STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2002 CITY OF CHICAGO BUDGET, NOVEMBER 28, 2001

The Civic Federation would like to thank the Mayor and members of the City Council for this opportunity to comment on the proposed FY2002 budget. We would also like to commend the City's Budget and Finance staffs for their hard work and effort in preparing this budget in these difficult times as we face a looming recession and heightened security concerns triggered by the tragic events of September 11th.

As a taxpayer watchdog organization, The Civic Federation has closely monitored and commented on the fiscal health of local area governments since 1894.

I. OVERVIEW OF TESTIMONY

The Civic Federation **supports** the proposed FY2002 City of Chicago budget. We believe that the expenditure reduction and revenue enhancement measures proposed to balance this budget are prudent and fiscally responsible. The administration has carefully balanced the need to simultaneously cut costs, ensure the efficient delivery of basic services, and provide additional dollars for essential security improvements.

The Civic Federation applauds the Mayor for rejecting broad-based tax increases in these recessionary times, particularly an additional property tax increase. We support the various fee increases in this budget because citizens who use and benefit from services should pay for them. It is also entirely appropriate to increase license fees or fines for behavior that impedes the public way.

The Civic Federation also supports the City's efforts to contain personnel expenses, the largest single cost in the budget, by means of eliminating vacant positions, freezing overtime and hiring, cutting back on employee travel, eliminating furniture purchases and requiring furlough days without pay. Offering early retirement incentives may also provide some initial savings.

While we endorse the actions taken in the FY2002 budget, The Civic Federation does have several concerns regarding the City's financial position. Based on our analysis of the budget, audited financial reports, Civic Federation research, and a review of best practices in budgeting, The Civic Federation offers the following policy recommendations and notes several issues that could impact budgets in the long-term.

Recommendations: Implement Joint Health Insurance Purchasing and Budget Process Improvements

Given the recession, with its attendant sluggish revenue growth, the City may well endure more bad fiscal news during FY2002. Thus, it is imperative that the City undertake measures that can generate additional budgetary savings and help both policymakers and staff plan strategically for future exigencies. The Civic Federation recommends the City the measures outlined below to achieve those goals.

Aggressively Pursue Joint Purchasing of Health Insurance with Chicago Area Governments

The cost of health care is rising rapidly once again. In the first quarter of 2001, the cost of medical care services rose by 4.9% alone.[1] To contain these costs, The Civic Federation urges the City to aggressively pursue the joint purchasing of health care insurance with other governments in the Chicago area. A recent study conducted for The Civic Federation on the feasibility of consolidated health insurance purchasing found that forming a joint insurance pool consisting of the employees of the City of Chicago, Cook County (excluding the Forest Preserve District), Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of $40.1 million in the first year or $222 million over a 5-year period.[2]

Implement Long-Term Financial Planning Process and Formal Financial Policies

The City should consider adopting some structural or process reforms that can help it develop appropriate strategies to address anticipated changes in financial condition, including instituting long-term financial planning and adopting formal financial policies.

The Civic Federation *applauds* the City for re-instituting performance measures in the FY2002 budget. We urge the City to continue developing and utilizing performance measures as a means of monitoring, measuring and evaluating program performance.

The City already employs several long-term financial planning techniques internally, such as the projection of multi-year revenue forecasts. The Civic Federation urges the City to consider developing a formal long-term financial planning process that is presented to key policymakers and stakeholders. Governments across America have found that instituting a formal long-term financial planning process has been extraordinarily useful in more effectively linking policy and program priorities to the financial resources available currently and in the near future.

The Civic Federation also recommends that the City adopt written financial policies to guide the development of its annual budget. Formal financial policies can provide policymakers and financial managers with guidelines for crafting acceptable policy options given resource and other environmental limitations. Because they take a long-term perspective, financial policies help prepare for contingencies and avoid reliance on short-term, stopgap measures

[1] Health Care Financing Administration. Recent Changes in Medical Prices: 1997-2001. See www.hfca.gov/stats/indicatr/tables/t9.htm.
[2] The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

Concerns: City Faces Several Potential Long-Term Problems in the Areas of Pensions, Long-Term Debt, and Property Tax Refunds

The City of Chicago faces three potential long-term problems that could have a negative impact on its financial condition in the near future: declining income from pension fund investments; substantial increases in long-term debt burden in recent years; and possible large revenue losses from property tax refunds. These problems are especially worrisome given the recession the nation is entering.

Pensions: Funded Ratio for Fire Pension Fund Down, Pending Legislation Could Boost Costs

The funded ratio for the historically underfunded Fire Pension Fund slipped from 60% to 59% between 1999 and 2000, the last year for which complete data are available. While the Fund's funded ratio has risen over the 5-year period of this report, its lowered funding ratio raises concerns over increased costs to the City over the long-term. The other three pension funds did increase their funded ratios in 2000. The Laborer's Fund continued to be overfunded, at 133.9%. The Municipal Fund and Police Fund, at 94% and 71% respectively, had sufficient assets to cover liabilities.

Passage of Illinois House Bill 2099, pending in Springfield, could substantially boosts costs in the long term. The bill proposes to increase the annual accrual rate for City pension fund beneficiaries from 2.2% to 2.4%. This could impact the funds' unfunded liabilities.

Long-Term Debt Burden Up Substantially

The City of Chicago enjoys high bond ratings and its finances are in good order. The City is investing in many worthwhile capital projects. However, long-term debt per capita increased by 41% between FY1996 and FY2000. During the same period inflation rose 18.5%. Between FY99 and FY00 alone, long-term debt per capita rose 21%. These large increases in debt bear careful watching as the economy falls into recession.

Property Tax Appeal Board Decisions Could Lead to Substantial City Revenue Loss

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue. If the decisions stand and are applied to all eligible property in the City, Chicago could face a loss of $67 million per year.

II. SUMMARY OF GAP-CLOSING MEASURES IN FY2002 BUDGET

The City faced a budget deficit estimated at $140 million out of a total projected budget of $5 billion for FY2002. The City already has taken a number of prudent steps to trim expenditures in the wake of declining economic conditions and the events of September 11th. Earlier this year, the City implemented a 5% across-the-board non-personnel budget cut in all non-public safety agencies. After September 11th, a hiring freeze was instituted. These measures saved a total of $30 million.

Gap-closing measures proposed in FY2002 budget include the following expenditure reductions and revenue enhancements.

Expenditure Reductions Totaling $88 Million

The City estimates that implementing a variety of spending cuts will provide $88 million in expenditure reductions in FY2002. They include:

- Eliminating 538 vacant positions for a net savings of $22 million;
- Cutting 5% from all non-safety related agencies. This is estimated to save $20 million;
- Freezing overtime and hiring (except for key health, safety and security programs) for a savings of $8 million;
- Offering early retirement incentives to 1400 city employees, freezing salaries for upper management and requiring upper management to take an unpaid furlough day for savings of $6.5 million;
- Reduce travel spending by 40%, all spending for furniture, and spending on telephones by 5% for a net savings of $1.6 million; and
- Converting traffic signals to L-E-D devices for millions of dollars in potential savings (no exact amount specified). These use only 10-25% of the power consumed by standard bulbs and last up to 10 times as long

Retirement Incentive Program

The City has proposed offering 1,400 employees early retirement for a projected savings of $4 million. It is estimated that 25% of the 1400 eligible workers (350) will accept early retirement. Employees leaving by March 1 will receive an incentive equivalent to 10% of salary. 25% of the positions vacated will be eliminated, 25% will be filled with employees at lower salary grades. The remaining positions may be filled at a later date.

Research has shown that early retirement programs can actually increase costs in the long run unless they are carefully structured.[3] This is due to the costs of retirement benefits plus salaries and benefits of new workers hired to replace retired workers. Even hiring new workers at uniformly lower wages and salaries may not save money in the long run because of pension and health care costs for retired workers. Thus, for early retirement to be cost effective some positions must be completely eliminated, many of the now vacant positions should not be filled for as long as 3-5 years, and many of the replacement workers hired must be paid lower salaries than their predecessors received. It appears that the City's program is structured so as to will yield some cost savings.

Revenue Enhancement: Increases in Targeted Fees, New Revenues from Advertising

The FY2002 budget's proposed revenue enhancements include:

---

[3] Surveys by the National Association of State Budget Officers and the National Conference of State Legislatures have found that early retirement programs at the state level yield cost savings only if controls are placed on replacement hiring and funding for retirement system costs. See David Ferrari. "Designing and Evaluating Early Retirement Programs: The State of Wyoming Experience," *Government Finance Review*, February 1999, pp. 29-31.

- Targeted fee increases for zoning permits, dog licenses, motor vehicle repair shop permits Taste of Chicago tickets, and vehicle towing;
- The sale of advertising on bus shelters, newspaper vending stands, newspaper racks, and various kiosks. This is estimated to generate up to $200 million over 20 years; and
- More aggressive revenue collection efforts

III. FINANCIAL ISSUES AND TRENDS

This section provides summaries of key expenditure and revenue issues and trends likely to impact the City's financial situation in the forthcoming fiscal year.

Recent Property Tax Appeal Board Decisions: City Faces Potential Annual Loss of $67 million

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue and a significant tax burden shift onto homeowners. If the decisions stand and are applied to all property in the county, The Civic Federation's projections indicate that the City of Chicago could face a loss of $67 million per year. The maximum potential loss to all governmental units in Cook County could well exceed $500 million per year. These losses could come at a time when City property assessment levels are soaring and revenue growth is anemic due to the economic downturn.

The Illinois State Constitution requires that the highest assessment level be no more than 2.5 times the lowest assessment level. The Cook County ordinance that classifies property for taxation sets the lowest assessment level at 16% for residential property and the highest assessment level at 38% for commercial property. However, the Illinois Department of Revenue conducts studies every year claiming that residential property is actually assessed at closer to 10% of its value. Based on these studies, the PTAB has created a new level of assessment for non-residential (business and apartment) property. This new level of assessment is the result of multiplying the Department of Revenue's median residential assessment level of approximately 10% by 2.5. The result is a maximum assessment level of 25%. Therefore, a commercial property appealing its assessment to the PTAB would be assessed at 25% of its value, rather than 38% as the county ordinance directs. This lower assessment level, if applied to all properties currently assessed at more than 25% of full value, would result in large refunds for commercial and industrial properties.

Unless it is addressed soon, PTAB's decision has the potential to cause a serious fiscal crisis in Cook County. The Civic Federation believes that it is imperative that the City must join with other local governments and the State of Illinois to address local governments' overreliance on property taxes.

Appropriations: All Funds

The FY2002 budget proposes a net appropriation of $4.6 billion. This is an increase of 2.2% from FY2001. Between Fy1998 and FY2002, net appropriations could increase by 17.6%.

TOTAL ALL FUNDS APPROPRIATIONS: FY98 & FY02			
	1998	2002 Prop.	% Change
Corporate	$ 2,173.40	$ 2,527.50	16.3%
Special Revenue	$ 356.60	$ 397.20	11.4%
Pension	$ 345.80	$ 341.60	-1.2%
Debt Service	$ 430.40	$ 501.80	16.6%
Enterprise	$ 1,035.70	$ 1,232.30	19.0%
Total Appropriation	**$ 4,341.90**	**$ 5,000.40**	**15.2%**
Less Proceeds of Debt	$ (212.80)	$ 142.50	
Less Internal Transfer	$ (217.20)	$ 255.80	
Net Appropriation	**$ 3,911.90**	**$ 4,602.10**	**17.6%**

Source: Chicago Revenue Estimates.

The next exhibit provides a summary of appropriations by program area for FY1998 and the proposed FY2002 budget. The largest percentage increase during this five-year period came in the transportation area, in which appropriations rose 190% from $196 million to $569 million. This is due in large part to the grant-funded costs for Wacker Drive reconstruction as well as Illinois First capital programs within the City.

CITY OF CHICAGO APPROPRIATIONS BY PROGRAM AREA: FY98 & FY02			
PROGRAM AREA	**1998**	**2002 Rec**	**% Change**
FINANCE AND ADMINISTRATION	$ 326,314,663	$ 405,837,999	24%
LEGISLATIVE AND ELECTIONS	$ 30,101,942	$ 33,062,946	10%
CITY DEVELOPMENT	$ 198,743,803	$ 252,984,456	27%
COMMUNITY SERVICES	$ 426,616,439	$ 556,202,748	30%
PUBLIC SAFETY	$ 1,266,249,580	$ 1,537,438,205	21%
REGULATORY	$ 55,786,277	$ 100,030,035	79%
STREETS AND SANITATION	$ 307,122,605	$ 365,188,807	19%
TRANSPORTATION	$ 196,618,734	$ 569,513,761	190%
PUBLIC SERVICES ENTERPRISES	$ 491,612,302	$ 606,208,184	23%
GENERAL FINANCING REQUIREMENTS	$ 1,711,306,820	$ 1,876,999,951	10%
GRAND TOTAL	**$ 5,010,473,165**	**$ 6,303,467,092**	**26%**
DEDUCT:			
PROCEEDS AND REIMBURSEMENTS	$ 430,047,000	$ 398,349,000	
GRANT FUNDS	$ 663,585,127	$ 1,303,093,092	
NET TOTAL	**$ 3,916,841,038**	**$ 4,602,025,000**	**17%**

Source: City of Chicago FY98 and FY02 Program & Budget Summaries

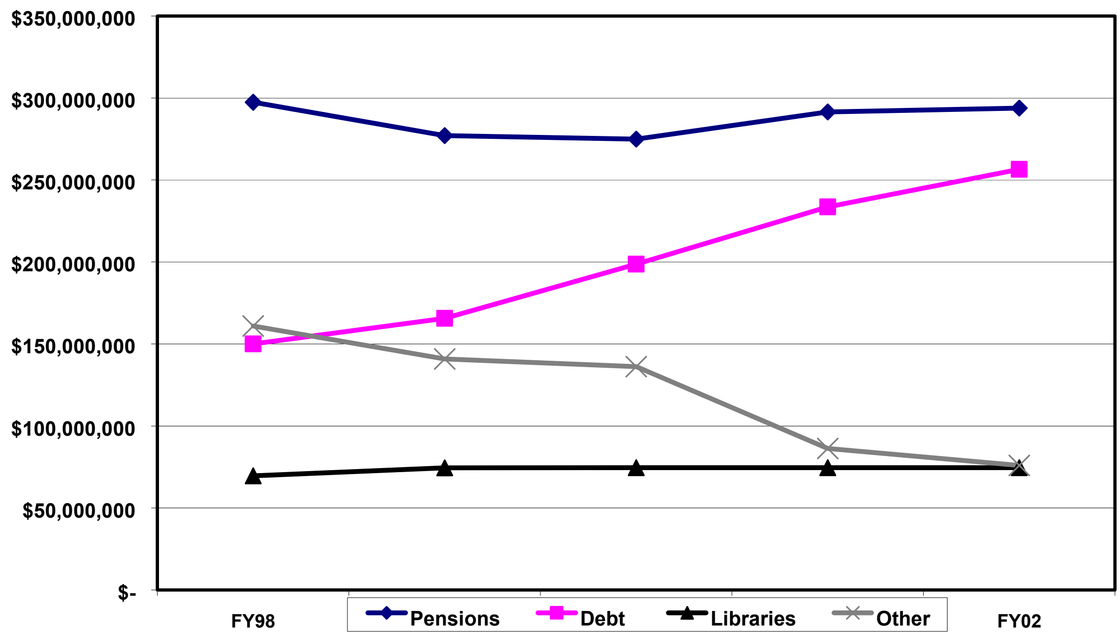
Property Tax Levy: 2% Increase to $700.6 Million from FY01

The property tax levy increased by 2% from FY2001, from $685.9 million to $700.6 million, well within the rate of inflation. Since FY1998, the levy has risen by 3%.

Property tax revenues have been distributed in recent years to five major programs: pensions, debt service, libraries, city relief and the corporate fund. In FY2002, the City proposes that 79% of the levy be spent for pensions and debt service and 11% for libraries.

The exhibit below shows how distribution of the levy changed from FY1998-FY2002. Debt service consumes an increasing portion of the levy proceeds, rising from 22% of the total, or $150 million in FY1998, to nearly 37% of the levy ($256 million) five years later. This increase correlates with the City's rising debt burden. The pension funds' share of the levy has remained relatively constant during this period, averaging 42% of the total. The "Other" category, which includes funding for City Relief, the Corporate Fund, and the Neighborhoods Alive program, has declined precipitously, from $161 million to $76 million. Most of the decrease has come in the portion of the levy returned annually to the Corporate Fund.

CHICAGO PROPERTY TAX LEVY DISTRIBUTION: FY98-FY02



Corporate Fund Revenues: 3% Increase Projected for FY2002

The Corporate Fund is the City's general fund, supporting a wide variety of services including public safety, public health and sanitation, and transportation. A modest aggregate increase of

3% is projected in FY2002 from the City's current estimate of FY2001 year -end revenues. An estimated prior year unreserved fund balance of approximately $33 million will also be available in the new fiscal year. The largest individual revenue source increase will be the 150% increase in leases, rentals and sales.

CHICAGO CORPORATE FUND REVENUES: 2001 and 2002
(In Millions of Dollars)

Tax Revenue	**2001 Yr End Est**	**2002 Proj**	**% Change**
Utility Tax & Franchise Fees	$ 493.5	$ 486.9	-1%
Sales Taxes	$ 409.8	$ 429.6	5%
Income Taxes	$ 207.2	$ 210.5	2%
Transaction Taxes	$ 208.8	$ 202.7	-3%
Tranportation Taxes	$ 141.6	$ 146.6	4%
Recreation Taxes	$ 88.4	$ 92.5	5%
Business Taxes	$ 61.3	$ 63.6	4%
Total Tax Revenue	**$ 1,610.6**	**$ 1,632.4**	1%
Proceeds & Transfers In	$ 126.5	$ 129.1	2%
Non-Tax Revenue			
Internal Service Earnings	$ 284.7	$ 291.5	2%
Fines & Forfeitures	$ 144.0	$ 146.9	2%
Licenses & Permits	$ 72.9	$ 73.7	1%
Current Service Charges	$ 59.1	$ 67.2	14%
Municipal Utilities	$ 19.5	$ 20.1	3%
Leases,Rentals & Sales	$ 17.1	$ 39.3	130%
Reimbursement,Interest,Other	$ 99.1	$ 94.3	-5%
Total Non-Tax Revenue	**$ 696.4**	**$ 733.1**	5%
TOTAL CORPORATE REVENUE	**$ 2,433.5**	**$ 2,494.6**	**3%**

Source: City of Chicago 2002 Revenue Estimates

Personnel: Appropriation and Full Time Equivalent (FTE) Trends

Corporate Fund Personal service appropriations are projected to rise by 16% in the five-year period from FY1998 to FY2002, from $1.8 billion to just over $2 billion. The percentage of all appropriations earmarked for personal services in the Corporate Fund rose from 82% to 86% in that same time period.

The exhibit below shows the number of full time equivalent (FTE) positions budgeted in FY1998 and FY2002 by program area. The number of FTEs has remained fairly constant over this five-year time period, increasing by 2%. Approximately 53% of all FTEs in the proposed FY2002 budget are in the Public Safety area, followed by 12% in the Public Service Enterprises, which include the Departments of Water and Sewers and the city's airports.

POSITIONS BUDGETED (FTEs): FY98 & FY02			
PROGRAM AREA	**1998**	**2002**	**% CHANGE**
FINANCE AND ADMINISTRATION	3,339	3,456	4%
LEGISLATIVE AND ELECTIONS	395	392	-1%
CITY DEVELOPMENT	762	747	-2%
COMMUNITY SERVICES	4,131	4,308	4
PUBLIC SAFETY	22,930	23,247	1%
REGULATORY	881	983	12%
STREETS AND SANITATION	3,915	4,041	3%
TRANSPORTATION	1,328	1,294	-3%
PUBLIC SERVICE ENTERPRISES	5,256	5,269	0%
GRAND TOTAL	**42,937**	**43,737**	**2%**

Source: Program and Budget Summaries: FY98 and FY02

Debt Trends

The Civic Federation has employed two measures of debt for 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 the General and Special Revenue Funds 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.

The exhibit below presents City of Chicago short-term debt trends for Fiscal Years 1996 through 2000. It shows that Chicago's short-term debt obligations grew by 39% in that 5-year period, a substantial sum. Much of the increase came between FY1998 and FY00, when short-term obligations increased by over $420 million. Between FY99 and FY00 alone, short-term obligations rose by $280 million, a 21% increase.

The large increases in short-term debt in recent years bear watching as a potential cause of concern. This is particularly true if they continue through the current and upcoming fiscal years because of the economic downturn.

CITY OF CHICAGO SHORT-TERM DEBT TRENDS: FY1996-FY2000

Fiscal Year	Total Short-Term Debt	% Annual Increase
1996	$ 1,151,497,000	
1997	$ 1,147,439,000	-0.4%
1998	$ 1,184,048,000	3.2%
1999	$ 1,323,950,000	11.8%
2000	$ 1,605,041,000	21.2%

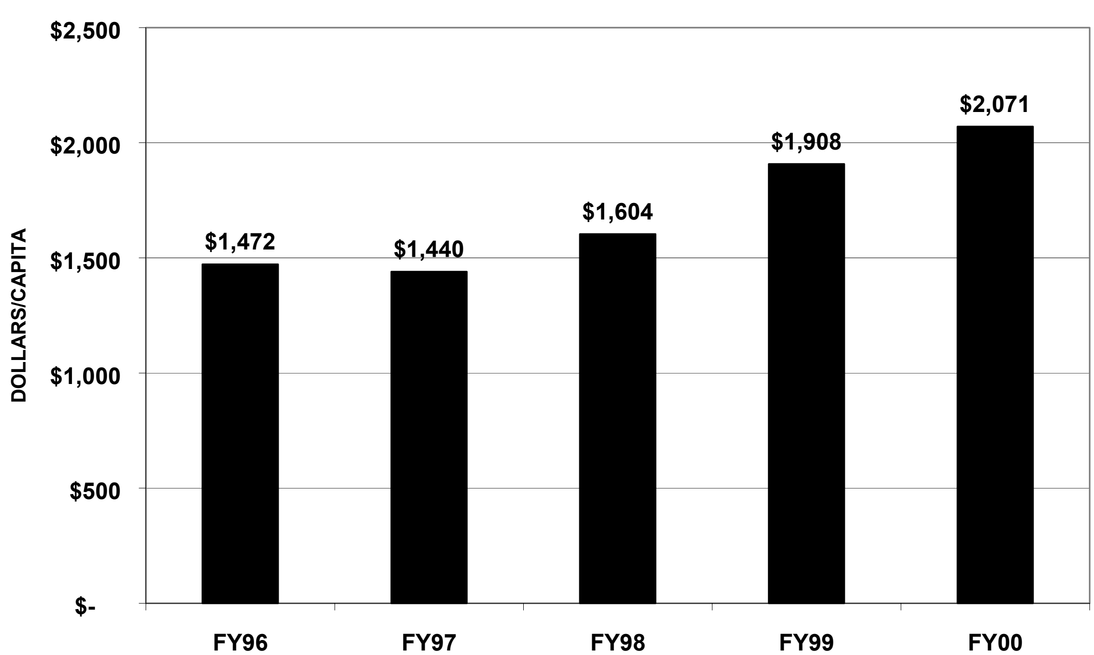
Source: City of Chicago Comprehensive Annual Financial Reports, Fiscal Years 1996-2000.

Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. This long-term debt analysis takes the total liabilities in the General Long-Term Obligations Account Group and divides them by population. Chicago's long-term debt includes capital leases, general obligation bonds payable, employee vacation leave, and claims payable. Any increases bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 41% between FY1996 and FY2000, rising from $1,472 to $2,071. During the same period, the Consumer Price Index for the Chicago metropolitan region rose by 18.5%. Total long-term debt increased from $4.1 billion to $5.9 billion. The large increases in long-term debt bear watching as a potential cause of concern.

CITY OF CHICAGO LONG-TERM DEBT PER CAPITA: FY96-00



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.[4]

Funded Ratios – Actuarial Value of Assets

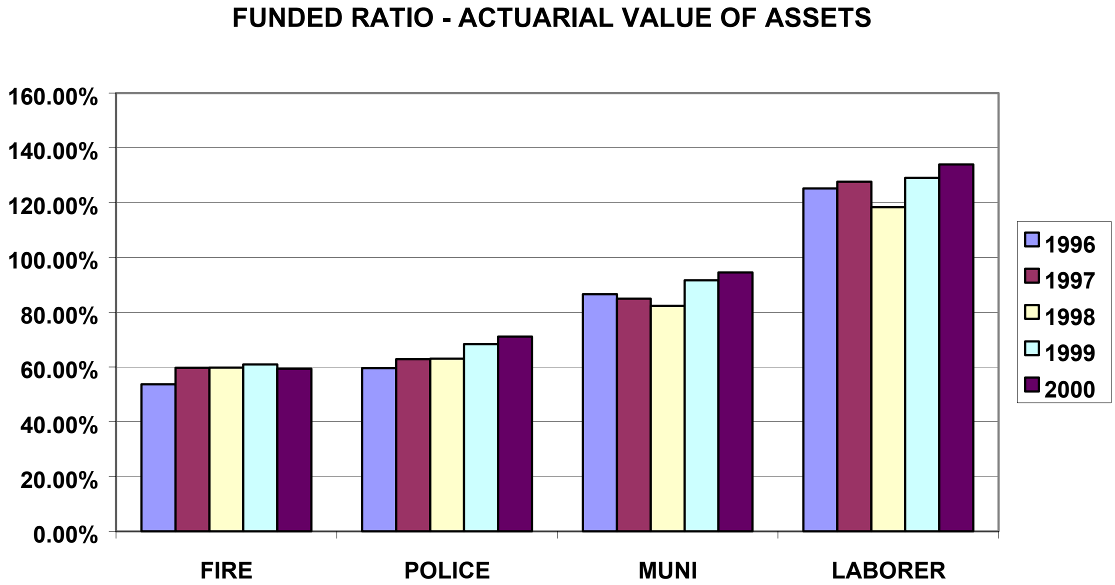
The following exhibit shows funded ratios for each of the four pension funds. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

Three of the four funds increased their funded ratios in 2000. The Laborer's Fund continued to be overfunded, at 133.9%. The Municipal Fund and Police Fund, at 94% and 71% respectively, had sufficient assets to cover liabilities. However, the funded ratio for the historically underfunded Fire Fund slipped from 60% to 59% between 1999 and 2000.

The Fire Fund's funded ratio has risen over the 5-year period of this report. But, its lowered funding ratio in FY2000 raises the prospect of greater than anticipated costs for the City in the long-term if it moves to increase the funded ratio. Overall, there is likely to be a drop in the four funds' actuarially funded values in the current year because of the market decline noted below.

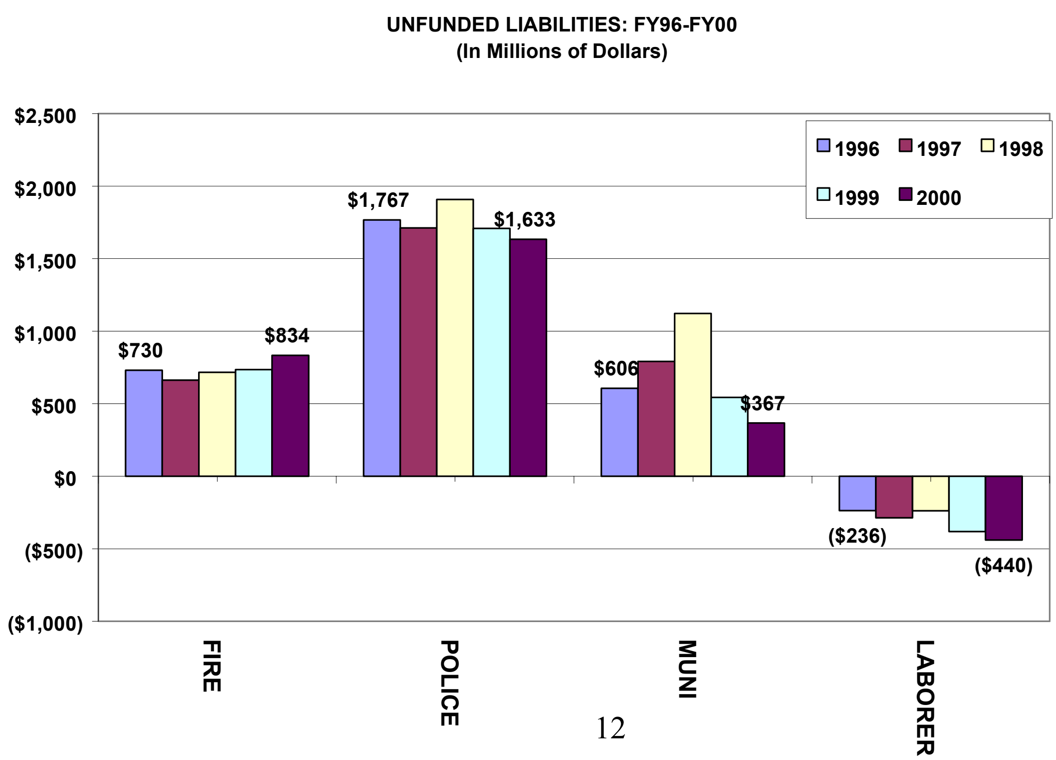
---

[4] The discussion of City of Chicago pension trends is drawn from Myer Blank. *Status of Local Pension Funding* (Chicago: Civic Federation, 2001).



Unfunded Liabilities

Unfunded liabilities are the dollar value of liabilities not covered by assets. Unfunded liabilities for all four City pension funds totaled approximately $2.4 billion in 2000. This was a decline of 16% since 1997 and 8% from 1999, indicating that the City has made a significant reduction in the unfunded liabilities of its pension funds. The largest unfunded liability continues to be in the Police Fund, totaling over $1.6 billion.



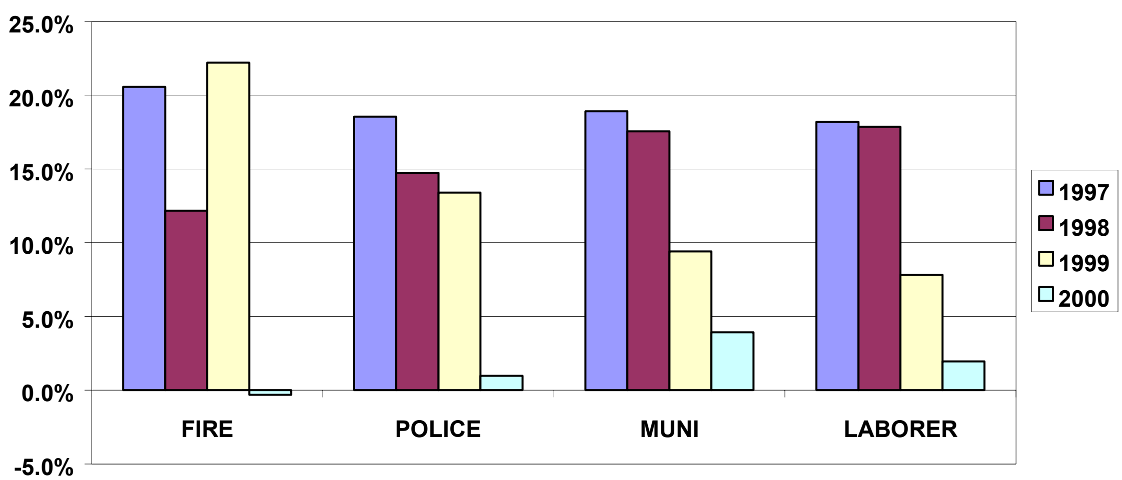
Investment Rates of Return

Investment returns for all four funds tumbled dramatically in FY2000 because of declining financial markets, as the following exhibit illustrates. All of the funds realized lower than the actuarially assumed rates of return.

The average rate of return for all City of Chicago pension funds fell from 19.1% in 1997 to just 1.6% in 2000. The Fire Fund's investments actually lost money, decreasing sharply from a robust 20.6% rate of return in 1997 to –0.3% five years later. In 2000, only the Municipal Fund realized a rate of return (3.9%) that was greater than inflation (3.2%).

Clearly, investment income is down sharply from the boom years of the 1990s. However, this is not necessarily a cause for concern at this time. Because the stock market has increased in value over the long-term, the pension funds' investment income is likely to rise over time as well.

INVESTMENT RATES OF RETURN



IV. BUDGET PROCESS IMPROVEMENTS

The City's financial situation has been exacerbated by substantially increased security costs and sharply lower tax and fee revenues in the aftermath of the September 11 terrorist attack on the World Trade Center. Thus, even with the 4-year tax and fee increases approved last year, the City faces a shortfall for FY2002. If the economic downturn continues, it is likely that deficits will occur in the near future. Given this financial situation, the City of Chicago should consider adopting certain structural or process reforms that can help the City develop appropriate strategies to address anticipated changes in financial condition. These include developing and implementing a long-term financial planning process and adopting formal financial policies. In addition, the City should also continue to improve the budget's performance measurement system.

Implementing a Long-Term Financial Planning Process

Increasing numbers of jurisdictions around the nation are preparing and implementing formal long-term financial plans. They include New York, Philadelphia, Washington, D.C., Phoenix and San Diego. The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[5]

Long term financial planning is a strategic process that provides governments with the insights and information they need to establish sound financial and operations policies and pursue actions that maintain good fiscal health over time. A typical long-term financial plan (LTFP) consists of a 3-5 year forecast of revenues, expenditures and debt capacity; an assessment of historic economic and financial trends; and an evaluation of problems or opportunities and actions to address them, such as gap-closing or surplus management actions. The benefits of long-term financial planning include helping to determine if:

- Revenues are adequate to maintain services at current levels;
- Financial resources are sufficient to address future operating and capital expenditures;
- It is possible to expand existing programs or initiate new ones; or
- It is prudent to issue new debt to fund new capital projects.

By effectively linking policy and program priorities to the financial resources available currently and in the near future, the long-term financial planning process helps governments prepare for future contingencies before they become crises.

The City of Chicago currently employs many of the techniques of a long-term financial planning process internally, 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 plan.

Adopting Formal Financial Policies

Formal or written financial policies are plans that guide and determine a government's present and future financial operations decisionmaking. More specifically, their function is to:

- Identify a course of approved actions and detail prohibited activities;
- Establish operating parameters for elected and appointed officials as well as budget and finance staff; and
- Provide the means to set goals and targets for financial operations to permit the ongoing monitoring and evaluation of a government's financial condition and performance.[6]

[5] See National Advisory Council on State and Local Budgeting and Government Finance Officers Association
[6] W. Maureen Godsey, "Establishing Financial Policies: What, Why and How," in John Matzer, Jr, editor. *Practical Financial Management: New Techniques for Local Government* (Washington, D.C.: ICMA 1984), p. 27.

The most significant benefit of financial policies is that they provide policymakers and financial managers with a long-range, comprehensive perspective. They enable them to craft acceptable policy options given resource and other environmental limitations. The process of developing a particular policy focuses elected officials and the financial management team on a jurisdiction's total financial condition, not just single or ad hoc issues. Because they take a long-term perspective, financial policies help prepare for contingencies and avoid reliance on short-term, stopgap measures.[7] Both the NACSLB and the GFOA recommend that all jurisdictions adopt formal written financial policies.[8]

It is particularly important to establish a stabilization or "rainy day" fund. Such a fund helps government maintain sufficient financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The Civic Federation recommends that the City of Chicago adopt written financial policies to guide the development of its annual budget. Priority should be given to adoption of a budget stabilization policy.

Re-Instituting Performance Measures

The FY2001 Program and Budget Summary volume did not include performance measures, long a feature of City of Chicago budget documents. Rather, it simply contained a list of accomplishments and priorities for each department. However, the FY2002 volume has re-instituted the limited use of performance measures for certain departments.

The Civic Federation applauds the City for bringing back performance measures. While these lists of achievements provide useful information about the City's program and service intentions, they do not permit policymakers and taxpayers to compare performance over time in a consistent manner.

The Civic Federation agrees with the International City Management Association (ICMA), the GFOA and the NACSLB that all governments should evaluate the performance of programs and services they provide. This is the best means extant to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results keeps all stakeholders apprised of actual results compared to expectations.[9]

The Civic Federation is keenly aware that producing reams of measures (particularly workload measures) that are not linked to goals or objectives, utilized to inform management decisions, or developed without the buy-in of management and staff can be a costly endeavor with limited

---

[7] Godsey, pp. 28-29.
[8] 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 "Adopting Financial Policies," Recommended Practice, Committee on Governmental Budgeting and Management (2001).
[9] 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).

efficacy. However, using a few well-chosen measures, particularly those measuring efficiency and effectiveness that are produced consistently and developed with the buy-in of staff can be a valuable tool in assisting the City to improve its management and operations.

The Civic Federation applauds City for re-instituting performance measures. We urge the City to continue developing and utilizing performance measures as a means of monitoring, measuring and evaluating program performance.

V. SUMMARY

The Civic Federation supports the proposed FY2002 City of Chicago budget. We commend the City for developing gap-closing measures that cut expenditures and boost fee-based revenues while ensuring enhanced security protections. We urge the City to aggressively pursue joint purchasing of health insurance with other governments. We also caution the City to monitor three issues that may have a negative long-term fiscal impact: an increasing long-term debt load, a decreased funded ratio for the Fire Fund, and the potential loss of millions of dollars in property tax refunds. Finally, The Civic Federation recommends that the City implement long-term financial planning and adopt formal financial policies to better help Chicago plan strategically in what promise to be challenging financial times.

Respectfully Submitted,

John Curie, President
Scott Metcalf, Research Manager
Roland Calia, Research Consultant