STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2003 CHICAGO PARK DISTRICT BUDGET, DECEMBER 2, 2002

The Civic Federation would like to thank President Saldana, the members of the Board of Commissioners and General Superintendent Doig for this opportunity to comment on the proposed FY2002 budget. We would also like to commend the Chicago Park District's the District's Budget and Finance staffs for their hard work and willingness to brief the Civic Federation staff and provide follow up information related to this budget.

As a government tax and fiscal research organization, the Civic Federation has closely monitored and commented on the fiscal health of local area governments since 1894 and greatly appreciates the cooperation we have received from the General Superintendent's staff.

OVERVIEW OF TESTIMONY

The Civic Federation recently concluded an analysis of financial issues related to the Chicago Park District's proposed FY2003 budget. Based upon that review and a consideration of some key issues that we believe will have an impact in the future upon the District's long-term financial condition, we would like to offer the following comments. The full text of our analysis follows this summary and is also available on our Web site at www.civicfederation.org. The analysis includes sections on FY2003 Budget Highlights, Financial Issues and Trends and Civic Federation Recommendations.

The Civic Federation commends the Chicago Park District for avoiding any broad based tax increases in its $338 million FY2003 budget. We believe that any major tax increases at this time could exacerbate an already fragile economic situation and negatively impact the local business climate.

The Civic Federation supports the District's strategy of balancing this budget with a combination of expenditure reductions, including the elimination of 180+ full and part time positions and $3.8 million in reductions in contractual services. We also support the proposed increases in fees for non-core mission activities such as tennis court time and lessons, ice skating rentals and lesions, athletic permits and certain harbor fees. In our view, such user fee increases are preferable to any general tax increases and allow for reasonable cost sharing by patrons of these special services.

We think it especially important at this time to recognize the leadership of the Board and General Superintendent Doig for their willingness to make the painful but necessary personnel reductions to ensure the continued fiscal health and stability of the District.

Although the Civic Federation strongly supports public subsidy of our world class museums and cultural institutions, we acknowledge the District's need to spread the belt tightening necessitate by decreased tax revenues to all Park District operations this year. In light of the difficult financial constraints faced by the District, we accept the Aquarium and Museums' 3% reduction as reasonable and note that it comes after a 5% increase over the past four years. The Civic Federation is committed to working with the all the parties in the coming year to examine strategies to reduce the competition between parks services and the cultural institutions.

Because of the likelihood that this region will endure more bad fiscal news during FY2003, the Civic Federation would also like to urge the District to implement measures that can generate additional budgetary savings and improve its financial management capabilities. Along these lines, we are pleased that the District's financial management team is actively working with Civic Federation staff and other local governments in pursuit of joint purchasing of employee prescription drugs. Hopefully, in the near future, the group will finalize an agreement for the joint purchasing of health insurance. A recent Civic Federation study found that forming such an agreement consisting of the employees of the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected taxpayer savings of $40.1 million for all governments million and savings of over $1 million annually for the Park District.[1]

Although the Civic Federation endorses the Chicago Park District budget and its fair and balanced approach to managing FY2003 finances, we encourage the Board to improve the written version and presentation of the annual budget. In order to promote a more transparent and user-friendly budget document, the budget format should contain features such as:

- A transmittal letter that describes in general terms the underlying document;
- A more detailed budget and revenue overview that includes 5 years of data in consistent categories and narrative descriptions of expenditures, revenues, programs and departments; and
- Performance measures for Park District programs.

FY2003 BUDGET HIGHLIGHTS

The Chicago Park District faces a $20 million budget deficit in its FY2003. The $338 million budget includes a number of expenditure reductions and revenue enhancements:

- The elimination of 180+ full and part-time positions as well as reductions in the hours of certain part-time staff and reassignment of existing staff. These cuts will generate approximately $11.2 million in savings in the regions and $2.7 million in the central administration.
- A reduction of approximately $3.8 million in contractual service expenditures.
- Property tax supported funds provided by the Chicago Park District to the Aquarium and museums will be cut by approximately $1.1 million.

[1] The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

- Fees for certain non-core programs and services, including adult sports leagues, permit & rental fees will be increased to generate an additional $3 million. This reflects an increase in revenues from $9 million annually to $12 million.

SELECTED CPD FEE INCREASES		
Activity	**2002**	**2003**
Ice skate rental	$ 4	$ 5
Ice skating clinic	$ 60	$ 70
Ice skating lesson	$ 70	$ 75
Tennis court time	$ 20	$ 25
Tennis lessons	$ 76	$ 100
Field/room rental	$ 200	$ 225
Harbor Fees		
Administrative	$ 27	$ 50
Battery charge	$ 27	$ 35
Dinghy Use	$ 75	$ 150
Athletic permit	$8,500 per day	$11,000 per day

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to have an impact on the Chicago Park District's financial situation in the forthcoming fiscal year as well as expenditure, appropriation and revenue trends.

All Fund Appropriations: Substantial Cuts in Areas of Central Administration & Regions/Parks; Big Boost in Debt Service Expenditures

Chicago Park District expenditures are projected to rise by $3.9 million, or 1.2% in FY2003. There will be substantial expenditure cuts in the following areas, due in large part to the elimination of positions. These cuts include:

- $8.9 million in the central administrative offices, a 52% reduction;
- $8.5 million in the regions and parks, a 5.5% cut;
- $4 million in a special services, a 16% reduction; and
- $1.1 million cut in property tax support total CPD support for the Aquarium and Museums, a 3% cut. Total support for the cultural institutions will be reduced by $1.5 million, or by 4.2%.

There will be a very large increase in the District's debt service expenditures. They will increase by $28 million or 47% in FY2003, rising from $60 million to $88 million.

Appropriations by Expense Areas: FY02 & FY03			
	2002	**2003 Rec.**	**% Annual Change**
Regions/Parks	$ 155,210,909	$ 146,634,053	-5.5%
Special Services	$ 25,160,893	$ 21,119,189	-16.1%
Facilities & Maintenance	$ 15,533,900	$ 15,323,672	-1.4%
Central Administration	$ 17,187,198	$ 8,212,426	-52.2%
Debt Service	$ 60,228,795	$ 88,730,133	47.3%
District-wide & Liability	$ 8,509,462	$ 7,325,183	-13.9%
Zoological	$ 5,584,000	$ 5,584,000	0.0%
Aquarium & Museum	$ 37,068,584	$ 35,509,342	-4.2%
Pension	$ 10,108,300	$ 10,126,784	0.2%
Total	**$ 334,592,041**	**$ 338,564,782**	**1.2%**

Over a 5-year period, from FY1999 to FY2003, CPD appropriations will rise by 5.2%. This is a $16 million increase. During this period, there have been large reductions in Facilities and Maintenance (down by $20.6 million or 57%) and Central Administration (down $12 million or nearly 61%).

Appropriations by Expense Areas: FY99 & FY03			
	1999	**2003 Rec.**	**% Change**
Regions/Parks	$ 127,524,967	$ 146,634,053	15.0%
Special Services	$ 16,974,638	$ 21,119,189	24.4%
Facilities & Maintenance	$ 35,993,497	$ 15,323,672	-57.4%
Central Administration	$ 20,943,717	$ 8,212,426	-60.8%
Debt Service	$ 60,741,721	$ 88,730,133	46.1%
District-wide & Liability	$ 9,721,289	$ 7,325,183	-24.6%
Zoological	$ 5,584,000	$ 5,584,000	0.0%
Aquarium & Museum	$ 35,414,106	$ 35,509,342	0.3%
Pension	$ 8,987,433	$ 10,126,784	12.7%
Total	**$ 321,885,368**	**$ 338,564,782**	**5.2%**

Revenue Sources and Trends: Minimal 1.2% Projected Increase Due to Recession

Reflecting the continuing effects of the national recession, the CPD has generated a 1.2% estimate of aggregate revenue increases for FY2003. The Civic Federation believes that this is a prudent move on the part of the District.

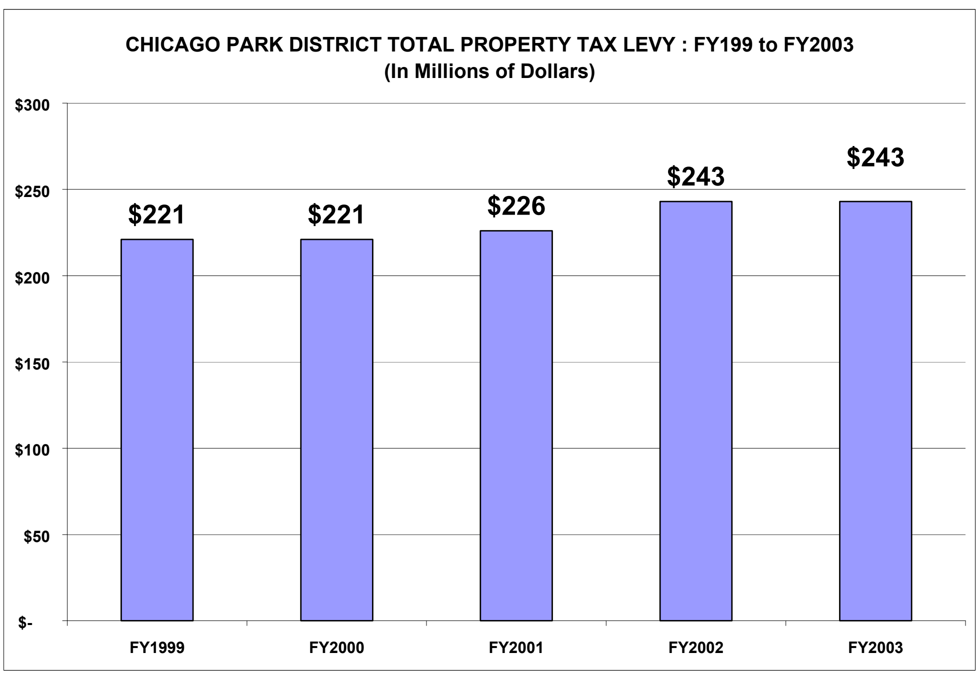
The CPD is projecting that Personal Property Replacement (PPRT) revenues in FY2003 will be the same as actual revenues in FY2002 - $24.5 Million. This is a steep 19% drop from what the District had originally estimated in their FY2002 budget. Investment income will also be down sharply, from $2.2 million to $1.3 million.

Increases in several revenue sources are projected for FY2003. These include and 31.8% increase in fees from recreational programs, reflecting fee increases for certain non-core programs and a 29% rise in revenue for rentals and concessions. Marine fees will increase only by 2.8%, reflecting the District's freeze on fees in that that area.

Chicago Park District Revenues by Source	2002 Budget	2003 Budget	% Annual Change
Property Tax Levy (Aggregate)	$ 235,489,574	$ 236,074,574	0.2%
Personal Property Replacement Tax	$ 31,500,000	$ 25,400,000	-19.4%
Park Services	$ 30,683,898	$ 35,229,360	14.8%
Recreation	$ 9,106,272	$ 12,000,000	31.8%
Marine	$ 15,668,854	$ 16,100,000	2.8%
Rentals & Concessions	$ 4,064,872	$ 5,260,848	29.4%
Grants	$ 3,619,703	$ 5,000,000	38.1%
Investment	$ 2,223,914	$ 1,300,000	-41.5%
Miscellaneous	$ 2,234,954	$ 2,200,000	-1.6%
Total	**$ 334,592,041**	**$ 338,564,782**	**1.2%**

Total Property Tax Levy: FY2003 Levy Static at $243 Million

The CPD total property tax levy will be $243 million. It will essentially be frozen from the previous year's levy, rising by only $8,000 to fund certain debt service and pension requirements. Between FY1999 and FY2003, the levy has increased by 10%, from $221 million to $243 million.



The CPD's total property tax levy is shown on tax bills as two separate line items: one for taxes levied to support the CPD and a second to indicate money levied for support of the Aquarium and Museum's debt service.

Chicago Park District Property Tax Levy by Purpose		
Fund	**2002**	**2003 Proj**
Park District	$ 231,013,301	$ 231,021,359
Aquarium & Museum	$ 12,840,013	$ 12,840,013
Total	$ 243,853,314	$ 243,861,372

Total Remittances to the Aquarium and Museums Reduced in FY2003 by $1.1 Million

Although they are private, non-profit institutions, the Aquarium and Museums receive financial support from the CPD and are located on lands owned by the District. The CPD must approve any fee increases for admittance to these institutions. The District provides not only an annual allotment to these cultural institutions, but also assistance with debt service payments.

For FY2003, the Aquarium and Museums will receive $35.5 million in operating funds. This is a $1.1 million **decrease** from FY2002, when these institutions received $34.7 million. Of this amount, $33.6 million will come from the CPD's property tax levy and $1.9 million will come from the District's Personal Property Tax Replacement revenues. In addition, the Aquarium and Museums are levying $12.8 million in additional property tax revenue through the CPD to cover debt service payments. The total amount of tax revenue projected to support the Aquarium and Museums in FY2002 is therefore approximately $46.4 million.

Current Fund Balance Ratio: Fund Balance Down by 39% Between FY1997 and FY2001

The current fund balance ratio was devised by The Civic Federation to measure a government's ability to meet its financial obligations over time, long enough to convert illiquid assets to cash. It is calculated by dividing General and Special Revenue Fund expenditures by the unreserved fund balances in those funds. Historic trends are presented below for the Chicago Park District for FY1997 through FY2001. Ratios under 10% are categorized as "Low' while ratios between 10% and 25% are categorized as "Adequate."

As the exhibit below shows, the Chicago Park District's fund balance ratio averaged 31% over the entire 5-year period analyzed, placing it in the "Substantial" category. The ratios have fallen steadily from a high of 40% in FY1997 to 24% in FY2001. Between FY1997 and FY2001, the fund balance fell by $39 million, from $100 million to $61 million, a decrease of about 39%.

CHICAGO PARK DISTRICT CURRENT FUND BALANCE RATIO: FY97-FY01				
Fiscal Year	**Fund Balance**	**Expenditures**	**Ratio**	**Rating**
FY1997	$ 100,374,983	$ 254,077,614	40%	Substantial
FY1998	$ 81,940,670	$ 262,515,117	31%	Substantial
FY1999	$ 92,344,179	$ 263,758,133	35%	Substantial
FY2000	$ 64,237,658	$ 262,034,404	25%	Substantial
FY2001	$ 61,154,287	$ 250,923,450	24%	Adequate

Personnel Trends: Headcount Reduced by 183 Positions (5.5%)

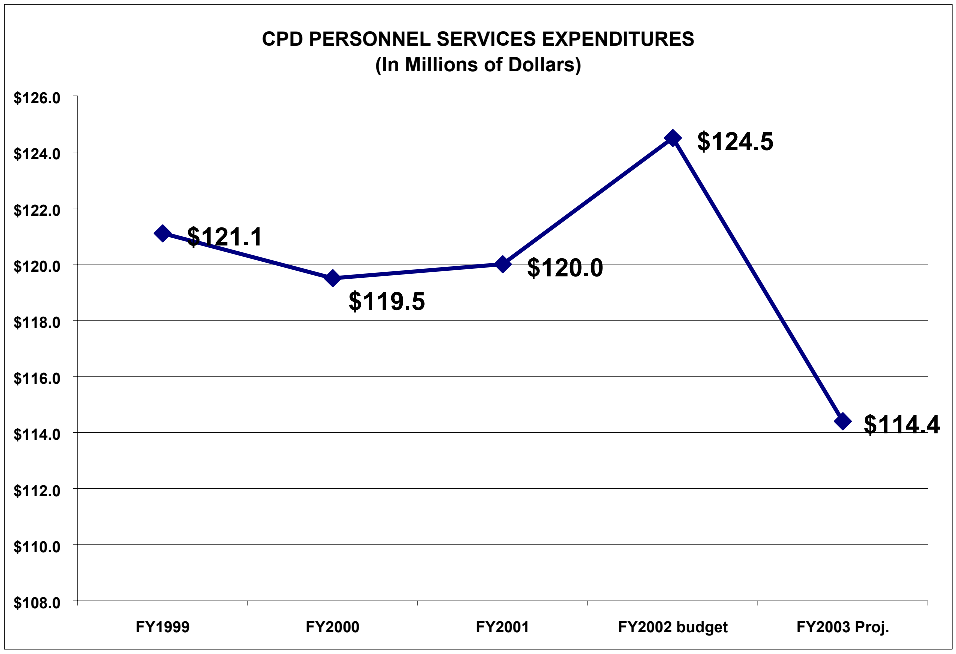
The Chicago Park District will eliminate 183 positions in FY2003. This is a 5.5% reduction in the workforce. 135 full time and 51 part time positions are scheduled to be eliminated. The number of seasonal employees will increase slightly. The budget is balanced this year in part due to approximately $11 million in savings resulting from the elimination of these positions.

FTE Positions by Category: FY02 & FY03			
	FY02	**FY03**	**% Change**
Full-Time Positions	1,972	1,837	-6.8%
Part-Time Positions	739	688	-6.9%
Seasonal Positions	637	640	0.5%
Total	**3,348**	**3,165**	**-5.5%**

From FY1999 to FY2003, the CPD cut 360 positions, or 10.2% of its workforce. The number of full time positions has been cut by 15%, or by 325 positions. 107 part-time positions were cut as well in that time period.

FTE Positions by Category: FY 99 & FY03			
	FY99	**FY03**	**% Change**
Full-Time Positions	2,162	1,837	-15.0%
Part-Time Positions	795	688	-13.5%
Seasonal Positions	568	640	12.7%
Total	**3,525**	**3,165**	**-10.2%**

The next exhibit illustrates personnel service expenditures for the Chicago Park District from FY1999 to FY2003. It shows that expenditures will be reduced by 8% or $10 million between FY2002 and FY2003. This follows several years of increasing personnel service spending. Over the entire 5-year period, expenditures are projected to decrease by 6% or $6.7 million.



Debt Trends

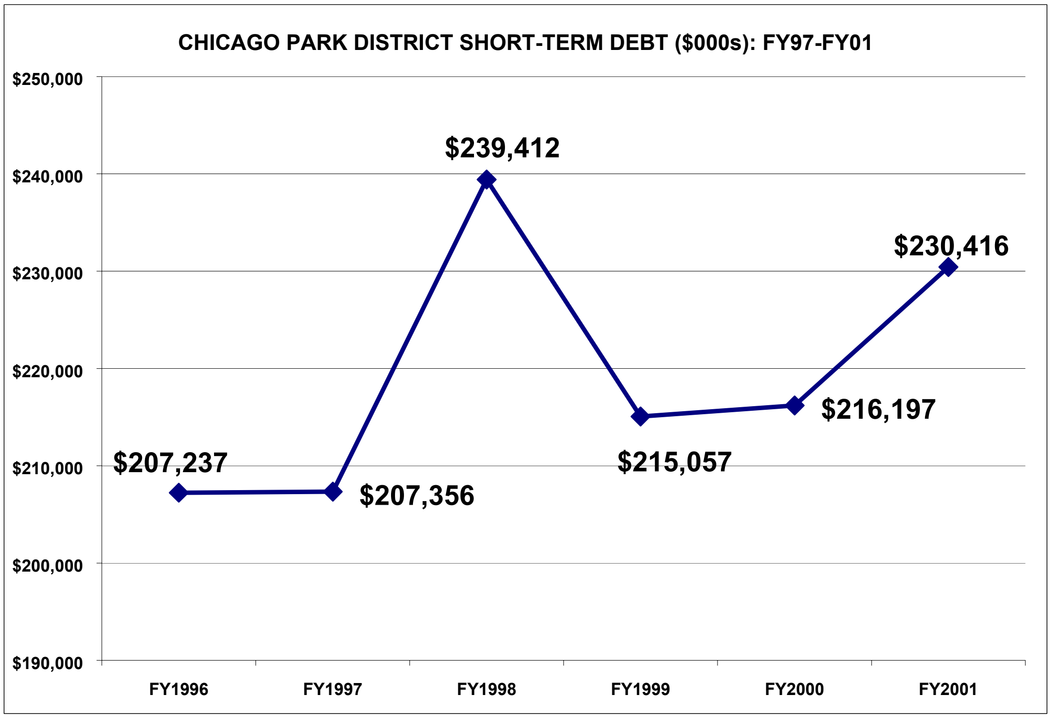
The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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.

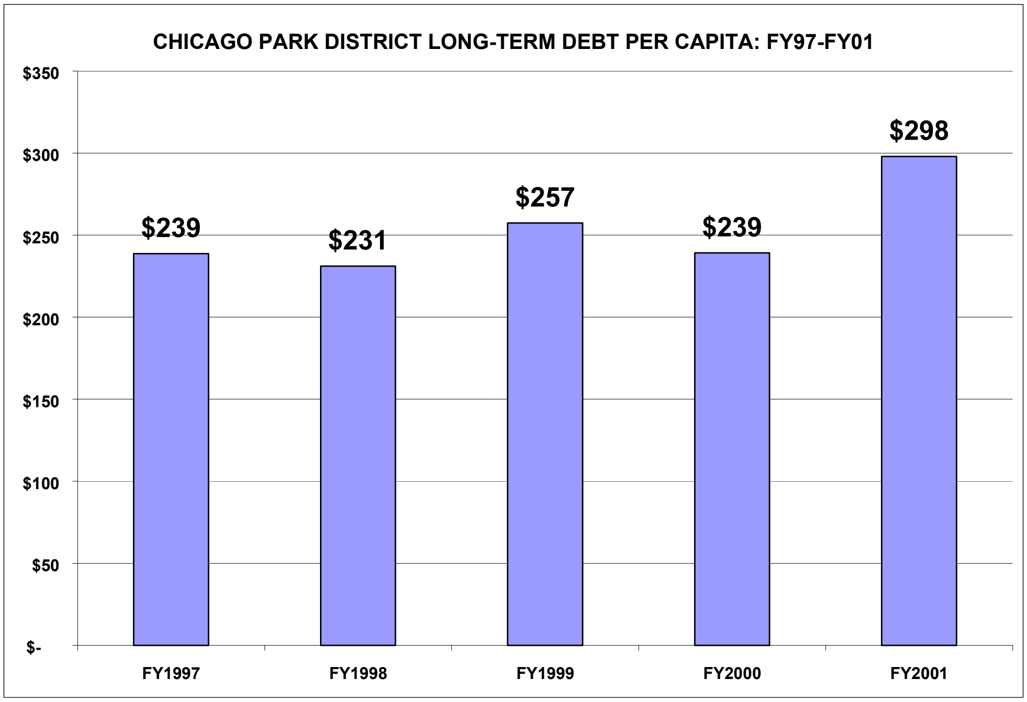
The exhibit below presents Chicago Park District short-term debt trends for Fiscal Years 1997 through 2001. It shows that the CPD's short-term debt obligations grew by 11.2%, or $23 million, in that 5-year period. Between FY2001 and FY2002, short-term debt increased by 7%. Increases in FY2000 and FY2001 reverse the sharp decline in this type of borrowing between FY1999 and FY2000. However, because the overall increase is relatively modest, there is no cause for concern according to this indicator at present.



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. The Chicago Park District's long-term debt includes general obligation bonds payable, capital leases payable, compensated absences, claims and judgments payable, and worker's compensation. Increases in this indicator bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 25% between FY1997 and FY2001, rising from $239 to $298. Total long-term debt increased from $664 million to $862 million. Between FY2000 and FY2002, long-term debt per capita rose by $59 million, a 25% increase.



Pension Trends

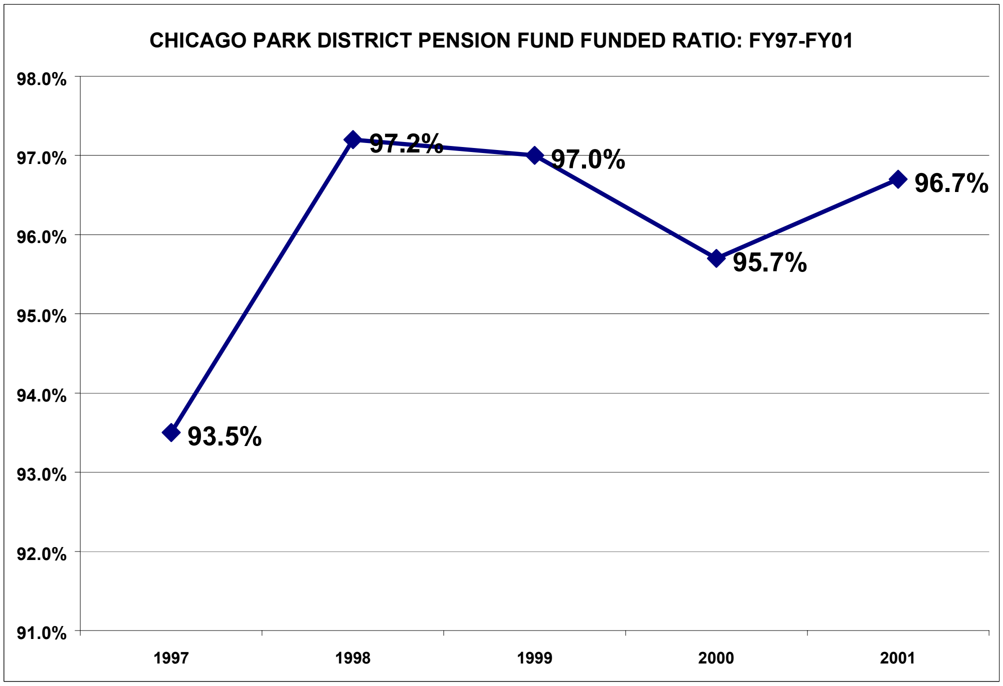
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Chicago Park District's pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.[2]

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.

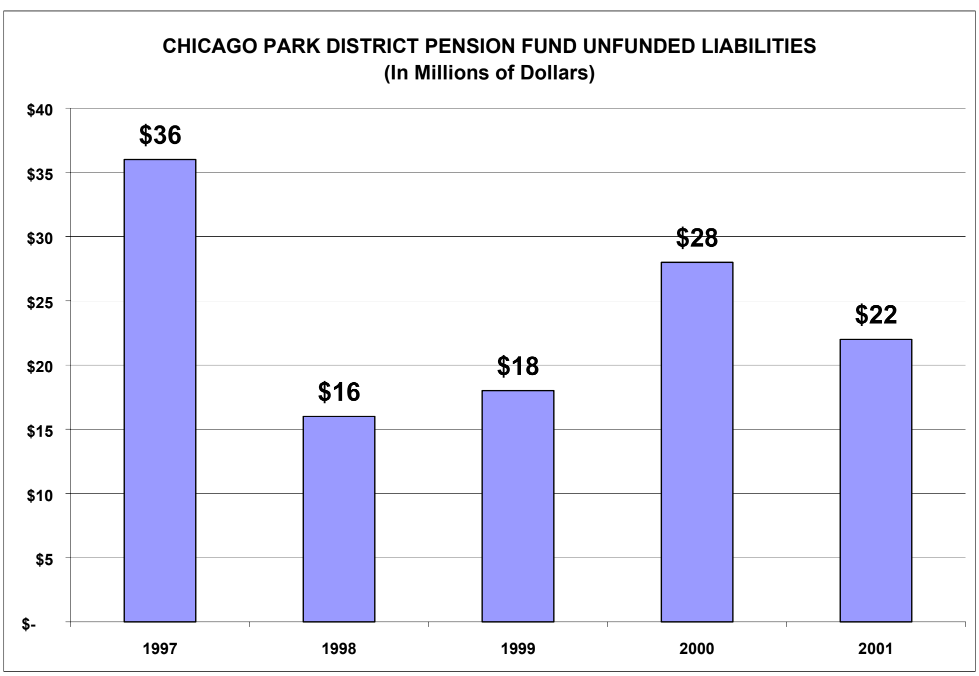
The funded ratio for the CPD's pension fund averaged 96% between FY1997 and FY2001. The funded ratio increased from 93.5% to 96.7% between FY2000 and FY2001. The high funded ratio indicates that the Chicago Park District had more than sufficient assets to cover pension liabilities in the long term.

[2] The discussion of Cook County's pension fund trends is drawn from Scott Metcalf. *Status of Local Pension Funding* (Chicago: Civic Federation, 2002).



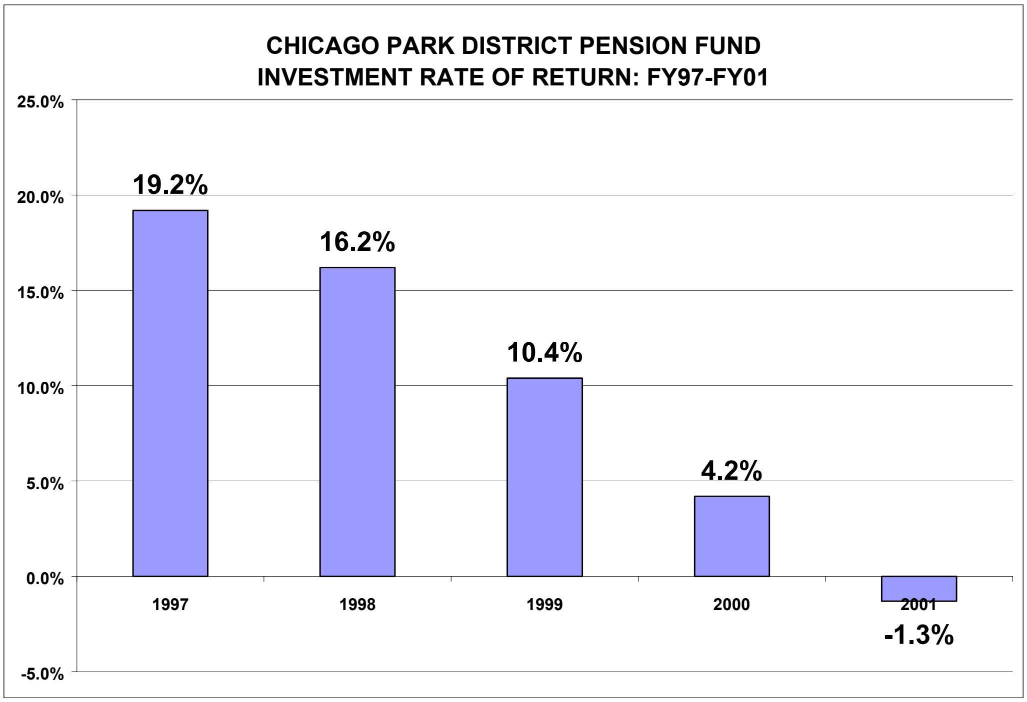
Unfunded Pension Liabilities: $2 Million Decrease Between FY2001 and FY2002

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 approximately $22 million in FY2001. There was a 21% or $6 million **decrease** in unfunded liabilities in FY2001 from the previous year. Over the 5-year period of this analysis, unfunded liabilities rose by 39%, from $36 million to $22 million.



Investment Rates of Return: Returns Negative in FY2001

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. Since FY1997, CPD investment rates of return have dropped from 19.2% to –1.3%. Between FY2000 and FY2001, the rate of return fell from 4.2%. Because the pension fund remains well funded, this is not yet a cause for concern.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the Chicago Park District's financial management.

Monitor Moves to Increase Park District Employee Pension Benefits in Springfield

The Chicago Park District's pension fund currently is well funded, with a 96.7% funded ratio. However, there may well be pressure in coming months to increase public employee pension benefits by adjusting state regulated contribution formulas. The Civic Federation urges the CPD to carefully monitor any such moves in the General Assembly that have the potential to dramatically increase costs to taxpayers of maintaining the District's pension fund.

Implement Joint Purchasing of Prescription Drugs and Employee Health Insurance

The Chicago Park District may well endure more bad fiscal news during FY2003. Thus, it is important that the District implement measures that can generate additional budgetary savings. To that point, we are pleased that the CPD's financial management team is actively working with

Civic Federation staff and other local governments in pursuit of joint purchasing of employee prescription drugs. Hopefully, in the near future, the group will finalize an agreement for the joint purchasing of health insurance. A recent Civic Federation study found that forming such an agreement consisting of the employees of seven major local governments could yield projected savings of $40.1 million for all the governments in the first year or $222 million over a 5-year period and savings of over $1 million annually for the Park District.[3]

Improve Budget Format

The Civic Federation urges the Chicago Park District to improve the written version and presentation of the annual budget. In order to promote a more transparent and user-friendly budget document, the budget format should contain features such as:

- A transmittal letter that describes in general terms the underlying document;
- A more detailed budget and revenue overview that includes 5 years of data in consistent categories and narrative descriptions of expenditures, revenues, programs and departments; and
- Performance measures for Park District programs.

Implement Formal Financial Policies

The Civic Federation recommends that the Chicago Park District adopt written financial policies to guide the development of its annual budget.

Develop and Utilize Performance Measures

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.[4]

The Civic Federation urges the Chicago Park District to utilize its new financial management system to develop performance measures in the FY2004 and all forthcoming budgets.

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[3] The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

[4] 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).