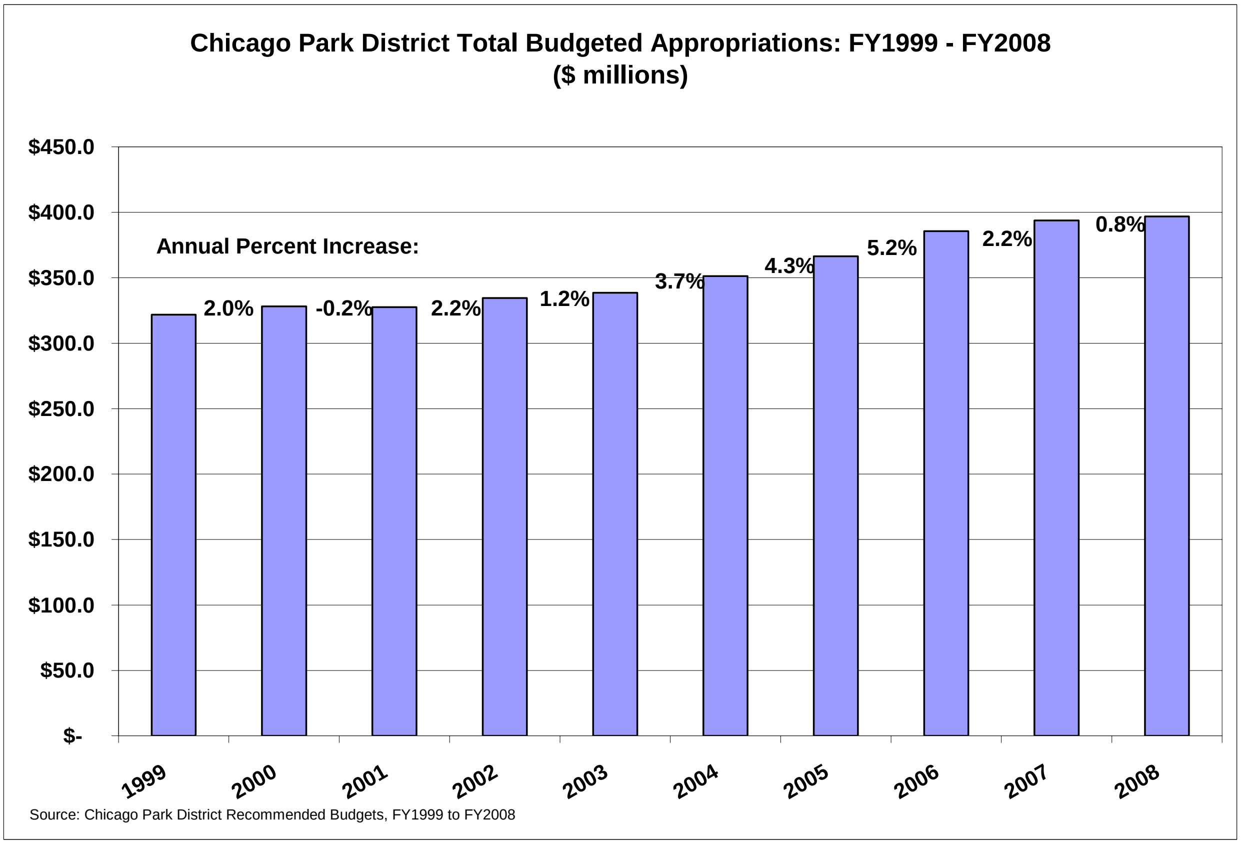
Chicago Park District Appropriations by Object: FY2007-FY2008				
	FY2007 Recommended	FY2008 Recommended	$ change	% change
Personnel Services	$ 141,068,451	$ 146,208,195	$ 5,139,744	3.6%
Contractual Services	$ 91,546,238	$ 92,640,626	$ 1,094,388	1.2%
Debt Service	$ 87,693,938	$ 83,506,872	$ (4,187,066)	-4.8%
Aquarium & Museum	$ 33,835,326	$ 34,287,366	$ 452,040	1.3%
Pension	$ 9,130,361	$ 9,836,650	$ 706,289	7.7%
Materials & Supplies	$ 5,667,935	$ 6,924,353	$ 1,256,418	22.2%
Zoo	$ 5,600,000	$ 5,600,000	$ -	0.0%
Special Program Expense	$ 5,195,357	$ 5,408,332	$ 212,975	4.1%
Accessibility Capital Programs	$ 5,753,138	$ 4,200,000	$ (1,553,138)	-27.0%
Workers Comp & Unemployment	$ 3,900,000	$ 3,550,000	$ (350,000)	-9.0%
Organizations	$ 2,360,000	$ 2,390,000	$ 30,000	1.3%
Judgments	$ 1,500,000	$ 1,500,000	$ -	0.0%
Tools & Equipment	$ 646,343	$ 891,148	$ 244,805	37.9%
GRAND TOTAL	**$ 393,897,087**	**$ 396,943,542**	**$ 3,046,455**	**0.8%**

Source: Chicago Park District FY2007 Budget Recommendations, p. 336, Chicago Park District FY2008 Budget Recommendations Summary, p. 16.

Approximately 40.2% of FY2008 appropriations are budgeted for Personnel costs (including pensions, workers' compensation, and unemployment insurance), while Contractual Services represent 23.3% of total appropriations. Debt Service represents 21.0% of appropriations.



Over the last ten years, total appropriations have grown by 23.3%, or $75.0 million. Between FY1999 and FY2008, annual budgeted appropriation growth averaged 2.3%.



The next exhibit provides a detailed listing of Contractual Services appropriations. Overall, the District will increase Contractual Services appropriations by 1.2%, from $91.5 million to $92.6 million. General Contractual Expenses, including Repair and Maintenance, will increase 17.4%, or $1.6 million. Facility Rentals and Utilities will decline by 2.7%, largely because the District was able to negotiate utility contracts to keep the rates flat this year. Landscape Services will increase 61.2%, or $1.8 million. Park Services Management expenditures will increase by 3.6%, or $0.8 million.

Chicago Park District Contractual Serivces Appropriations: FY2007 & FY2008

Contractual Services	FY2007	FY2008	$ change	% change
Park Services Management	$ 21,651,634	$ 22,422,922	$ 771,288	3.6%
General Contractual Expenses*	$ 8,996,459	$ 10,559,989	$ 1,563,530	17.4%
Other Contractual Expenses	$ 17,650,035	$ 19,788,943	$ 2,138,908	12.1%
Landscape Services	$ 2,900,000	$ 4,675,000	$ 1,775,000	61.2%
Facility Rentals & Utilities	$ 27,682,167	$ 26,943,772	$ (738,395)	-2.7%
Expenditures of Grants	$ 9,000,000	$ 5,000,000	$ (4,000,000)	-44.4%
Insurance	$ 3,665,943	$ 3,250,000	$ (415,943)	-11.3%
Total	**$ 91,546,238**	**$ 92,640,626**	**$ 1,094,388**	**1.2%**

* General Contractual Expenses includes Repair & Maintenance

Source: Chicago Park District FY2007 Budget Recommendations, p. 336, and FY2008 Budget Summary, p.16.

Revenues and Resources Trends

Tax revenues for the District are budgeted to increase by 2.0% in FY2008, from $293.8 million to $299.8 million. This increase is projected to come from a $6.0 million or 14.0% increase in Personal Property Replacement Tax (PPRT) receipts. The PPRT is an income tax levied on corporations and utilities, and its substantial increase reflects economic recovery in Illinois this year. Due to stronger than expected economic activity, the total PPRT revenue for FY2007 is expected to reach $50 million or $7.0 million over budget.[5] There will be no increase in the District's property tax levy for FY2008.

Revenues from the rental of District facilities will increase by 4.1%, from $25.0 million to $26.0 million. Revenue from the rental of Soldier Field and Northerly Island will be basically flat, increasing by 0.4% and 1.1%, respectively.[6] Rentals of gyms, halls, ice rinks, tennis courts, and other District properties will increase by 41.9%, or $0.9 million, largely because FY2007 rental revenues have come in substantially higher than budgeted due to increased marketing.[7]

Permit and fee revenues are projected to increase by $2.6 million, or 7.0%. Golf course and parking fees are expected to remain flat. The golf fees are part of an agreement with the private operator who manages all of the District's golf facilities and covers operating costs as well as capital improvements. Harbor fees will increase by 3.9% ($0.8 million), with an average slip fee increase of 3%. The harbors are operated by a private company that specializes in harbor operation, and a new contract will be awarded for the 2008 boating season.[8] Park fees will increase by 7.0% ($0.8 million) and permits by 35.8% ($1.0 million) due to an increase in events that require permits.[9]

Grants and Donations revenue will decline from $9.0 million in FY2007 to $5.0 million in FY2008. Capital grants are expected to reach $30 million in FY2008, but operating grants have been more difficult for the District to secure.[10] Investment income will be flat at $2.4 million. Concession revenue is expected to dip by 8.0%, or $0.4 million.

The Long Term Income Reserve is a product of the District's 2006 agreement to enter into a 99-year lease of its three downtown parking garages (Grant Park North, Grant Park South, and East Monroe). The transaction yielded $347 million for the District, of which $122 million was earmarked for capital improvements in neighborhood parks. The parking fee revenue stream is replaced by $5 million annually generated from a Long Term Income Reserve of $120 million. An additional $35 million from the garage lease was also designated as a reserve for park repair at Daley Bi-Centennial plaza when the East Monroe Garage is reconstructed as planned by the new private operator in five years.[11]

In FY2008 the District will use $10.0 million of the $16.0 million FY2007 Corporate Fund Balance as a revenue source. In FY2007, the District transferred $10.0 million from its Pension Fund into its Corporate Fund.

The $2.2 million Special Recreation Fund Balance that will be carried over into FY2008 is earmarked for capital improvement projects, most of which help bring parks into compliance with Americans with Disabilities Act regulations.

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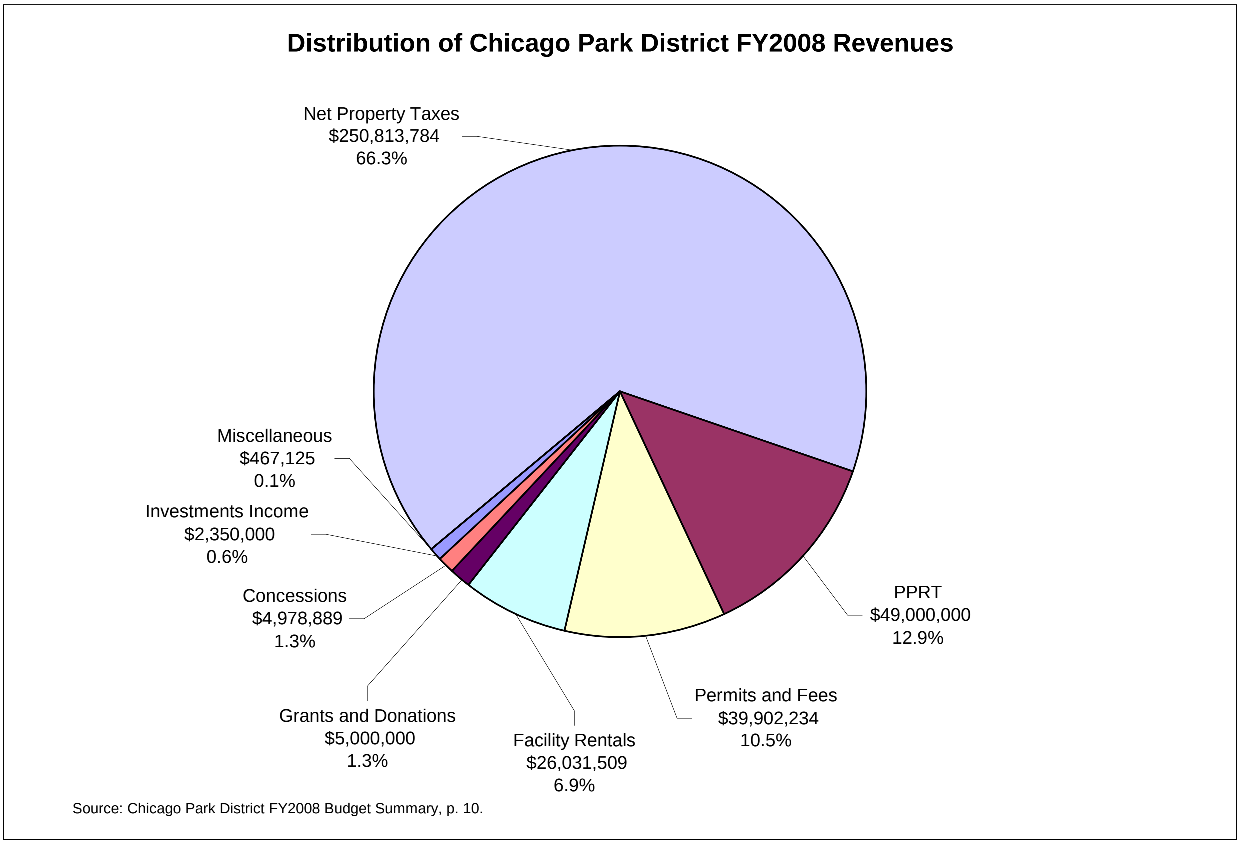
[5] *Chicago Park District 2008 Budget Summary*, 10.
[6] Northerly Island events are expected to generate a total of $1.2 million in revenue for FY2008. The majority of this revenue is reserved for capital improvements to the Island. *Chicago Park District 2008 Budget Summary*, 13.
[7] Information provided by the Chicago Park District November 29, 2007.
[8] *Chicago Park District 2008 Budget Summary*, 12.
[9] Information provided by the Chicago Park District November 29, 2007.
[10] *Chicago Park District 2008 Budget Summary*, 11.
[11] *Chicago Park District 2008 Budget Summary*, 12.

Chicago Park District Resources by Source: FY2007 and FY2008				
	2007 Budget	2008 Budget	$ change	% change
Gross Property Tax Levy	$ 259,910,657	$ 259,910,657	$ -	0.0%
Property Tax Loss in Collection	$ (9,096,873)	$ (9,096,873)	$ -	0.0%
Personal Property Replacement Tax	$ 43,000,000	$ 49,000,000	$ 6,000,000	14.0%
Subtotal Tax Revenues	**$ 293,813,784**	**$ 299,813,784**	**$ 6,000,000**	**2.0%**
Rental of Soldier Field	$ 22,561,164	$ 22,640,752	$ 79,588	0.4%
Rentals	$ 2,245,821	$ 3,187,511	$ 941,690	41.9%
Northerly Island Pavilion	$ 200,994	$ 203,246	$ 2,252	1.1%
Subtotal Facility Rentals	**$ 25,007,979**	**$ 26,031,509**	**$ 1,023,530**	**4.1%**
Parking Fees	$ 1,668,034	$ 1,669,500	$ 1,466	0.1%
Harbor Fees	$ 20,426,400	$ 21,223,500	$ 797,100	3.9%
Park Fees	$ 11,955,132	$ 12,786,060	$ 830,928	7.0%
Permits	$ 2,742,575	$ 3,723,174	$ 980,599	35.8%
Golf Course Fees	$ 500,000	$ 500,000	$ -	0.0%
Subtotal Permits and Fees	**$ 37,292,141**	**$ 39,902,234**	**$ 2,610,093**	**7.0%**
Concessions	$ 5,409,035	$ 4,978,889	$ (430,146)	-8.0%
Grants and Donations	$ 9,000,000	$ 5,000,000	$ (4,000,000)	-44.4%
Investment Income	$ 2,350,000	$ 2,350,000	$ -	0.0%
Long Term Income Reserve (parking sale)	$ 5,000,000	$ 5,000,000	$ -	0.0%
Miscellaneous	$ 2,124,148	$ 467,125	$ (1,657,023)	-78.0%
Capital Contributions	$ 1,200,000	$ 1,200,000	$ -	0.0%
Corporate Fund Designated Fund Balance	$ -	$ 10,000,000	$ 10,000,000	n/a
Transfer from Pension Fund	$ 10,000,000	$ -	$(10,000,000)	-100.0%
Special Recreation Fund Balance	$ 2,700,000	$ 2,200,000	$ (500,000)	-18.5%
GRAND TOTAL	**$ 393,897,087**	**$ 396,943,541**	**$ 3,046,454**	**0.8%**

Source: Chicago Park District FY2008 Budget Summary, p. 10.

The following exhibit shows the distribution of District revenues in FY2008, not including the $1.2 million in Capital Contributions, the $10.0 million that will be transferred from the Corporate Fund Balance, or the $2.2 million in Special Recreation Fund Balance that will be carried over from FY2007. Total tax revenues (property tax and PPRT) constitute 79.2% of District revenues. The next largest revenue source is Permits and Fees, at 10.5%, followed by Facility Rentals at 6.9%.



Five-Year Revenue Trend

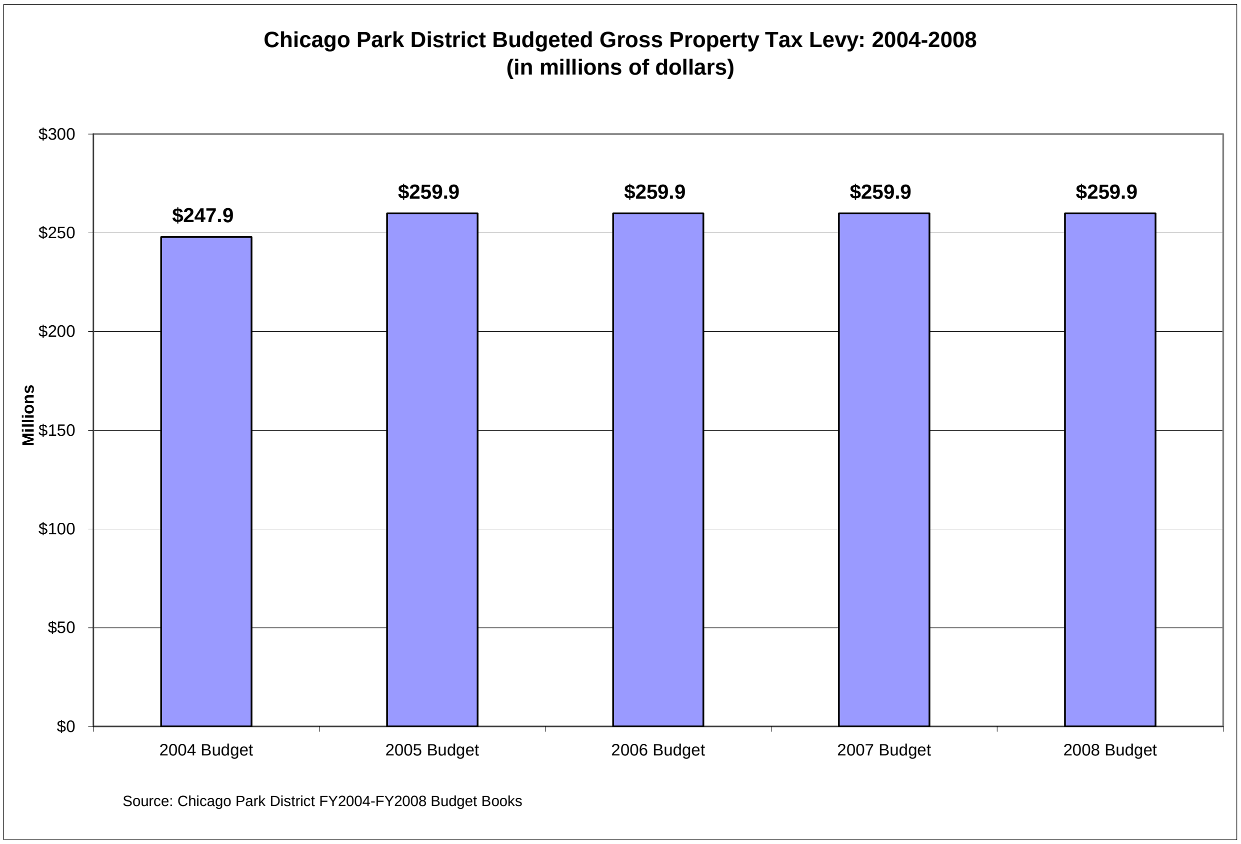
Between FY2004 and FY2008, total District revenues have increased 12.7%, or $44.6 million. The largest increase has been in PPRT, which more than doubled from $24.0 million to $49.0 million. The gross property tax levy has increased 4.9%, or $12.0 million. Facility rentals have grown by 14.3%, or $3.3 million. Permit and fee revenue has declined by 22.0% due to the long-term lease of the downtown parking garages (see page 16 of this report). Concession revenue has also grown substantially, from $1.7 million to $5.0 million in five years.

Chicago Park District Resources by Source: FY2004 and FY2008				
	2004 Budget	2008 Budget	$ change	% change
Gross Property Tax Levy	$ 247,861,372	$ 259,910,657	$ 12,049,285	4.9%
Property Tax Loss in Collection	$ (7,635,841)	$ (9,096,873)	$ (1,461,032)	19.1%
Personal Property Replacement Tax	$ 24,000,000	$ 49,000,000	$ 25,000,000	104.2%
Subtotal Tax Revenues	**$ 264,225,531**	**$ 299,813,784**	**$ 35,588,253**	**13.5%**
Rental of Soldier Field	$ 20,812,692	$ 22,640,752	$ 1,828,060	8.8%
Rentals	$ 1,966,562	$ 3,187,511	$ 1,220,949	62.1%
Northerly Island Pavilion	$ -	$ 203,246	$ 203,246	--
Subtotal Facility Rentals	**$ 22,779,254**	**$ 26,031,509**	**$ 3,252,255**	**14.3%**
Parking Fees	$ 18,457,884	$ 1,669,500	$(16,788,384)	-91.0%
Harbor Fees	$ 17,000,000	$ 21,223,500	$ 4,223,500	24.8%
Park Fees	$ 12,610,518	$ 12,786,060	$ 175,542	1.4%
Permits	$ 2,588,530	$ 3,723,174	$ 1,134,644	43.8%
Golf Course Fees	$ 500,000	$ 500,000	$ -	0.0%
Subtotal Permits and Fees	**$ 51,156,932**	**$ 39,902,234**	**$(11,254,698)**	**-22.0%**
Concessions	$ 1,718,296	$ 4,978,889	$ 3,260,593	189.8%
Grants and Donations	$ 5,635,590	$ 5,000,000	$ (635,590)	-11.3%
Investment Income	$ 2,056,146	$ 2,350,000	$ 293,854	14.3%
Long Term Income Reserve (parking sale)	$ -	$ 5,000,000	$ 5,000,000	--
Miscellaneous	$ 4,750,858	$ 467,125	$ (4,283,733)	-90.2%
Capital Contributions	$ -	$ 1,200,000	$ 1,200,000	--
Corporate Fund Designated Fund Balance	$ -	$ 10,000,000	$ 10,000,000	--
Transfer from Pension Fund	$ -	$ -	$ -	--
Special Recreation Fund Balance	$ -	$ 2,200,000	$ 2,200,000	--
GRAND TOTAL	**$ 352,322,607**	**$ 396,943,541**	**$ 44,620,934**	**12.7%**

Source: Information provided by the Chicago Park District November 29, 2007.

Property Tax Levy

The Chicago Park District's FY2008 gross property tax levy is expected to be $259.9 million. The Park District has kept its levy flat at this level since FY2005. The levy includes $253.9 million for general operations and $6.0 million for Special Recreation. FY2005 was the first year that the District had a separate levy for Special Recreation.



The gross levy for the Corporate Fund will increase slightly by $1.9 million or 1.4% in FY2008. The levy for the Park District employees pension fund will increase by $723,360 or 7.9%. This amount reflects the statutory formula for the pension fund levy, which requires that the District levy 1.1 times the total employee contribution made two years prior.

The Rental of Facilities levy will increase slightly by 0.2%, or $7,027, and the Operations and Maintenance levy will increase by 4.7% or $523,960. The Liability levy will fall by 8.8%, or $815,943. The biggest dollar decline is in the Bond Debt Service levy, which will fall by $3.0 million, or 6.9%. The levy for debt service on Aquarium and Museum bonds will increase by 5.6%, or $663,226, while the operating levy for the Aquarium and Museums will remain flat at $30.6 million. The Special Recreation levy will also be held constant at $6.0 million.

The Special Recreation property tax levy may not exceed 0.04% of the equalized assessed value (EAV) of taxable property in the District. The 2006 EAV (the most recent available) was $69.5 billion, so the maximum Special Recreation levy for that year was roughly $27.8 million.

Chicago Park District Property Tax Gross Levy by Fund: FY2007 and FY2008				
Fund	**2007**	**2008**	**$ change**	**% change**
Corporate	$ 134,735,810	$ 136,619,177	$ 1,883,367	1.4%
Special Recreation	$ 6,000,000	$ 6,000,000	$ -	0.0%
Park District Employees Pension	$ 9,113,290	$ 9,836,650	$ 723,360	7.9%
Public Building Commission				
Rental of Facilities	$ 3,897,452	$ 3,904,479	$ 7,027	0.2%
Operations & Maintenance	$ 11,125,822	$ 11,649,782	$ 523,960	4.7%
Liability, Workers Comp., Unemployment	$ 9,233,443	$ 8,417,500	$ (815,943)	-8.8%
Bond Debt Service Fund	$ 43,408,689	$ 40,423,692	$ (2,984,997)	-6.9%
Aquarium and Museum Bond Debt Service	$ 11,800,445	$ 12,463,671	$ 663,226	5.6%
Aquarium and Museum Purposes	$ 30,595,706	$ 30,595,706	$ -	0.0%
Total	**$ 259,910,657**	**$ 259,910,657**	**$ -**	**0.0%**

Source: Chicago Park District FY2007 Budget, p. 337, and FY2008 Budget, p. 377.

In the five-year period between FY2004 and FY2008, the total gross levy has increased by only 4.9%, or $12.0 million. The Corporate Fund levy will have increased by $5.4 million, or 4.1%. The Special Recreation levy was introduced for the first time in FY2005. The property tax levy for Aquarium and Museum purposes has remained flat at $30.6 million over five years.

Chicago Park District Property Tax Gross Levy by Fund: FY2004 and FY2008				
Fund	**2004**	**2008**	**$ change**	**% change**
Corporate	$ 131,258,062	$ 136,619,177	$ 5,361,115	4.1%
Special Recreation	$ -	$ 6,000,000	$ 6,000,000	100.0%
Park District Employees Pension	$ 9,821,177	$ 9,836,650	$ 15,473	0.2%
Public Building Commission				
Rental of Facilities	$ 4,200,476	$ 3,904,479	$ (295,997)	-7.0%
Operations & Maintenance	$ 10,373,872	$ 11,649,782	$ 1,275,910	12.3%
Liability, Workers Comp., Unemployment	$ 7,242,578	$ 8,417,500	$ 1,174,922	16.2%
Bond Debt Service Fund	$ 42,091,518	$ 40,423,692	$ (1,667,826)	-4.0%
Aquarium and Museum Bond Debt Service	$ 12,277,983	$ 12,463,671	$ 185,688	1.5%
Aquarium and Museum Purposes	$ 30,595,706	$ 30,595,706	$ -	0.0%
Total	**$ 247,861,372**	**$ 259,910,657**	**$ 12,049,285**	**4.9%**

Source: Chicago Park District FY2004 Budget, p. 330, and FY2008 Budget, p. 377.

Since 2001, the share of the levy earmarked to support the Aquarium and Museum's debt service has appeared as a separate line item on tax bills.

PRIVATIZATION OF PARKING GARAGE MANAGEMENT

The CPD has entered into a 99-year concession and lease of three of its downtown Chicago parking garages (the Grant Park North, Grant Park South, and East Monroe Street garages). Proceeds from this transaction will total $347 million, and will be used in the following manner:

- $122 million will be used for neighborhood parks' capital needs.
- $120 million will be used to establish a Long Term Income Reserve Fund. Net annual parking garage revenues of $5 million will be replaced with earnings from the fund.
- $35 million will be set aside as a reserve for rebuilding Daley Bicentennial Park when the East Monroe Street garage is reconstructed in five years by its new private operator.
- $70 million will be used to pay off existing parking garage debt.[12]

[12] Steve Hughes (Chief Financial Officer, the Chicago Park District), in a meeting with the Civic Federation, November 13, 2006.

The Civic Federation believes that the long-term lease of the District's three downtown parking garages is a sound move. By transferring the management of the garages, the District is shedding a non-core asset and reducing its existing high debt burden. It is also using the transaction proceeds responsibly both by creating a $120 million Long Term Income Reserve Fund that will earn interest over time, and by using $157 million for current and future capital investments.

PERSONNEL AND PERSONAL SERVICES TRENDS

The District has budgeted for a total of 3,268 full-time equivalent (FTE) positions in FY2008. This is an increase of 0.1%, or 3 FTEs, over the budgeted amount for FY2007.[13]

The District has budgeted for a decrease of 1.7% or 30 full-time positions over the 1,752 full-time positions budgeted in FY2007. Part-time FTEs will increase by 6.3%, or 49 positions, while seasonal FTEs will decline by 2.2% or 16 positions.

Chicago Park District Budgeted Personnel: FY2007 & FY2008				
Full-Time Equivalent Positions	**FY2007**	**FY2008**	**# change**	**% change**
Full-Time	1,752	1,722	-30	-1.7%
Part-Time	777	826	49	6.3%
Seasonal	736	720	-16	-2.2%
Total	**3,265**	**3,268**	**3**	**0.1%**

Source: Information provided by the Chicago Park District, November 29, 2006, and November 29, 2007.

Over time, the District has shifted some of its workforce from full-time to part-time positions. Between FY2004 and FY2008, the District has reduced full-time personnel by 85 positions, but has increased part-time positions by 176 FTEs and seasonal personnel by 174 FTEs. Since FY2004 the Chicago Park District's personnel has increased by 265 FTE positions or 8.8%.

Chicago Park District Personnel: FY2004 & FY2008				
Full-Time Equivalent Positions	**FY2004**	**FY2008**	**# change**	**% change**
Full-Time	1,807	1,722	-85	-4.7%
Part-Time	650	826	176	27.1%
Seasonal	546	720	174	31.9%
Total	**3,003**	**3,268**	**265**	**8.8%**

Source: Chicago Park District FY2004 Budget Recommendations, p. 332; and information provided by the Chicago Park District, November 29, 2007.

Since FY1999, 440 full-time positions and a net total of 257 FTEs have been eliminated and the full-time workforce has been reduced by 20.4%, or from 2,162 to 1,722.

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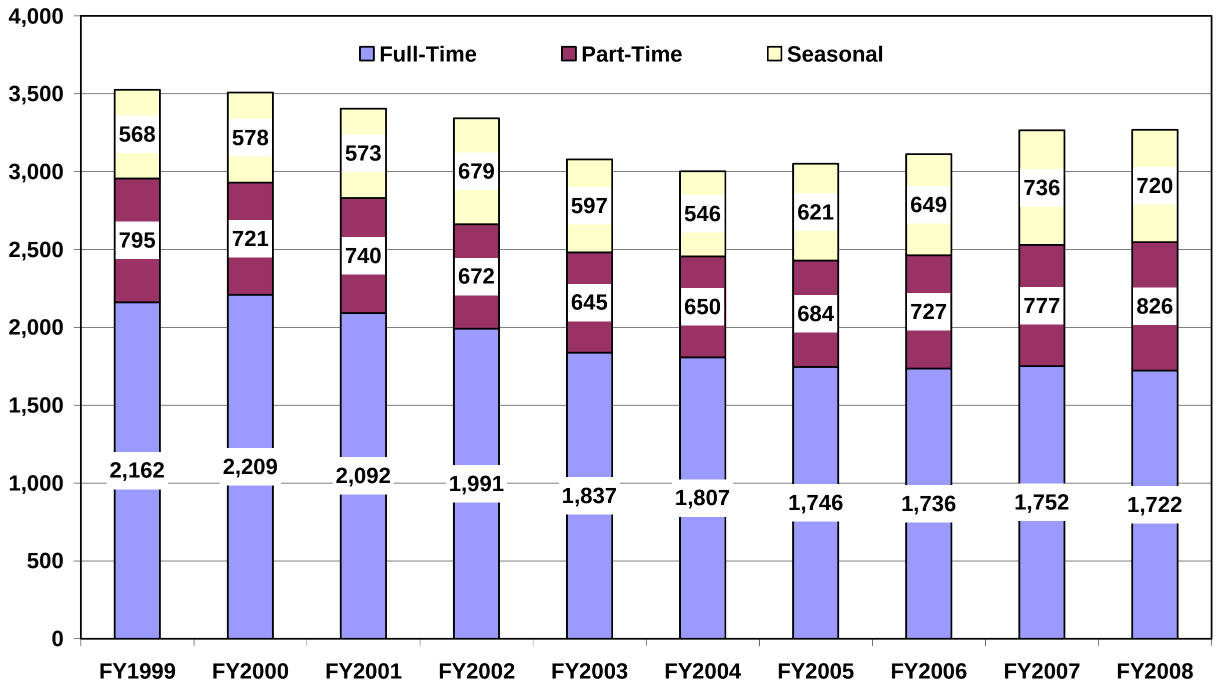
[13] For accuracy of comparisons over time, the Civic Federation compares budgeted to budgeted figures. However, the actual number of positions filled in a given year may differ from the budgeted number.

Chicago Park District Full-Time Equivalent Positions: FY1999 - FY2008



Source: Chicago Park District Budget Recommendations (various years) and information provided by the Chicago Park District, November 29, 2007.

The following exhibit presents personnel appropriations in FY2007 and FY2008. Total personnel costs will increase by 3.6 %, or $5.5 million, from $154.1 million in FY2007 to $159.6 million in FY2008. In FY2008 the District is budgeting for a 4.0% increase in salaries and wages and a 0.9% overall increase in prescription drug, health, dental, and life insurance benefits. The latter represents an increase from $17.5 million to $17.7 million. Employer costs for health insurance benefits are offset by employee contributions ("EE Contributions" below), which will increase 14.1% in FY2008.

Chicago Park District Personnel Costs: FY2007 vs. FY2008

	2007 Recommended	2008 Recommended	$ change	% change
Salary & Wages	$ 121,189,115	$ 126,061,956	$ 4,872,841	4.0%
Health Benefits	$ 14,305,271	$ 14,609,394	$ 304,123	2.1%
Health Benefits EE Contributions	$ (1,191,479)	$ (1,360,000)	$ (168,521)	14.1%
Health Benefits Retirees	$ 672,000	$ 838,000	$ 166,000	24.7%
Prescription Drugs	$ 2,807,200	$ 2,725,000	$ (82,200)	-2.9%
Dental Benefits	$ 744,883	$ 691,905	$ (52,978)	-7.1%
Life Benefits	$ 204,662	$ 198,940	$ (5,722)	-2.8%
Medicare Tax	$ 1,250,800	$ 1,307,000	$ 56,200	4.5%
Social Security	$ 1,086,000	$ 1,136,000	$ 50,000	4.6%
Subtotal Personnel Services	**$ 141,068,452**	**$ 146,208,195**	**$ 5,139,743**	**3.6%**
Unemployment Obligations	$ 1,300,000	$ 1,050,000	$ (250,000)	-19.2%
Workers Compensation	$ 2,600,000	$ 2,500,000	$ (100,000)	-3.8%
Pension	$ 9,130,361	$ 9,836,650	$ 706,289	7.7%
GRAND TOTAL	**$ 154,098,813**	**$ 159,594,845**	**$ 5,496,032**	**3.6%**

Source: Chicago Park District FY2008 Budget Recommendations Summary, p. 16.

As shown in the table above, retiree health benefit costs to the District are projected to increase 24.7%, or $166,000. The District subsidizes health insurance for retirees until they become Medicare eligible at age 65, except for retirees with a start date prior to April 1, 1984 (they are not required to switch to Medicare). Retirees pay over 50% of health insurance premiums as shown in the table below.

Chicago Park District Retiree Health Insurance Percent of Premium Paid by Retiree		
	Retired on or before 12/31/03	Retired on or before 1/1/04
HMO	53% to 54%	54% to 58%
PPO	59% to 69%	59% to 69%

Note: percents vary depending on plan coverage (single, single+1, family)

Source: Information provided by the Chicago Park District November 29, 2007.

The District is preparing an actuarial analysis of its total retiree health care liabilities as required by Governmental Accounting Standards Board Statement 45. As part of this analysis, the District is considering cost containment measures such as limiting retiree health care subsidies to a flat amount indexed to inflation, increasing retiree share for more expensive plans, implementing a prescription drug deductible before drug costs are covered, and increasing prescription drug co-pays for maintenance drugs purchased at retail in order to encourage less-expensive mail order purchases.[14] Retiree prescription drug co-pays were raised to the following levels on July 1, 2007:

Chicago Park District Retiree Prescription Drug Co-Pays		
Brand level	Retail (30 day)	Mail Order (90 day)
Tier 1	$10	$20
Tier 2	$30	$40
Tier 3	$45	$90

Source: Information provided by the Chicago Park District November 29, 2007.

UNDESIGNATED FUND BALANCE

The Chicago Park District reported recurring deficits in its undesignated Corporate Fund balance between FY2002 and FY2004. Corporate Fund expenditures greatly exceeded revenues during those years. The situation was rectified in FY2005, when the District reported a 7.1% or $18.8 million undesignated fund balance. In FY2006, however, the Corporate Fund ratio declined to just 2.8%.

This fund balance is not within the guidelines proposed by the Government Finance Officers Association (GFOA). GFOA recommends that governments establish a general fund balance of 5 to 15% of regular general fund operating revenues or expenditures. A 5% unreserved Corporate Fund balance would total $11.5 million.[15]

[14] Information provided by the Chicago Park District November 29, 2007.

[15] The increase in fund balance in FY2005 was due to better than expected tax collections and lesser spending than budgeted for Personnel Services. See *FY2005 Chicago Park District Financial Statements*, p. 9.

CHICAGO PARK DISTRICT UNDESIGNATED CORPORATE FUND BALANCE RATIO (FY2002-FY2006)			
	Undesignated Corporate Fund Balance	Operating Expenditures	Ratio
FY2002	-$70,407,024	$264,758,272	-26.6%
FY2003	-$65,679,132	$267,646,072	-24.5%
FY2004	-$87,569,536	$256,813,250	-34.1%
FY2005	$18,880,676	$265,796,563	7.1%
FY2006	$6,488,000	$230,775,000	2.8%

Sources: Chicago Park District Comprehensive Annual Financial Reports, FY2002-FY2006

Despite the Corporate Fund's deficits between FY2002 and FY2004, the aggregate undesignated fund balances for all Governmental Funds showed a positive balance in each of the five years reviewed. The large increase in undesignated fund balance was due to an infusion of resources from the long term lease of the District's parking garages.[16]

CHICAGO PARK DISTRICT UNRESTRICTED NET ASSETS FOR GOVERNMENTAL ACTIVITIES (FY2002-FY2006)			
	Undesignated Governmental Fund Balance	Operating Expenditures	Ratio
FY2002	$56,476,929	$417,374,927	13.5%
FY2003	$40,826,839	$419,311,732	9.7%
FY2004	$14,348,272	$344,376,611	4.2%
FY2005	$135,235,768	$394,067,680	34.3%
FY2006	$355,759,000	$517,888,000	68.7%

Sources: Chicago Park District Comprehensive Annual Financial Reports, FY2002-FY2006

DEBT TRENDS

The Civic Federation has employed two measures of debt for the purposes of this analysis: short-term debt trends and long-term debt per capita trends.

Short-Term Debt Trends

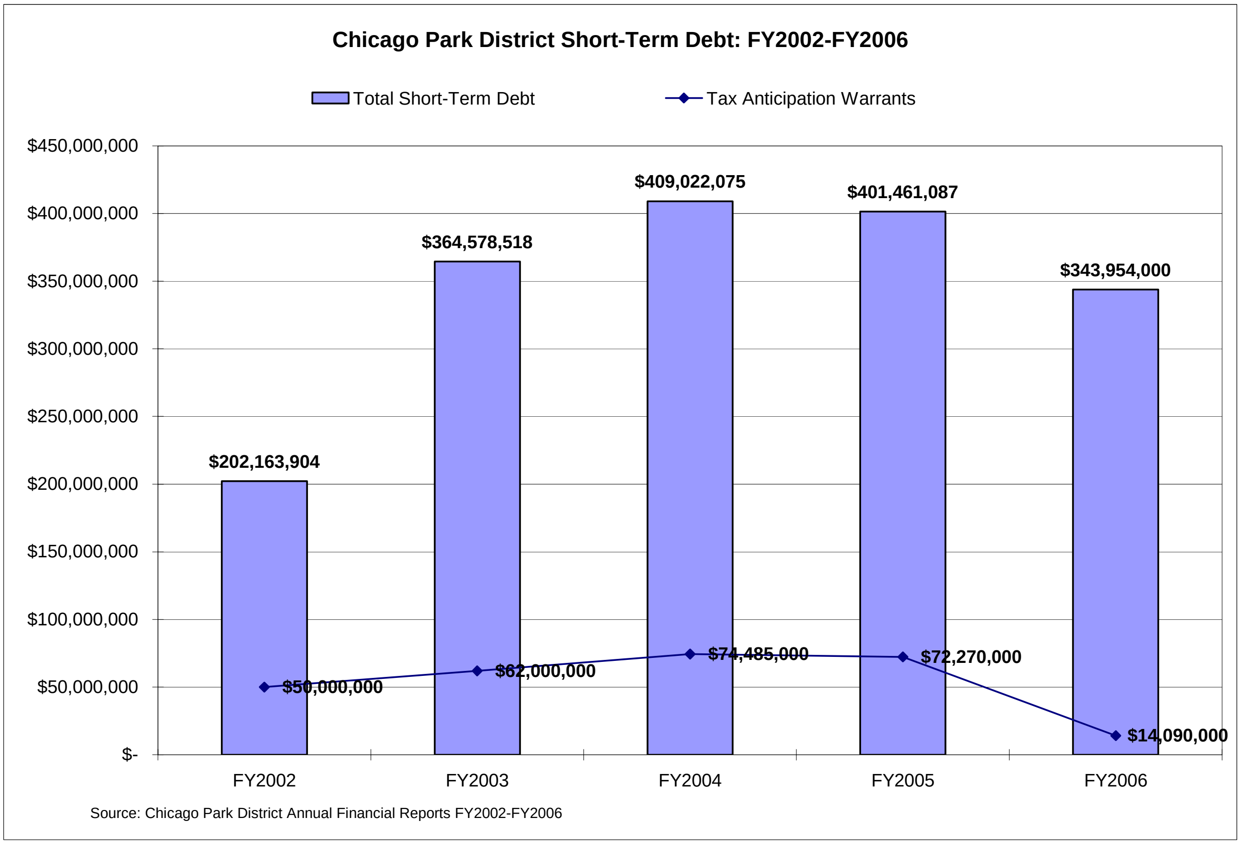
Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. Short-term debt in governmental activities includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences, and long-term debt.

Between FY2002 and FY2006, CPD short-term debt increased by 70.1%. This represents a $141.8 million increase from $202.2 million in FY2002 to $344.0 million in FY2006. However,

[16] *FY2006 Chicago Park District Comprehensive Annual Financial Report*, p. 23.

short-term debt declined between FY2005 and FY2006, falling by 14.3% or $57.5 million. This is a positive sign, and is largely due to the large reduction in Tax Anticipation Warrants issued in FY2006.

Tax Anticipation Warrants are short-term loans used to bridge the timing gap between levy and collection of property taxes. In FY2006, $14.1 million in Tax Anticipation Warrants were issued, compared with $72.3 million in FY2005. This decrease occurred because second installment property tax bills were due earlier than usual in 2006 (September 1).[17] In FY2007 and FY2008 the District loaned itself cash from the Long Term Reserve account in lieu of issuing Tax Anticipation Warrants, thus saving the associated transaction costs. The District plans to continue this practice in the future.[18]

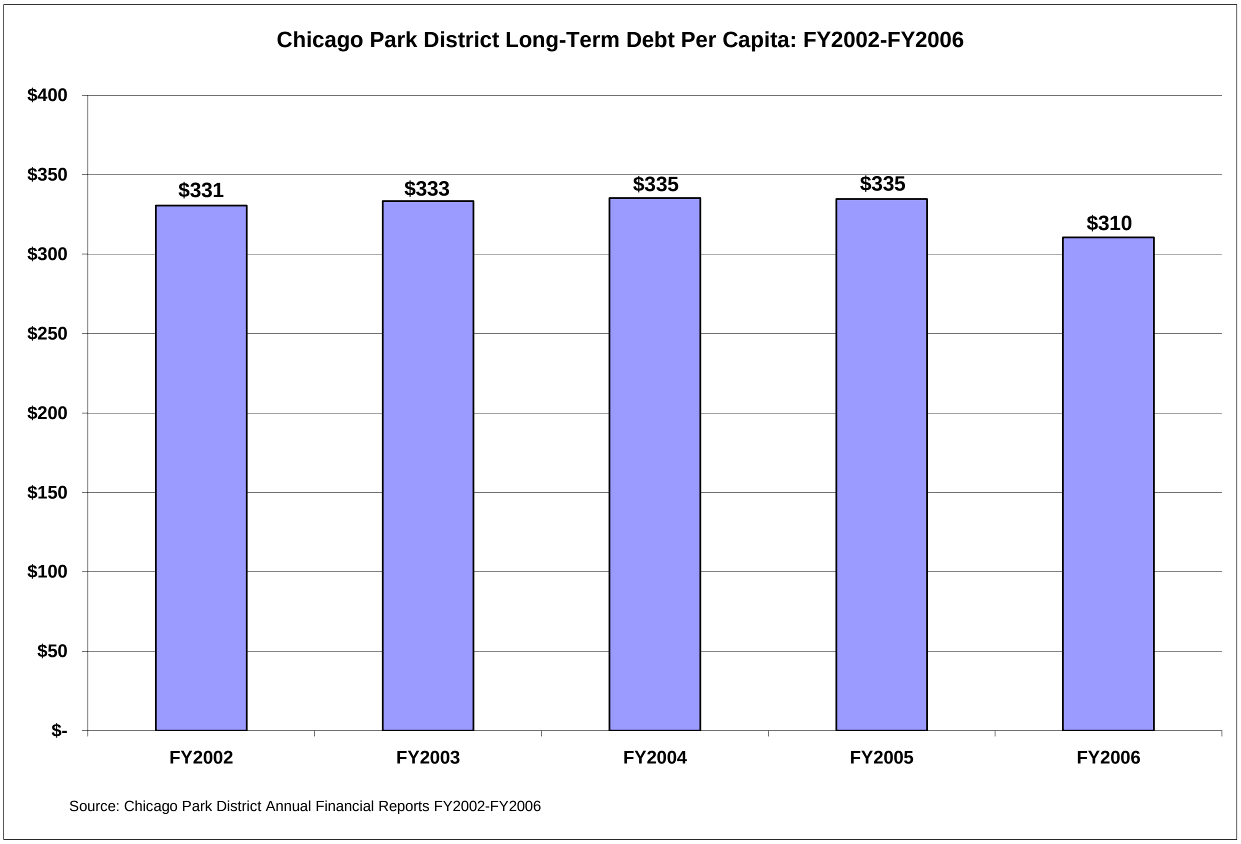


Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. The Chicago Park District's long-term debt includes general obligation bonds, revenue bonds, and Public Building Commission capital lease debt. Increases in long-term debt per capita bear watching as a potential sign of increasing financial risk.

The exhibit that follows shows that the Chicago Park District's long-term debt burden declined by 6.1% during the five-year period between FY2002 and FY2006. In FY2002 long-term debt per capita was $331. Five years later, it had decreased slightly to $310.

[17] Information provided by the Chicago Park District, November 29, 2007.
[18] Information provided by the Chicago Park District, November 29, 2007.



The CPD had a total of $948.7 million in long-term obligations outstanding as of December 31, 2006. Of that amount, $801.9 million was owed for General Obligation bonds that funded capital improvements and $75.2 million was outstanding G.O. debt owed for Aquarium and Museum capital projects. A compete list of outstanding long-term obligations is provided below.

Chicago Park District Long-Term Obligations FY2006	
General Obligation Bonds	**Balance 12/31/06**
Capital Improvement	$ 801,895,000
Aquarium and Museums	$ 75,155,000
Unamortized Premiums	$ 24,368,000
Deferred Amount on Refunding	$ (23,100,000)
Subtotal G. O. Bonds	**$ 878,318,000**
Capital Lease PBC	$ 20,880,000
Compensated Absences	$ 7,764,000
Claims & Judgments	$ 11,762,000
Property Tax Claim Payable	$ 17,357,000
Worker's Compensation	$ 12,586,000
Grand Total	**$ 948,667,000**

Source: Note 7, C*hicago Park District FY2006 Comprehensive Audited Financial Report, p. 62.*

Debt Service Appropriations

Chicago Park District debt service appropriations in FY2008 are expected to constitute 21.0% of the District's total $396.9 million appropriation. The District will appropriate $83.5 million for debt service.

Debt service expenditures as a percentage of General Fund and Bonded Debt Service expenditures in FY2006, the last year for which audited financial information is available, were 71.4%.[19] This exceptionally high figure is due to the extinguishment of debt related to the District's Grant Park North, Grant Park South, and East Monroe Parking Garages. In 2006 the City of Chicago and Chicago Park District entered into a 99-year lease agreement with a private concessionaire for the operation of the three aforementioned garages as well as the City's Millennium Park Garage. The transaction included an intergovernmental agreement by which the District transferred ownership of the garages to the City, thus removing the assets and associated depreciation from the District's balance sheets. It also required $75.9 million in one-time debt service payment to defease the garage bonds.

A debt service burden is considered high by the rating agencies when debt-service payments represent 15-20% of the combined operating and debt-service fund expenditures. However, the District's outstanding debt will drop next year when the garage debt is eliminated.

PENSION FUND TRENDS

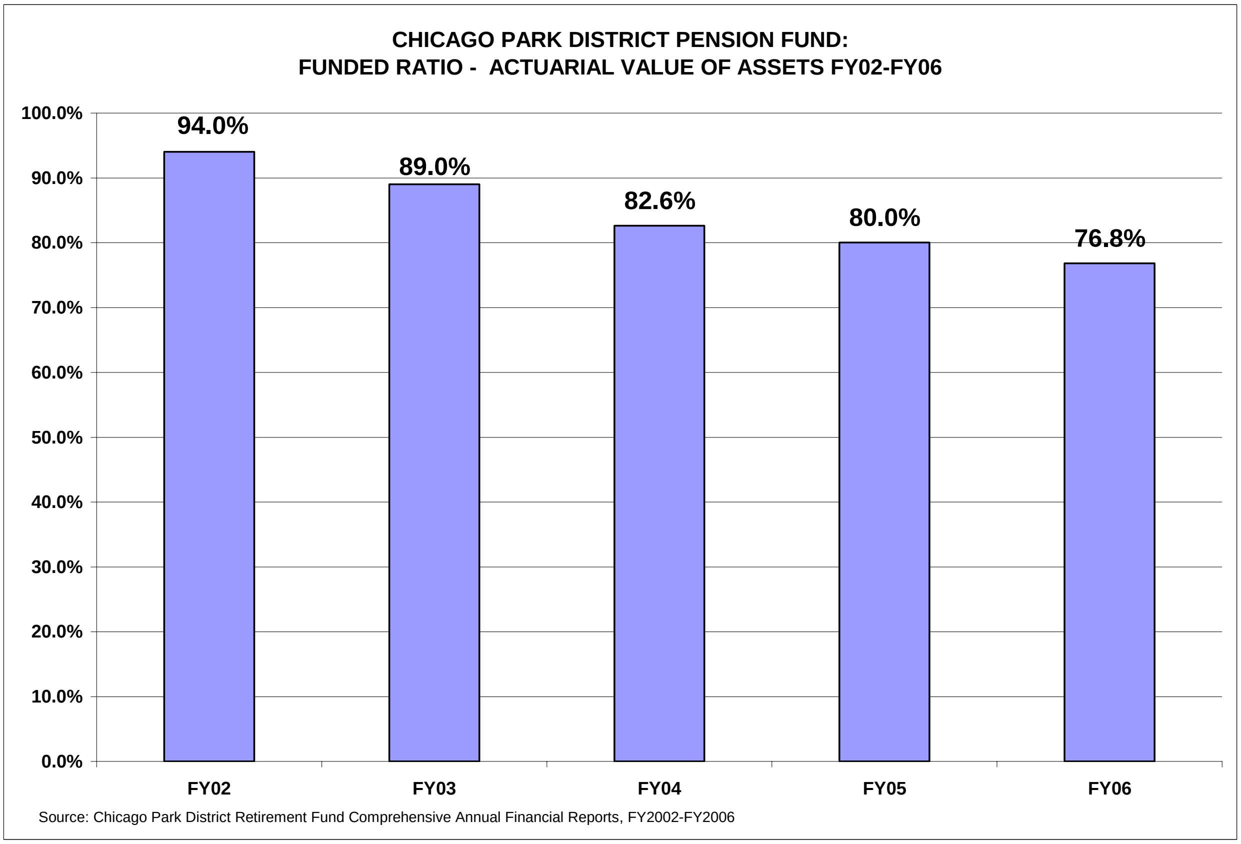
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Chicago Park District's pension fund: funded ratios, the value of unfunded liabilities, and the investment rate of return. A comparison of ten local government pension funds, including the Chicago Park District, can be found in the Civic Federation's annual Status of Local Pensions reports.

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the funded ratio for the Chicago Park District's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The funded ratio for the CPD's pension fund decreased from 94.0% in FY2002 to 76.8% five years later. This steady decline is cause for concern, especially now that the funded ratio has dipped below 80%. In general, a funded ratio below 80% is considered to be an indication that the fund is in poor health.

[19] *Chicago Park District FY2006 Comprehensive Annual Financial Report*, pp. 36, 72.



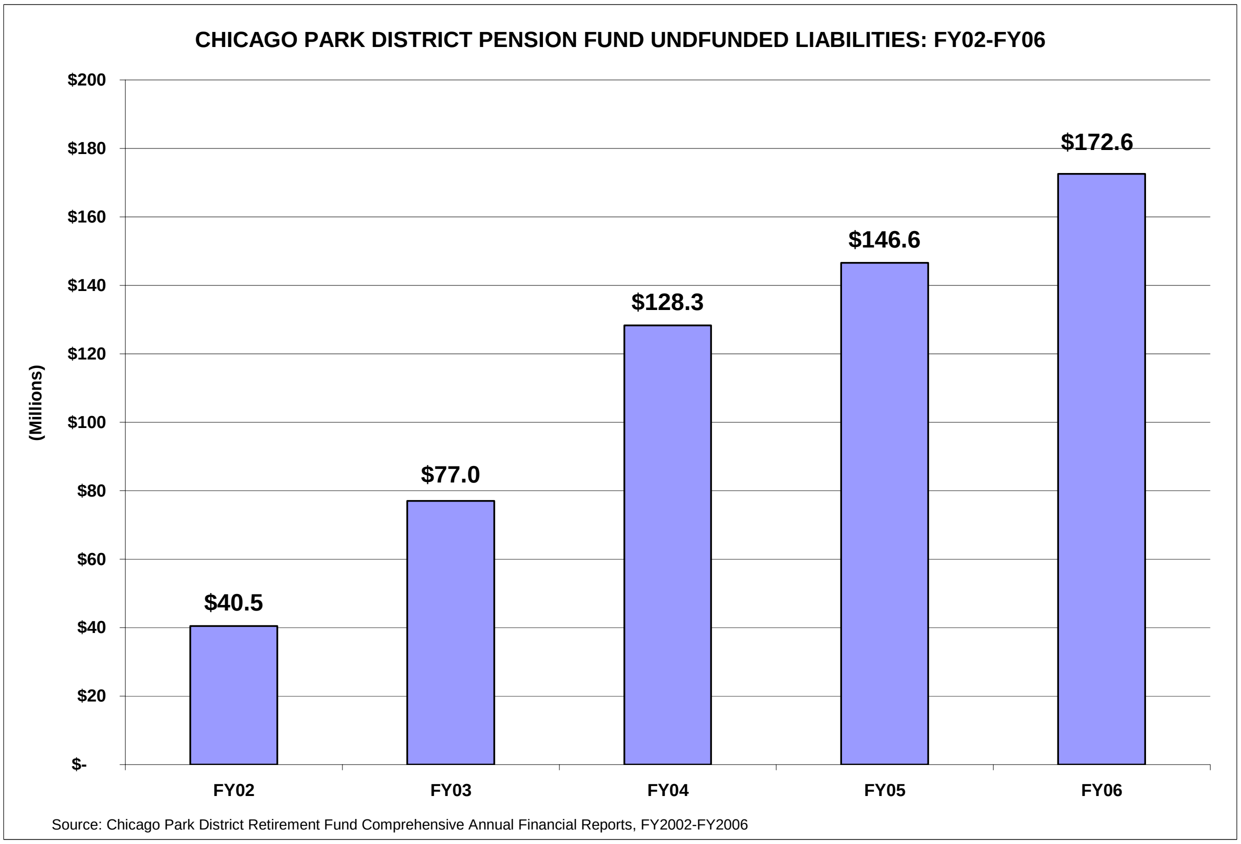
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CPD's pension fund totaled $172.6 million in FY2006. There was a 17.7%, or $30.0 million increase in unfunded liabilities in FY2006 over the previous year. Over the five-year period of analysis, unfunded liabilities rose by 327%, or $132.1 million.

The Park District successfully sought legislation in 2003 that allowed it to reduce its employer contributions by $5 million in FY2004 and FY2005 (Public Act 93-654).[20] FY2005 employer contributions were thereby reduced by more than half, from $9.8 million to $4.8 million.[21] Even if the full employer contribution had been made, however, it still would not have been sufficient to fund the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $14.8 million, $10.0 million more than the District actually contributed. This shortfall increased the unfunded liability by $10.0 million. The lingering effects of the market downturn in 2001-2002 also contributed to the increase in the District's unfunded liabilities.

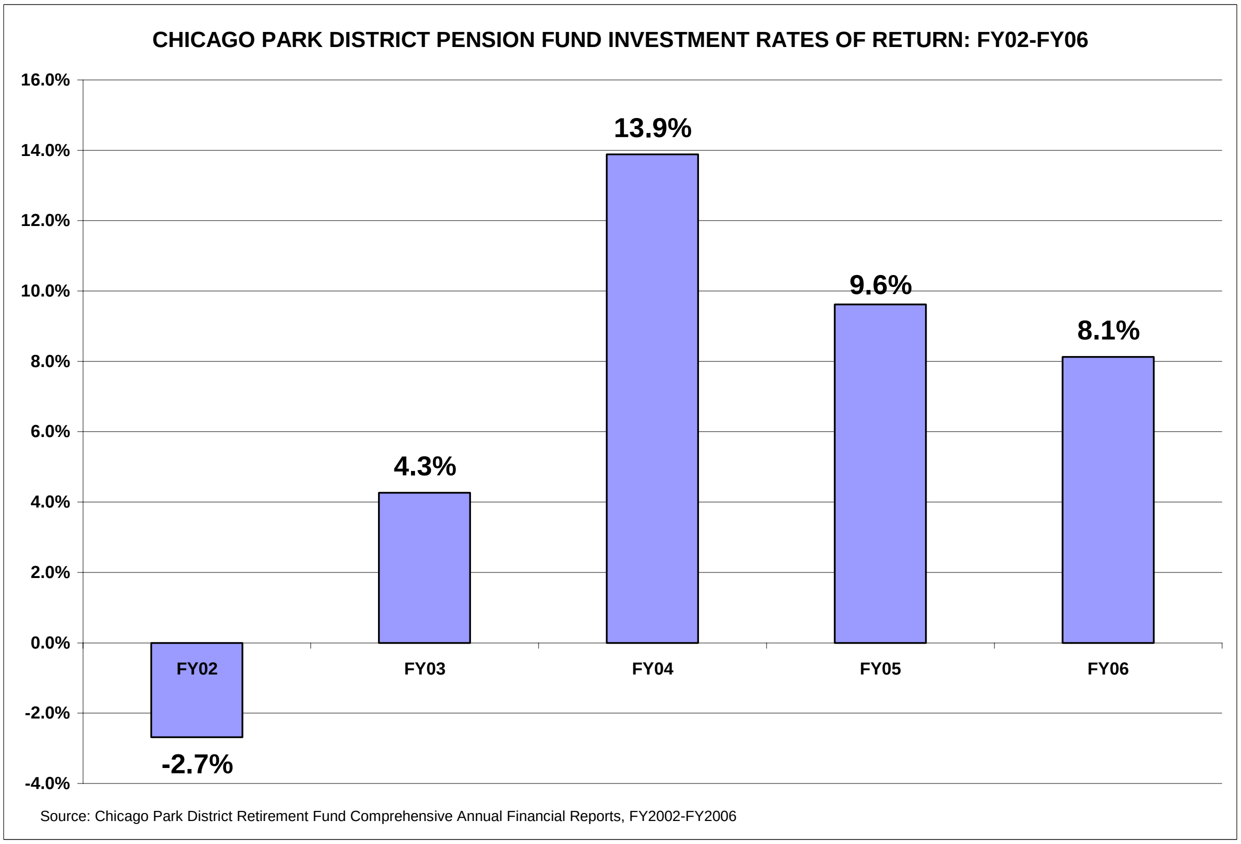
[20] In those years the Park District still levied the full amount of property taxes required for the pension funds by statutory formula, but transferred $5 million of the receipts to the Corporate Fund. The Civic Federation opposed this diversion of property taxes from the pension fund.

[21] 40 ILCS 5/12-149 requires the District to levy for the pension fund an amount equal to 1.1 times the total employee contribution made two years prior.



Investment Rates of Return

Investment income typically provides a significant portion (over 50%) of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. In FY2001 and FY2002, affected by a general economic downturn, CPD investment rates of return were negative. However, in FY2003, as the economy began to recover, pension fund investment rates of return were a positive 4.3%. In FY2004 this positive trend continued and the investment rate of return increased substantially to 13.9%, before dropping to a healthy 9.6% in FY2005 and 8.1% in FY2006.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations on ways to improve the Chicago Park District's financial management and reduce its expenditures.

Implement Comprehensive Pension Benefit Reform

The Civic Federation offers the following specific recommendations to improve the long-term financial health of the Chicago Park District Pension Fund. These measures would require General Assembly authorization. We strongly urge the District to seek such approval as soon as possible.

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 District should undertake.

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

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

Prohibit Benefit Increases Unless the Plan is Over 90% Funded

Benefit enhancements are a major source of increased liabilities for pension funds. The Civic Federation recommends that no new retirement benefit enhancements be granted unless the pension fund is over 90% funded. A healthy pension fund (one that is over 90% funded) should be permitted to grant benefit enhancements only if employer and/or employee contributions are increased sufficiently to fully fund the enhancements. Any benefit enhancement granted should also expire after five years, subject to renewal. The Civic Federation urges the CPD to request these legislative changes from the General Assembly in order to control pension costs and shore up the health of the fund.

Require Employer Contributions to Relate to Funding Levels

The Chicago Park District's employer contributions are determined by a multiplier that is not tied to the fund's funded ratio. The CPD's multiplier is set by state statute at 1.10 times the total employee contribution made two years prior. Unfortunately, meeting this statutory funding requirement does not ensure that the CPD will provide sufficient resources to keep its Pension Fund financially healthy. The Civic Federation believes that, at a minimum, employer contributions should be tied to funded ratios so that additional contributions are required whenever the ratio drops below a given level. Linking pension contributions to actuarially required contribution (ARC) levels would be an even more effective way of guaranteeing the Pension Fund's financial health.

Park District Pension Fund Governance Reform

The Park Employees' Annuity and Benefit Fund of Chicago is governed by a seven-member Board of Trustees that includes four active employees and three representatives from management.[22] The proper role of a pension board is to safeguard the fund's assets and to balance the interests of the employees and retirees who receive benefits and the taxpayers who pay for pension benefits. The employer, employees, retirees, and taxpayers all have an interest in the management of the fund. However, the overrepresentation of employees and retirees on the Park District Pension Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards,
- Include financial experts on pension boards, and
- Require financial training for non-experts.

We urge the Chicago Park District to seek reform of the Park District Employees' Fund governing structure to ensure a greater balance of interests.

[22] Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois* (February 13, 2006), www.civicfed.org.

Budget Format Improvements

The Chicago Park District has greatly improved the format of its budget documents, including the development of a Budget Summary. The Civic Federation applauds this important effort to increase budget transparency. This year, we offer several recommendations to further increase the user friendly features of the District's budget documents:

- Convert all personnel position information provided in the Summary Budget (i.e., for part-time and seasonal workers as well as full time staff) to full-time equivalent (FTE) positions. This would provide a consistent, comparative overview of the District's entire workforce.
- Show at least two years of fee information so that changes in fees over time can be readily understood.
- It would be useful to provide subtotals for categories such as Personal Services in the Financial Summary-Expenses portion of the Budget.
- Include a brief description of capital budget resources and spending, as well as an explanation of the relationship between the capital and operating budgets in the Operating Budget Book or Budget Summary. Currently, there is only a single page in the Operating Budget Book (page 378) that provides minimal information about the District's capital spending and resources.
- Provide 5 years of trend data for appropriations and revenues. We understand that data comparability problems have made this difficult if not impossible to date. However, trends could and should be provided moving forward from the earliest possible fiscal year for which complete information is available.

Develop and Implement Performance Measures

The Civic Federation encourages the Chicago Park District to move quickly toward full implementation of a performance management system. All governments should evaluate the performance of the programs and services they provide. This is the best means available to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results keeps all citizens and stakeholders apprised of how actual results compare to expectations.[23]

Adopt Formal Financial Policies Including a Fund Balance Policy

Formal written financial policies are plans that guide and determine a government's decision-making in regards to present and future financial operations. Both the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association recommend that all jurisdictions adopt formal written financial policies.[24]

The Civic Federation recommends that the Chicago Park District adopt written financial policies to guide the development of its annual budget. We strongly urge the District to move quickly to adopt a fund balance or reserve policy requiring that a certain percentage of expenditures or

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[23] See Recommended Practice 11.1 "Monitor, Measure, and Evaluate Program Performance," in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).
[24] See Recommended Practices 4.1 – 4.7 in National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998), and Committee on Governmental Budgeting and Management, "Adopting Financial Policies," *Recommended Practice* (2001).

revenues be set aside for contingencies. The GFOA standard of 5% to 15% of General Fund operating revenues or expenditures is a good guideline for such a policy. This would require a FY2008 fund balance of at least $12.8 million (5% of the proposed Corporate Fund resources of $255.9 million).

Implement a Formal Long-Term Financial Plan

The Chicago Park District employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and the modeling of various revenue and expenditure options. However, the District does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The Civic Federation recommends that the CPD develop and implement a formal long-term financial planning process that is not just reviewed internally, but that solicits input from the District's Board of Commissioners and other key policy stakeholders, including the public.