The Civic Federation

Research * Information * Action * Est. 1894

CITY OF CHICAGO FY2017 PROPOSED BUDGET:

Analysis and Recommendations

November 1, 2016

The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

Table of Contents

EXECUTIVE SUMMARY

The Civic Federation **supports** Mayor Emanuel's proposed FY2017 budget of approximately $8.2 billion because it continues to work toward addressing the City's pension crisis by identifying and dedicating funding sources that will prevent the pension funds from going insolvent within the next decade. This budget also makes significant improvements from its past practices by continuing to reduce "scoop and toss" borrowing by $63 million in FY2017 and incorporating large expenses such as judgements and settlements into its operating budget rather than funding them through borrowing. However, the Civic Federation has concerns with the costs and long-term sustainability of the Mayor's plan to dramatically increase the police force by hiring 970 officers over the next two years. The Federation is also concerned about uncertainty surrounding the proposed pension funding reforms to the Municipal and Laborers' Funds since legislation has yet to be introduced in the Illinois General Assembly and Governor Rauner has publicly stated his reservations about them. Furthermore, the City will need to identify significant additional revenue sources in future years once the pension funds are on an actuarial funding schedule.

The Civic Federation offers the following key findings on Mayor Emanuel's proposed FY2017 budget:

- The City proposes a FY2017 local funds budget of just over $8.2 billion; this is an increase of 4.8% above the FY2016 adopted appropriations of just over $7.8 billion across all local funds;
- The FY2017 Corporate Fund budget proposal will increase by 4.2%, or $148.2 million, from approximately $3.6 billion in FY2016 to $3.7 billion in FY2017;
- The FY2017 budget proposes to increase staff by 1,427 FTEs or 4.3%, from 33,065 FTEs to 34,492 FTEs, not including grant-funded positions;
- Public Safety will see the greatest increase in FTEs, growing from 20,727 FTEs in FY2016 to 21,682 FTEs in FY2017, an increase of 955 FTEs or 4.6%;
- Corporate Fund personnel services are projected to increase by $59.6 million, or 2.2%, from approximately $2.76 billion in the adopted FY2016 budget to $2.82 billion in FY2017;
- The FY2017 budget proposes an increase in the City's base property tax levy to nearly $1.32 billion, bringing total property tax revenue to $1.36 billion;
- The $137.6 million Corporate Fund budget gap, $63 million in debt reform and $81 million in additional investments is projected to be closed using the following measures: $30.1 million in non-personnel savings and reforms and $251.6 million in revenue increases; and
- The total unfunded actuarial accrued liabilities of the City's four pension funds increased significantly to $22.6 billion in FY2015 from $19.4 billion in FY2014, due mostly to the increased liabilities in the Municipal and Laborers' Funds from the Supreme Court striking down Public Act 98-0641.

The Civic Federation **supports** the following initiatives and elements of the City of Chicago's FY2017 budget:

- Identifying and dedicating sources of funding for all four City pension funds;
- Continuing to reduce the use of "scoop and toss" borrowing and creating a plan to eliminate the practice of "scoop and toss" borrowing by 2019;
- Establishing a garbage collection fund as part of the FY2016 budget approval process to clearly identify revenues generated from the new waste removal fee imposed in FY2016;
- Increasing targeted taxes and fees that are projected to generate approximately $25.4 million in FY2017; and
- Implementing management efficiencies and reforms that will total approximately $33.7 million in FY2017.

The Civic Federation has **concerns** about the following issues related to the City of Chicago's FY2017 budget:

- The future cost and sustainability of increasing the number of police officers by 970 over a two-year period, as proposed in the Mayor's public safety strategy;
- Uncertainty surrounding Municipal and Laborers' pension reforms and lack of detail surrounding long-term funding of the pension funds;
- Structural deficit and ongoing fiscal imbalance between operating expenditures and recurring revenue sources is projected to continue to grow absent action to reduce expenditures or increase revenues;
- High bonded debt burden and impact on future borrowing;
- Potential impact of the proposed transportation "lockbox" amendment that is on the November 8, 2016 ballot; and
- Lack of cost of services data for the programs in its budget.

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

- Re-evaluate the use of TIF funds used to address the City's and overlapping governments' financial challenges;
- Include finance general costs in the city department budget to show the full cost of services;
- Implement a formal long-term financial plan for city operations and pension funds;
- Re-evaluate the inefficient City-sponsored property tax rebate program;
- Annually reassess the garbage collection fee to better ensure revenues are aligned with expenses associated with providing the service to residents;
- Hold multiple stand-alone town hall meetings to encourage greater participation in the budget process; and
- Improve the transparency and accountability of city operations by live streaming city council meetings and public hearings.

CIVIC FEDERATION POSITION

The Civic Federation **supports** Mayor Emanuel's proposed FY2017 budget of approximately $8.2 billion because it continues to work toward addressing the City's pension crisis by identifying and dedicating funding sources that will prevent the pension funds from going insolvent within the next decade. This budget also makes significant improvements from its past practices by continuing to reduce "scoop and toss" borrowing by $63 million in FY2017 and incorporating large expenses such as judgements and settlements into its operating budget rather than funding them through borrowing. However, the Civic Federation has concerns with the costs and long-term sustainability of the Mayor's plan to dramatically increase the police force by hiring 970 officers over the next two years. The Federation is also concerned about uncertainty surrounding the proposed pension funding reforms to the Municipal and Laborers' Funds since legislation has yet to be introduced in the Illinois General Assembly, and Governor Rauner has publicly stated his reservations about them. Furthermore, the City will need to identify significant additional revenue sources in future years once the pension funds are on an actuarial funding schedule.

As part of the FY2016 budget approval process Mayor Emanuel and the Chicago City Council made the painful yet necessary decision to amend the FY2015 budget to increase the property tax levy by $318 million for FY2015 in addition to a $109 million increase in the property tax levy in FY2016 and $53 million and $63 million for FY2017 and FY2018 and dedicate the entire increase to the Police and Fire Pension Funds. Although the City faced a setback when the Illinois Supreme Court ruled in March 2016 that the reforms made to the Municipal and Laborers' Funds violated the Pension Protection Clause of the Illinois Constitution, the Mayor has since worked with labor representatives to discuss new reforms to the funds and identify funding sources to improve their long-term solvency. The proposed funding source for the Laborers' Fund will be the increased 911 surcharge that was approved in 2014 and the new water and sewer utility tax that was adopted by the Chicago City Council in September 2016 will fund the increased contributions to the Municipal Fund. These fee and tax increases, although painful for Chicago residents, are necessary to begin to stabilize the funds.

Although Chicago has made great strides in recent years to improve city operations and eliminate poor financial practices, there is much more that still needs to be accomplished. The public safety and financial crises the City faces are an immediate concern for all city residents and businesses. Addressing these crises will require cooperation amongst City officials, labor partners, residents, and particularly the cooperation of and financial stability at the State of Illinois. If Chicago is to become sustainable in the long-term, it cannot afford only short-sighted efforts. The solutions must focus on the long-term and must have a partner in the State of Illinois.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the proposed FY2017 City of Chicago budget.

Identifying and Dedicating Sources of Funding for all Four City Pension Funds

The City of Chicago has made significant strides in recent years to begin to address its growing unfunded pension liabilities in its four pension funds. Although the City faced some setbacks due to recent court rulings, it has continued to work with its labor partners and legislators in the Illinois General Assembly to reform how pensions are funded in Chicago and to identify and dedicate revenue sources to fund the pensions. Although new legislation has not yet been introduced in the Illinois General Assembly to change the employer funding of the Municipal and Laborers' Funds, the City plans to do so before the end of 2016.[1] The Federation commends the Mayor and Chicago City Council for working to identify and dedicate sources of funding for all four city pension funds that begins to put them on a path toward solvency. The reforms made to the four pension funds are outlined below.

Police and Fire Pension Funds

As part of the FY2016 budget approval process Mayor Emanuel and the Chicago City Council made the painful yet necessary decision to amend the FY2015 budget to increase the property tax levy by $318 million for FY2015 in addition to a $109 million increase in the property tax levy in FY2016 and $53 million and $63 million for FY2017 and FY2018, respectively. The City is dedicating the entire increase in the property tax levy to fund the Police and Fire pension funds moving forward.

Senate Bill 777, now Public Act 99-0506, is the vehicle for the new payment ramp and schedule for the Police and Fire Funds. It was passed by both houses of the Illinois General Assembly in May 2015, but was vetoed by the Governor in May 2016. His veto was then overturned by the Illinois General Assembly and the bill became law. The legislation reduced the City's statutorily required contribution to both funds in 2015 by approximately $220 million from the previous 2010 funding law.

The Federation has long been opposed to pushing off pension contributions and also has encouraged the governments it analyzes to fully fund their pensions. The funding schedule outlined in Public Act 99-0506 is not ideal from an actuarial perspective, but the unprecedented and dedicated infusion of property taxes should start to improve the financial sustainability of the City's two worst-funded pension plans. Unfortunately, decades of statutory underfunding of the City's pension obligations and ignoring the consequences has made it necessary for the taxpayers of Chicago to shoulder a burden that would have been lighter if it had been addressed sooner. Mayor Emanuel and the Chicago City Council deserve credit for finally stepping up with a plan to begin to fulfill the City's obligation to its employees and retirees.

Municipal and Laborers' Pension Funds

Pension reform legislation to stabilize the Municipal and Laborers' pension funds was first introduced in the General Assembly in March 2014. Prior to any reforms the Municipal and Laborers' Pension Funds, the funds were projected to become insolvent as soon as 2024 for the Municipal Fund and 2028 for the Laborers' Fund.

---

[1] City of Chicago FY2017 Budget Overview, p. 28.

Public Act 98-0641, signed into law on June 9, 2014, made changes to pension benefit levels for current retirees and employee members of the Municipal and Laborers' Funds and also changed the funding schedule to a 40-year plan to 90% funded with a five-year ramp.

On March 24, 2016 the Illinois Supreme Court filed its opinion affirming the Cook County Circuit Court's July 2015 ruling that the reforms made to the City of Chicago's Municipal and Laborers' Pension Funds in Public Act 98-0641 were unconstitutional because they reduced pension benefits in violation of the pension protection clause of the Illinois Constitution.

Since then Mayor Emanuel has worked with labor representatives to discuss reforms to the two funds and find funding to ensure their long-term solvency.

On May 23, 2016, Mayor Emanuel announced that the City had reached an agreement with the unions representing members of the Laborers' Fund that would put the fund on a path to solvency. If enacted into law, the agreement would increase contributions by three percentage points to 11.5% and lower the retirement age from 67 to 65 for any new employee hired on or after January 1, 2017. The plan also provides current employees hired after January 1, 2011 the option to lower their retirement age to 65 from 67 in exchange for increased contributions.[2] Similar to the funding plan in Public Act 98-0641, the new 40-year funding plan included in the agreement calls for a five-year ramp of increased contributions to achieve actuarially-required contribution (ARC) funding levels by 2022 with a goal of 90% funded by 2057. The increased contributions are proposed to be funded through the 911 surcharge on wireless and landline phones that was passed by the Illinois General Assembly in 2014.

Similarly, on August 3, 2016, the Mayor announced that the City had reached agreement with most of the unions representing members of the Municipal Fund that mirrors the Laborers' agreement. However, the increased contributions to the Municipal Fund are proposed to be paid for with a new water and sewer utility tax that was approved by the Chicago City Council on September 14, 2016. The ordinance creates a new tax on water consumption applied to water and sewer bills that will be phased in over a four-year period. The revenue generated from each tax rate increase during that period would create a "ramp" to increase payments incrementally to the Municipal Pension Fund.

The Federation commends Mayor Emanuel and the City Council for starting the process of addressing the growing unfunded liabilities of the City's four pension funds by identifying and dedicating approximately $1.03 billion of City funding toward pensions in FY2017. The Federation looks forward to reviewing the legislation for the Municipal and Laborers' Funds once it is introduced in the Illinois General Assembly in the coming months.

Continuing to Reduce the Use of "Scoop and Toss" Borrowing and Eliminating the Practice by 2019

The Civic Federation continues to support the Mayor's plan to phase out the use of "scoop and toss" debt refinancing by 2019. The $63 million reduction of "scoop and toss" refinancing in

---

[2] Office of the Mayor, City of Chicago, "Mayor Emanuel, Laborers' 1001 and 1082 Identify shared path forward to stabilize and fund Laborers' & Retirement Board employees annuity and benefit fund," press release, May 23, 2016.

FY2017 from $125 million in FY2016 and from $225 million in FY2015 is a significant improvement in the City's debt management. The use of long-term bonds to make current debt service payments is a form of borrowing for operations and an unsustainable technique for closing the City's ongoing budget deficits.

In order to ensure that the Mayor's proposal to end "scoop and toss" comes to fruition and any deviation from the plan is given proper public vetting, the City Council should consider codifying the Mayor's five-point plan to improve the City's debt profile as part of an updated debt management policy.

Establishing a Garbage Collection Fund

The Civic Federation supported Mayor Emanuel's proposal and the City Council's adoption of a new fee on more than 600,000 residents who receive waste removal services from City of Chicago employees and the creation of a new special revenue fund to better account for the costs associated with the municipal service as part of the FY2016 budget approval process.

Establishing a separate fund to account for the revenues and expenditures tied to a government service can improve the financial transparency of city operations and protect garbage fees from being buried in the corporate fund and spent elsewhere in the budget. It can also help guide policymakers in the future when making financial and budgetary decisions.

In FY2016 when the City imposed the new $9.50 fee on certain households it was estimated that the City of Chicago spent approximately $244.4 million on residential solid waste removal services.[3] The new fee was expected to generate $62.7 million in revenue in FY2016. The FY2017 proposed budget estimates it will generate $61.2 million. As result, the difference between the revenues generated and the expenses associated with the delivery of waste removal services must be paid for by other revenue sources within the budget. This is clearly shown in the budget through the new Garbage Collection Fund that was created during the FY2016 budget approval process.

Increasing Targeted Taxes and Fees for Additional Revenue

In the context of a rational financial plan, the Civic Federation supports moderate revenue increases such as rates for fines and permits and avoidable purchases. Increases in these recurring revenue sources are preferable to broad-based tax increases because they are tied directly to the service provided and are far better than using one-time funds from asset lease reserves, as the City did between FY2005 and FY2011.

As part of the FY2017 budget, the City is proposing to implement a $.07 tax on paper and plastic shopping bags, reform the way it manages loading zones and implement peak pricing fares for parking meters. These revenue enhancements are estimated to total approximately $25.4 million in FY2017.

[3] Hal Dardick, "Emanuel trash-hauling fee could change over time," *Chicago Tribune*, September 28, 2015.

The City is also projecting to receive $40.5 million in additional funds associated with surplus in tax increment financing (TIF) districts.[4] This is largely due to Mayor Emanuel's plan that freezes new spending in TIF districts in and around the central business district for additional revenue.[5]

Implementing Management Efficiencies and Reforms

Since taking office in 2011 Mayor Emanuel has implemented a number of reforms and efficiencies aimed at improving city operations and reducing growing expenditures. With the proposed FY2017 budget, the Mayor continues these reforms by continuing to implement energy savings and efficiencies, reducing the City's real estate footprint by vacating leases and selling city-owned land and consolidating copy services citywide in FY2017. Together these reforms and efficiencies total more than $33.7 million in savings in FY2017. In addition, the City is continuing to reduce the amount of settlements and judgments and other operating expenses it has previously paid for with borrowed money and instead pay for these expenses with operating revenues in the Corporate Fund. These actions will help make City finances more sustainable over the long-term.

Civic Federation Concerns

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

Future Cost of Additional Police Staffing

While recognizing that the City faces serious public safety challenges, the Civic Federation has concerns about the future costs and sustainability of the significant increase in police staffing included in the FY2017 budget.

The City proposes to increase its workforce from 33,065 FTEs in FY2016 to 34,492 FTEs in FY2017 across all local funds. This is an increase of 1,427 FTEs or 4.3%. Public Safety will see the greatest increase in FTEs, growing from 20,727 FTEs in FY2016 to 21,682 FTEs in FY2017, an increase of 955 FTEs or 4.6%. The majority of the remaining staffing increases are in the Aviation funds to implement capital programs and account for construction expenses paid for in the Water and Sewer funds.

The proposed FY2017 budget will appropriate just over $3.6 billion for personnel services across all local funds, which is approximately 44% of all local funds appropriations. Approximately $2.1 billion, or 57.3%, of all local funds personnel services appropriations will be allocated to public safety.[6] The first year cost of hiring one additional police officer is approximately $138,000, including testing, background checks and other human resource related expenses. The cost to hire the 250 new police officers in FY2017 will be approximately $64 million.[7]

---

[4] City of Chicago FY2017 Budget Overview, p. 24.

[5] Greg Hinz, "Emanuel gives teachers, scared voters what they want – at a cost," *Crain's Chicago Business,* October 11, 2016.

[6] Public Safety includes the Police Board, Independent Police Review Authority, Police Department, Office of Emergency Management & Communication and Fire Department.

[7] Information provided by Office of Management and Budget, October 10, 2016.

While the newly recruited police officers will likely have lower-cost Tier II pension benefits, their compensation costs will grow substantially in future years at the same time the City will need to accommodate growing pension contributions for existing employees and retirees. With the City of Chicago continuing to face a persistent structural deficit and growing long-term liabilities and since the City is no longer pursuing public safety pension benefit reforms, the Civic Federation recommends that the City conduct a thorough evaluation of the public safety departments with the primary goal of rationalizing personnel costs for the long-term. Personnel spending will continue to be a major portion of the budget in coming years. Ongoing spending pressures and a strained revenue base will require the City to thoroughly examine ways to reduce the size and cost of its workforce.[8]

Uncertainty Surrounding Municipal and Laborers' Pension Reforms and Lack of Detail Surrounding Long-Term Funding of Pension Funds

The Civic Federation again commends the City for working with labor unions to develop an agreement to reform contributions and identify new funding sources for the City of Chicago Municipal and Laborers' funds as a strong step toward improving the City's long-run financial prospects and the sustainability of the funds for their members. However, legislation has not been introduced in the Illinois General Assembly as of the release of this report and Governor Rauner in public statements has noted his reservation with the proposal.[9] In addition, despite the increased 911 surcharge and the imposition of a new water and sewer utility tax to fund the increased contributions to the two funds, the City acknowledges it will need to continue to identify additional resources in coming years to meet the funding goals set out in the pension reform proposals. This is particularly important after the end of the five-year ramp, when contributions will likely increase sharply and continue to grow thereafter. It is crucial that the City demonstrate that it will be able to keep to the funding schedules it has proposed for the four funds while also funding other core City spending priorities.

Structural Deficit and Ongoing Fiscal Imbalance

In its *Annual Financial Analysis 2016*, the City projected that without changes to expenditures and revenues, its Corporate Fund deficit, which does not include most pension contributions would be $137.6 million in FY2017, $233.2 million in FY2018 and $324.2 million in FY2019. These projections assume that Corporate Fund expenditures grow at an average annual rate of 3.3% and that revenues will grow by 1.0% over the prior year in both 2018 and 2019.

As in past years, the City is proposing to close its $137.6 million budget gap this year with some one-time revenue sources, including $37 million of prior year unassigned Fund Balance -- marking the first time since 2014 the City has used fund balance to close its deficit, $40.5 million of tax increment financing (TIF) surplus and $37 million from old fund and account sweeps, totaling approximately $114.5 million of the $137.6 million Corporate Fund budget gap in FY2017.

---

[8] Additional ideas for reducing costs and improving efficiencies in public safety can be found in the Chicago Inspector General's Savings and Revenue Options reports. See http://chicagoinspectorgeneral.org/wp-content/uploads/2012/09/IGO-Savings-and-Revenue-Options-2012-Final.pdf (last accessed October 25, 2016).

[9] Fran Spielman, "Rauner hints at vetoing Emanuel's latest pension funding plan," *Chicago Sun Tmes,* September 16, 2016.

Although the City is annually monitoring its TIF districts for surplus funds and continues to sweep old accounts for additional revenues, these one-time revenue sources may not be available next year or available at the same level, as with the extraordinarily large TIF surplus declared for FY2017. The proceeds from these initiatives ideally should not be used to cover operating expenditures, but would be more prudently dedicated to reducing long-term liabilities, building reserves or making capital investments. The structural deficit that remains will require the City to make additional cuts or tax increases in the coming years when the City will need to increase its funding to the four pension funds when it begins funding on an actuarially required contribution (ARC).

The City has made considerable efforts to reform its operations through management efficiencies and innovative programs in the past five years. It has also dramatically reduced its reliance on one-time revenue sources from years past, particularly ending the deleterious practice of raiding long-term asset lease reserves. However, the imbalance between operating expenditures and recurring revenue sources is projected to continue to grow absent action to reduce expenditures or increase revenues and the continued practice of using significant one-time revenue sources, especially budgetary fund balance, only exacerbates the ongoing structural deficit and leaves the City vulnerable when hit with unexpected costs or an economic downturn.

High Bonded Debt Burden

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

- Between FY2006 and FY2015, Chicago's total net direct debt rose by 66.8%, or $3.6 billion. This represents an increase from $5.4 billion in FY2006 to $9.0 billion ten years later. During the same time period, direct debt per capita rose by 79.2% from $1,872 to $3,354.
- Between FY2006 and FY2015 combined direct debt from other overlapping governments increased by 73.2% at the same time City of Chicago debt rose by 66.8%. Total direct debt from all eight major governments including Chicago rose by 70.6%. The rate of increase in direct debt issued by the other overlapping governments slightly outpaced the increase for Chicago.
- Chicago debt service appropriations in FY2017 are projected to be 23.6% of total local fund net appropriations, or $1.9 billion out of expenditures of $8.2 billion. Since FY2013 debt service appropriations have risen by 27.5%, roughly at the same pace as the 25.7% increase in total net appropriations. Ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[10]

The sharp upward trend in debt burden over time is a serious cause for concern for the City of Chicago. A high debt burden combined with the City's other enormous long-term liabilities, particularly pensions, threaten to further erode the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing in the future.

---

[10] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Potential Impact of Safe Roads "Lockbox" Constitutional Amendment

In May 2016, the State legislature passed House Joint Resolution Constitutional Amendment 36,[11] also known as the "Safe Roads" amendment or "lockbox" amendment to be placed on the November 8, 2016 General Election ballot. The amendment would restrict the use of transportation-related revenues for transportation purposes only, preventing transfers of those revenues to non-transportation purposes. Transportation-related revenues are generated from a wide variety of taxes and fees such as vehicle registration, tollway fees, gas taxes, parking fees, vehicle transaction taxes and taxes on the retail sale of motor vehicles.

Keeping Illinois roads, highways and bridges in safe working order is a reasonable, important objective. However, it is a goal that can and should be accomplished through a solution to the State's underlying financial crisis, not through the extraordinary step of amending the state constitution.

Illinois has gone more than 15 months without a comprehensive, balanced budget. The state is on track this year to spend *billions* of dollars more than it has available, while only partially funding many core areas of government such as higher education and social services. It makes little public policy sense to hamstring lawmakers given this fiscal reality. Further, to imply that transportation should be a priority by default over critical services like healthcare, education or those for the elderly, poor or developmentally disabled is objectionable.

The Civic Federation opposes the constitutional amendment because it ties the hands of municipalities and could disrupt many of Illinois' distressed local governments that use transportation-related fees to fund general operations when necessary. In addition, there are unanswered questions about the intention of the constitutional amendment. The bill's sponsor in the Illinois Senate, Senator William Haine, acknowledged that the language in the amendment is somewhat ambiguous and said he is willing to sponsor clarifying legislation.[12]

Lack of Cost of Services Data

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential to account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or "managed competition" and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees, materials and supplies, associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).[13]

---

[11] The full text of HJRCA 36 is available at this link.

[12] Illinois Senate Hearing, May 5, 2016. More information about the bill's status can be found here.

[13] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

The City's budget does not have full cost data for its programs in its budget. Currently, the City typically budgets the following categories of appropriations for City Departments:

- Personnel Services;
- Contractual Services;
- Travel;
- Commodities and Materials; and
- Specific Purposes.

The Personnel Services category of expenditures within operating departments only includes expenses related to salaries. Specifically it includes line item expenditures such as salaries and wages, salary adjustments and savings from unpaid time off. It does not include any fringe benefits or pensions. The City has a separate cost center for each fund called "Finance General" where a variety of costs are lumped together including the following items:

- Health Maintenance Premiums (HMO);
- Claims and Administration for Hospital and Medical Care;
- Term Life Insurance;
- Claims and Costs of Administration for Worker's Compensation; and
- Unemployment Insurance.

Corporate Fund personnel services included in Finance General are budgeted at $399.3 million for FY2017.[14] In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds.

Civic Federation Recommendations

The Civic Federation has several recommendations to improve the City of Chicago's financial management practices in both the short- and long-term.

Re-Evaluate the Use of TIF Funds

In FY2017 the City will declare a surplus in Tax Increment Financing (TIF) districts of $175 million and will receive $40.5 million as its share of the distribution of those funds. Approximately $87 million will be disbursed to the Chicago Public Schools and the remainder to the other overlapping tax districts. Generating the large surplus required TIF funded programs within some TIF districts to be delayed.[15] The City proposes to use its share of funds in FY2017 to help address the City's budget deficit. Since 2011 the City has declared a total of $853 million in TIF surplus with approximately half going to Chicago Public Schools.[16]

Repeated accumulation and declaration of surplus in a TIF can raise concerns that the TIF district does not need its revenue for redevelopment projects. Such a situation could indicate that either the district does not have achievable redevelopment goals and should be terminated or that

---

[14] City of Chicago FY2017 Budget Recommendations, p. 5.
[15] Greg Hinz, "How will Emanuel pay for 1,000 cops and the CPS deal?," *Crain's Chicago Business,* October 11, 2016.
[16] City of Chicago FY2017 Budget Overview, p. 10.

it generates more revenue than is needed and some parcels should be released from the TIF district so that their EAV may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

With the guidance of the TIF Reform Panel, the City has taken a number of steps to improve the transparency and efficiency of the TIF program, including aligning TIF investments with a multi-year economic development plans and providing more data on TIF districts to the public as well as developing a TIF surplus strategy. In addition to declaring an annual TIF surplus through Executive Order, the Mayor froze new spending in seven downtown TIF districts in 2015 and has terminated 15 TIF districts since 2011 and an additional three planned for this year.[17] The Federation encourages the City to recognize that TIF surplus should not be used to temporarily reduce the short-term financial pressures facing the City and its overlapping governments. TIF districts should be used as an economic development tool and do not have unlimited resources for purposes outside the district.

Include Finance General Costs in City Department Budgets

The City should include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.[18]

Implement a Formal Long-Term Financial Plan for City Operations and Pension Funds

The City faces significant increases to pension contributions and debt service payments in coming years. Having a long-term financial plan in place allows governments to better forecast revenues and expenditures by making assumptions about economic conditions, future spending scenarios and other changes and would allow the City to articulate how it plans to overcome its future fiscal challenges.

The City of Chicago's four pension funds combined have nearly $23.0 billion in unfunded pension liabilities, or $33.8 billion in net pension liability, as reported under GASB 68 requirements. The City has already implemented $588 million in property tax increases, approximately $56 million through the first year of the new water and sewer utility tax and approximately $40 million from the 911 surcharge on telephones. The $588 million in property tax increases the City has already implemented to help it address these liabilities, while necessary, will not by themselves resolve the City of Chicago's financial challenges. The City still faces enormous debt obligations and will face ongoing difficulty in funding its large pension obligations, particularly once the "ramps" are over and the City must fund at an actuarially calculated amount. While these tax increases will help move the City of Chicago closer to

---

[17] City of Chicago FY2017 Budget Overview, p. 10.
[18] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service," (2002).

financial stability, much more will need to be done in the future and the Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly even more revenue.

The first *Annual Financial Analysis* released by the City prior to development of its FY2012 budget was an important step toward the development of a formal long-term financial plan. Subsequent *Annual Financial Analysis* reports have also contained much useful information, including financial projections. However, the Civic Federation believes that an effective financial planning process also must include the identification of possible actions and scenarios to address fiscal challenges. As the GFOA states in its long-term financial planning best practice, such forecasting allows financial capacity to be aligned with long-term service objectives and strategies to achieve long-term sustainability.[19]

Therefore, we recommend that the City undertake a long-term financial planning process that would proceed in four stages.[20] First, the Mayor and his administration will articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan will evaluate financial and service data in order to determine how to accomplish the goals and priorities. It will include a review of the City's financial policies, a financial condition analysis that presents 10 years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced City of Chicago budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.

If the City chooses not to undertake a full long-term financial planning process, at a minimum the *Annual Financial Analysis* should be expanded to include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added;
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation; and
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

---

[19] Government Finance Officers Association, "GFOA Best Practice: Long-Term Financial Planning," (2008).
[20] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

Re-Evaluate the City-Sponsored Property Tax Rebate Program

On July 20, 2016, the Chicago City Council passed substitute ordinance 2015-6461 that created the Property Tax Relief Program. The ordinance allowed for a total of $20 million in funds to be used for the program. The funds were made available through a windfall of real estate transfer tax revenue generated from the sale of the Chicago Skyway in the spring of 2016.

The Civic Federation understands the City's wish to lower the tax burden on homeowners. However, the rebates being offered are very modest and administering such a program is much less efficient than other kinds of property tax relief. As an alternative to a tax rebate, the Civic Federation believes that the most effective way to target property tax relief to homeowners with the least ability to pay is a means-tested "circuit breaker" administered by the State of Illinois through the state income tax. A property tax circuit breaker is a program designed to provide relief when a person's property tax liability exceeds a certain percentage of their annual income.[21] If the City of Chicago wishes to provide property tax relief in the future to low-income residents, they should work with the Illinois General Assembly and Governor to re-implement a circuit breaker program that would apply to low-income residents of all ages and find a source of revenue to offset the cost of the program rather than attempt to continue the City sponsored property tax rebate program after this year.

Annually Reassess the Garbage Collection Fee

As part of the FY2016 budget approval process the City of Chicago for the first time imposed a waste removal fee of $9.50 per month on 600,000 residents currently receiving waste removal services provided by City of Chicago employees. The $9.50 fee on certain households was estimated to generate $62.7 million in new revenue in FY2016. However, the City of Chicago estimated that is spends approximately $244.4 million on residential solid waste removal services.[22] The FY2017 budget proposes to keep the waste removal fee flat at $9.50 and is expected to generate $61.2 million.

According to the U.S. Census Bureau, in fiscal year 2012 solid waste revenues ranged from 4.0% of waste removal expenses in Houston to more than 95% of expenses in Dallas, Los Angeles, Phoenix, San Antonio, San Diego and San Jose.[23] The $9.50 fee imposed by the City of Chicago for waste removal services will only cover approximately 25% of the costs associated with the delivery of municipal waste services. Therefore, the remaining 75% must be paid for by other sources of revenue within the budget.

Although the City committed itself to not increasing the $9.50 monthly fee until after 2019, the Civic Federation recommends that the City annually evaluate the fee as part of the budget approval process because the fee is tied directly to a service being provided and could free up revenue that can be used to cover increased pension contributions or a number of other pressing financial issues facing the City.

---

[21] John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," (Cambridge, MA: Lincoln Institute of Land Policy, 2009), p. 5.
[22] Hal Dardick, "Emanuel trash-hauling fee could change over time," *Chicago Tribune*, September 28, 2015.
[23] Citizens Budget Commission, "A Better Way to Pay for Solid Waste Management," February 2015, p. 6.

Hold Multiple Stand-Alone Town Hall Meetings to Encourage Public Participation

The Civic Federation commended the Mayor and his finance team for holding three town hall meetings prior to the adoption of the FY2016 budget to encourage public participation and inform residents of the enormous financial challenges that the City faces. Although the town hall meetings on the City's budget were overshadowed by the financial crisis facing the Chicago Public Schools, they allowed the residents of Chicago to voice their opinion to elected and appointed city officials on matters related to the financial crisis facing the City of Chicago and Chicago Public Schools.

Although the proposed FY2017 budget does not dramatically increase property taxes outside of the already approved property tax increase adopted as part of the FY2016 budget, the Federation was disappointed the Mayor and his finance team did not schedule any town hall meetings prior to the adoption of the FY2017 budget.

Improve Transparency and Accountability by Live Streaming City Council Committee Meetings

The Civic Federation recommends the City of Chicago begin broadcasting and archiving the Chicago City Council committee meetings and public hearings online. Broadcasting committee meetings online will improve the transparency of its operations and the accountability of its members and staff to the public.

Unlike other major governments in Chicago, such as Cook County and the Metropolitan Water Reclamation District, the City of Chicago does not broadcast its committee meetings or public hearings on the budget online. The City of Chicago serves nearly 2.7 million people in 77 communities that cover approximately 228 square miles. The sheer size of the service area and the number of people the City serves can make it very difficult for many interested parties to attend the meetings in person. The live streaming and archiving of all meetings would therefore help the City reach more of its constituents and improve the transparency and accountability of the elected and appointed officials.

ACKNOWLEDGMENTS

The Civic Federation appreciates the willingness of Chief Financial Officer Carole Brown and Office of Budget and Management (OBM) Director Alex Holt and their staffs to answer our questions about the budget.

FY2017 CORPORATE FUND BUDGET DEFICIT AND GAP CLOSING MEASURES

In its *Annual Financial Analysis 2016* the City of Chicago projected a $137.6 million budget deficit in the Corporate Fund.[24] The deficit was the result of a projected $58.0 million, or 1.6%, decline in Corporate Fund revenues and an $80.0 million increase in Corporate Fund expenditures compared to the FY2016 budget.[25]

Total Corporate Fund revenue is projected to increase $148.0 million above the FY2016 budget due to a $45.8 million, or 1.8% increase in tax revenues, a $54.5 million, or 5.1% increase in non-tax revenues as well as the use of $37.0 million from prior year unrestricted fund balance. The City has continued to focus on increasing revenue by increasing targeted taxes and fees. Salary and wage increases tied to collective bargaining agreements are the primary contributors to increasing expenditures in FY2017.

Gap-Closing Measures

The primary means by which the City is proposing to close its budget gap are shown in the exhibit below. The City's FY2017 Budget Overview book states that the projected Corporate Fund budget gap of $137.6 million plus $63.0 million in reduced "scoop and toss" debt refinancing and $81 million in additional investments totaling $282.0 million will be closed with $30.1 million in expenditure reductions, including $9.3 million in energy savings, $17.5 million in non-personnel savings through the implementation of zero-based budgeting and other efficiencies totaling $3.3 million. The remaining $251.6 million will come from revenue growth, improved debt collection efforts, closing of tax loopholes and revenue enhancements. Of the $251.6 million in revenue increases, $18.4 million will be generated through increases in sales, lease and other taxes, $36.9 million from increases in the personal property replacement tax compared to projections, $20 million from vehicle sticker reforms, $9.2 million from permits and licenses, $9.2 million from the proposed $0.07 tax on disposable bags, $16.2 million from how the city manages parking, $7.0 million from increases in permit and license revenue and $8.0 million from investment reforms made by the Treasurer. An additional $17.0 million will be generated from improved debt collection efforts and closing tax loopholes.

While the City has reduced its reliance on one-time revenue sources in recent years, a significant percentage of the FY2017 budget gap will be closed through non-recurring resources including $37.0 million from sweeping aging accounts, $37.0 million from prior year unassigned Fund Balance and $3.5 million from the sale of excess land. The City will also allocate approximately $34.0 million in tax increment financing (TIF) surplus. TIF surplus is excess money within the TIF districts' funds that is calculated annually after all obligations are met. The City declares the surplus and the funds are then distributed to the overlapping governments. TIF surplus has previously been a one-time source of revenue, but the City plans to declare annual surpluses, thus making it like a recurring source of revenue. However, because the Mayor froze TIF

[24] The City of Chicago is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap annually calculated by the City each summer. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

[25] City of Chicago, 2016 Annual Financial Analysis, Financial Forecast, p. 17.

spending in the central business district and delayed some projects the surplus in FY2017 is higher than it would have been otherwise.

The following chart shows how the City proposes to close its $137.6 million Corporate Fund gap, reduce "scoop and toss" borrowing by $63.0 million and make $81 million in additional investments.

City of Chicago FY2017 Corporate Fund Gap Closing Measures (in $ millions)		
Expenditure Reductions		
Non-Personnel Savings and Reforms	$	30.1
Total Expenditure Reductions	**$**	**30.1**
Revenue Increases		
Revenue Growth	**$**	**115.7**
Improved Debt Collection and Closing of Loopholes	**$**	**17.0**
Revenue Enhancements	**$**	**118.9**
Total Revenue Increases	**$**	**251.6**
Total	**$**	**281.7**

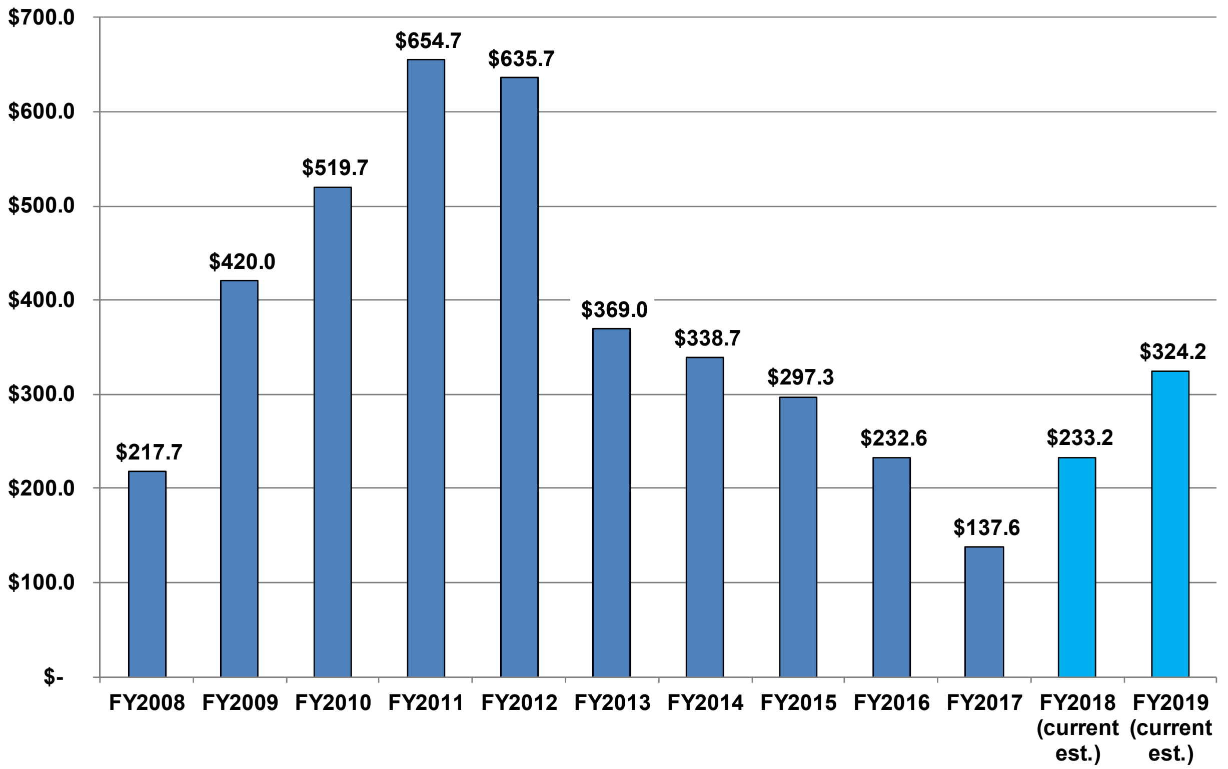
Note: Numbers may not add due to rounding.

Source: City of Chicago FY2017 Budget Overview, p. 14; and information provided by the City of Chicago Office of Budget and Management, October 26, 2016.

Historical Trend of Projected Budget Gaps

The following exhibit shows the historical trend of projected budget gaps from FY2008-FY2019. The City of Chicago's projected budget gaps have fluctuated over the past 10 years from $217.7 million in FY2008 to $137.6 million for FY2017, with highs of $654.7 million for FY2011 and $635.7 million for FY2012. The City projects that the operating budget gap of $137.6 million will increase to $233.2 million in FY2018 and to $324.2 million in FY2019. These projections were made before the FY2017 budget, so they will be impacted by the actions taken in the budget to close the gap. It is also important to note that the Corporate Fund deficit does not incorporate most pension expenditures.

City of Chicago Projected Operating Budget Gaps: FY2008-FY2019
(in $ millions)



Source: City of Chicago 2016 Annual Financial Analysis, pp. 15 and 18,https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/2017%20Budget/AFA2016FinancialForecast.pdf (last accessed October 26, 2016).

APPROPRIATIONS

The following section details the City's proposed appropriations for FY2017 compared to adopted appropriations for FY2016 and adopted, amended and actual expenditures when available for FY2013 through FY2015. Appropriations are compared by fund, object and program area across all local funds. The program area analysis also includes grant appropriations. Local funds include the Corporate Fund, Water Fund, Vehicle Tax Fund, Motor Fuel Tax Fund, Sewer Fund, Airport Funds (Chicago Midway and Chicago O'Hare Airport Funds), Pension Funds and All Other Local Funds.[26] Local funds do not include grant funds.

Historically the Civic Federation has provided a two-year and five-year trend analysis comparing the proposed budget and the prior year adopted and actual budgets, when available. However, because the City of Chicago amended the FY2015 budget in conjunction with the adoption of the FY2016 budget, the Civic Federation will present the amended FY2015 data in the tables when available to reflect the increased expenditures associated with the increased pension

[26] See notes on figures *City of Chicago All Local Fund Appropriations by Fund: FY2015 & FY2016* and *City of Chicago All Local Fund Appropriations by Fund: FY2012-FY2016* for further detail.

contributions made in both the FY2015 amended budget and originally adopted FY2016 budget and FY2017 proposed budget, when actual appropriations were not available.

Appropriation Trends by Fund for Local Funds

The FY2017 proposed budget projects that net appropriations for all funds will increase by 4.8% to approximately $8.2 billion from FY2016 adopted appropriations of just over $7.8 billion. Appropriations for the Corporate Fund will increase by 4.2%, or $148.2 million, from approximately $3.6 billion in FY2016 to $3.7 billion in FY2017.

The Special Revenue Funds, which are used to account for revenue from specific taxes and other sources that are legally designated to finance particular functions, will increase by $49.7 million, or 7.3%, above FY2016 adopted appropriations. Appropriations for the Pension Funds will increase by 5.3%, or $51.7 million from $978.3 million adopted in FY2016 to just above $1.0 billion proposed for FY2017. However, actual FY2016 appropriations are much lower because the reforms originally made to the Municipal and Laborers' Funds were overturned by the Illinois Supreme Court during the fiscal year, which decreased the City's 2016 contributions to the two funds to $849 million. As result, the actual increase between FY2016 and FY2017 is $181 million. The increase in Pension Funds is due to the increased contributions to the City's four pension funds.[27] Appropriations to the Pension Funds previously reflected changes in payroll from two years prior because, per state statute, the City's pension contributions were a multiple of employee payroll deductions made two years prior. In FY2015 the Municipal and Laborers Funds were to begin being funded on a five-year ramp that started the City's 40-year plan to get the Funds to a 90% funded ratio. However, the pension reforms were overturned by the Illinois Supreme Court because they violated the Pension Protection Clause. The City has since worked with its labor partners to develop new agreements to fund the Municipal and Laborers Funds that would increase employer contributions and employee contributions for those hired after January 1, 2017. The new funding schedule reportedly includes a five-year ramp of fixed payments to the funds and then would switch to an actuarially required contribution over a 35 year period to reach 90% funded by 2057. Although legislation to change the contribution levels to the Municipal and Laborers Funds has not yet been introduced in the Illinois General Assembly, the City plans on doing so before the end of 2016.

Additionally, Public Act 96-1495, signed into law in 2010, created a new tier of benefits for public safety employees in Illinois. Public Act 96-1495 also significantly changed the City of Chicago employer contributions, requiring an increase in funding in 2016 of approximately $550 million, with a goal of 90% funded by 2040. Legislation passed by the Illinois General Assembly (SB 777) in May 2015 was vetoed by the Governor, but the General Assembly voted to override the Governor's veto and SB 777 became law (now Public Act 99-0506). Public Act 99-0506, changes the funding schedule of the public safety pensions by creating a five-year ramp of steadily increasing employer contributions to the City's Police and Fire funds to reach a goal of 90% funded ratio by 2055 and reduced the City's police and fire pension payment in 2016 by approximately $220 million. For more information on pensions see p. 55

[27] City of Chicago, FY2017 Budget Overview, p. 28.

Enterprise Fund appropriations, which fund business-type operations that are typically self-supporting and include the two airports, water and sewer operations, are increasing by 4.0%, or $102.5 million, over the two-year period. This is primarily due to the hiring of 221 FTEs in the Department of Aviation to assist with current operations and ongoing capital projects.[28]

Over the five-year period beginning in FY2013 net appropriations are projected to rise by 25.6%, or $1.7 billion. The City's Pension Funds will see the largest percentage increase since FY2013 of 114.8%. The Corporate Fund will see the largest dollar increase over the same time period, at an increase of $560.4 million. Debt Service Funds will increase by $155.8 million, or 22.0%, over the five-year period. The increase in debt service is partly due to the City reducing "scoop and toss" borrowing in recent years. The five-year $543.4 million, or 25.8%, increase in Enterprise Fund appropriations is mostly due to water and sewer repairs and upgrades funded with revenue from these rate increases and an increase in FTEs in the O'Hare and Midway airport funds.[29] The following table outlines the appropriations by fund for FY2013-FY2017 and includes two-year and five-year trend analyses.

City of Chicago Appropriations by Fund for Local Funds: FY2013-FY2017 (in $ millions)

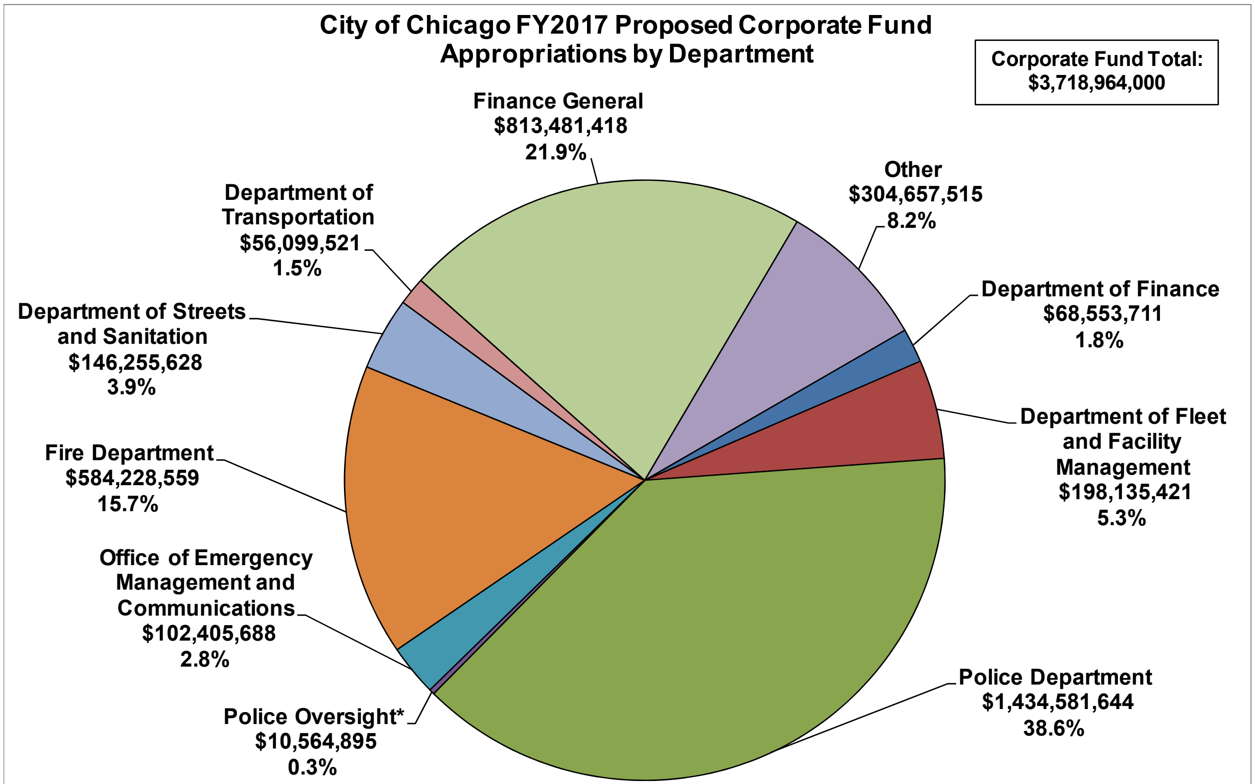
	FY2013 Adopted	FY2014 Adopted	FY2015 Amended	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 3,158.6	$ 3,290.2	$ 3,534.7	$ 3,570.8	$ 3,719.0	$ 148.2	4.2%	$ 560.4	17.7%
Special Revenue Funds	$ 484.4	$ 523.0	$ 619.7	$ 678.4	$ 728.2	$ 49.7	7.3%	$ 243.7	50.3%
Pension Funds	$ 479.5	$ 478.3	$ 885.7	$ 978.3	$ 1,030.0	$ 51.7	5.3%	$ 550.5	114.8%
Debt Service Funds	$ 708.2	$ 797.4	$ 826.4	$ 778.3	$ 864.0	$ 85.7	11.0%	$ 155.8	22.0%
Enterprise Funds	$ 2,107.9	$ 2,313.7	$ 2,459.8	$ 2,548.9	$ 2,651.3	$ 102.5	4.0%	$ 543.4	25.8%
Total Appropriations	**$ 6,938.5**	**$ 7,402.6**	**$ 8,326.3**	**$ 8,554.6**	**$ 8,992.4**	**$ 437.9**	**5.1%**	**$ 2,053.9**	**29.6%**
Less Proceeds of Debt	$ (72.3)	$ (95.0)	$ (95.3)	$ (77.1)	$ (77.2)	$ (0.1)	0.1%	$ (4.9)	6.8%
Less Internal Transfer	$ (324.5)	$ (316.0)	$ (562.6)	$ (638.8)	$ (697.0)	$ (58.1)	9.1%	$ (372.5)	114.8%
Net Appropriation	**$ 6,541.7**	**$ 6,991.6**	**$ 7,668.4**	**$ 7,838.6**	**$ 8,218.3**	**$ 379.7**	**4.8%**	**$ 1,676.6**	**25.6%**

Note 1: Excludes grant funds. FY2013-FY2014 and FY2016 adopted figures are used because year-end estimates or actuals are not available. FY2015 Amended includes supplemental appropriations adopted as part of the FY2016 budget.
Source: City of Chicago, FY2015-FY2017 Budget Recommendations, Summary F; and FY2015 Supplemental Appropriations.

The following chart illustrates FY2017 proposed Corporate Fund appropriations by department. Several departments are represented in the Other category as these departments each represent less than 1.0% of total Corporate Fund appropriations.[30] Public Safety, which consists of the Police and Fire departments, Police Board, Independent Police Review Authority, the new Civilian Office of Police Accountability and the Office of Emergency Management and Communications, represents 57.3% of the Corporate Fund. Finance General appropriations represent 21.9% of the Corporate Fund and consist of information technology expenses,

[28] City of Chicago, FY2017 Budget Overview, p. 33.
[29] City of Chicago, FY2017 Budget Overview, p. 33.
[30] See note in pie chart above that lists the departments that are included in Other.

employee health insurance benefit costs, contributions to pension funds and long-term debt service payments shared across departments.[31]



Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law, Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics.
*Police Oversight includes Police Board, Independent Police Review Authority (IPRA) and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2017 Budget Recommendations, Summary D.

The following table shows five-year trends of Corporate Fund actual appropriations for FY2013-FY2015 actual appropriations, FY2016 adopted appropriations and FY2017 proposed appropriations that have been allocated for Public Safety. Between FY2013 and FY2017, appropriations for Public Safety as a share of Corporate Fund appropriations will increase slightly from 59.6% in FY2013 to 59.7% in FY2017. In the same period, appropriations for the Police Department will increase by $184.3 million, or 14.7%, while Fire Department appropriations will increase by $59.3 million, or 11.3%. The increase in the Police Department is primarily due to the hiring of additional police officers as part of the Mayor's public safety strategy to increase the size of the police department of the next two years. Spending for Police Oversight, which includes the Police Board, Independent Police Review Authority and the newly created Civilian Office of Police Accountability (COPA) will increase by 21.1%, or $1.8 million over the five-year period. In September 2016 the City Council created COPA, which will replace the Independent Police Review Authority (IPRA) in FY2017. However, IPRA is still budgeted for a portion of the upcoming fiscal year. When the newly created Public Safety Audit unit in the Office of the Inspector General is included, police oversight spending increases an additional

[31] City of Chicago, FY2017 Budget Overview, p. 158.

$2.3 million in FY2017 to approximately $12.9 million.[32] Spending for the Office of Emergency Management and Communications will also increase by 24.8% from $82.1 million in FY2013 to $102.4 million in FY2017. The increase in the Office of Emergency Management and Communications is partially due to the transitioning of crossing guards from the Chicago Police Department to the Office of Emergency Management and Communications (OEMC) in FY2016 and the increase in FTEs in FY2017 in OEMC.[33]

City of Chicago Corporate Fund
Public Safety as % of Total Corporate Fund Appropriations: FY2013-FY2017
(in $ millions)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Police Department	$ 1,250.3	$ 1,308.8	$ 1,366.1	$ 1,384.5	$ 1,434.6	$ 50.1	3.6%	$ 184.3	14.7%
Police Oversight	$ 8.7	$ 8.0	$ 8.0	$ 8.9	$ 10.6	$ 1.7	19.3%	$ 1.8	21.1%
Office of Emergency Management and Communications	$ 82.1	$ 80.1	$ 79.2	$ 94.4	$ 102.4	$ 8.0	8.4%	$ 20.3	24.8%
Fire Department	$ 524.9	$ 603.3	$ 554.1	$ 576.5	$ 584.2	$ 7.7	1.3%	$ 59.3	11.3%
All Other Departments	$ 1,249.9	$ 1,246.7	$ 1,527.1	$ 1,506.4	$ 1,587.2	$ 80.8	5.4%	$ 337.3	27.0%
Total Corporate Fund Appropriations	**$ 3,115.9**	**$ 3,246.9**	**$ 3,534.4**	**$ 3,570.8**	**$ 3,719.0**	**$ 148.2**	**4.2%**	**$ 603.1**	**19.4%**
Public Safety as % of Total	**59.6%**	**61.4%**	**56.8%**	**57.8%**	**59.7%**		**1.9%**		**0.1%**
All Other Department as % of Total	**40.1%**	**38.4%**	**43.2%**	**42.2%**	**42.7%**		**0.5%**		**2.6%**

Note: Police Oversight includes the Police Board, Independent Police Review Authority (IPRA) and Civilian Office of Police Accountability (COPA).
Source: City of Chicago, FY2015 and FY2017 Budget Recommendations, Summary F; and FY2016 Annual Appropriations Ordinance, Summary D.

Appropriation Trends by Object

Appropriations by object categorizes similar line-item expenditures by group. In a comparison of two-year and five-year appropriations trends by object, adopted appropriations were used because actual expenditures and amended FY2015 expenditures by object were not available. The FY2017 budget proposes a net appropriation of $8.2 billion, excluding projected grant funds. This is an increase of 4.8%, or $379.7 million, from the FY2016 adopted appropriation of just over $7.8 billion. Permanent Improvement and Land appropriations will remain flat over the two-year period at $2.9 million.

Specific Items and Contingencies will rise by the greatest dollar amount over the two-year period, increasing by $276.2 million or 6.9%. This category includes pension payments, debt service payments, payments for torts and non-tort judgments, outside counsel expenses and subject matter expert costs, costs for hospital administration and medical expenses for employees injured who are not covered under the Workers' Compensation Act and for physical exams.

Personnel Services appropriations will increase by $99.4 million, or 2.8%, to just over $3.6 billion in FY2017. This is due primarily to increases in FTE count tied to the Mayor's public safety strategy that calls for the hiring of additional police staff, the hiring of additional staff in the Office of the Inspector General and the creation of the new Civilian Office of Police Accountability.[34] However, employee benefit expenses are declining slightly across all departments all funds due to the phasing out of retiree healthcare coverage for certain retirees.[35] It is important to note that pension payments are not accounted for in personnel services, but rather in Specific Items and Contingencies. Contractual Services will increase by 6.5%, or $49.6 million. These services include information technology costs, waste disposal fees, property

[32] City of Chicago, FY2017 Budget Overview, p. 140.
[33] City of Chicago, FY2017 Budget Overview, pp. 115-116.
[34] City of Chicago, FY2017 Budget Overview, p. 33.
[35] City of Chicago, FY2017 Budget Overview, p. 33.

rental, custodial services for City facilities and contracts for landscaping, engineering and other professional services. The increase in FY2017 is primarily due to the City shifting working capital expenses from long-term debt into the operating budget.[36]

Appropriations for Travel, Commodities and Equipment will all see smaller increases of $0.1 million, $8.4 million and $4.2 million, respectively. Commodities appropriations are used to purchase a variety of materials including repair parts, fuel, electricity, office supplies and sanitation supplies.

Over the five-year period from FY2013 to FY2017, net appropriations will rise by nearly $1.7 billion, or 25.6%. Specific Items/Contingencies will experience the greatest increase in dollar amount and percentage change over the five-year period, rising by $1.5 billion, or 56.5%, due primarily to increases in pensions, capital financing, debt service requirements and transfers between funds.

Personnel Services appropriations will increase by $400.0 million, or 12.3%, over the five-year period. Contractual Services appropriations will increase by $92.2 million, or 12.8%, from $720.2 million in FY2013 to $812.4 million in FY2017. Travel appropriations, by contrast, will decline by $0.1 million or 6.2%.

City of Chicago Proposed Appropriations by Object All Local Funds: FY2013-FY2017 (in $ millions)

Object	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Personnel Services	$ 3,243.5	$ 3,350.5	$ 3,471.7	$ 3,544.1	$ 3,643.5	$ 99.4	2.8%	$ 400.0	12.3%
Contractual Services	$ 720.2	$ 747.8	$ 758.6	$ 762.8	$ 812.4	$ 49.6	6.5%	$ 92.2	12.8%
Travel	$ 1.9	$ 1.9	$ 1.9	$ 1.7	$ 1.8	$ 0.1	5.1%	$ (0.1)	-6.2%
Commodities	$ 233.0	$ 253.4	$ 255.3	$ 244.9	$ 253.3	$ 8.4	3.4%	$ 20.3	8.7%
Equipment	$ 15.1	$ 16.1	$ 17.0	$ 15.8	$ 20.0	$ 4.2	26.4%	$ 4.9	32.5%
Permanent Improvement and Land	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ 2.9	$ -	0.0%	$ -	-
Specific Items and Contingencies	$ 2,722.0	$ 3,029.8	$ 3,479.5	$ 3,982.4	$ 4,258.6	$ 276.2	6.9%	$ 1,536.6	56.5%
Subtotal	**$ 6,938.5**	**$ 7,402.6**	**$ 7,987.0**	**$ 8,554.6**	**$ 8,992.4**	**$ 437.9**	**5.1%**	**$ 2,053.9**	**29.6%**
Less Internal Transfers	$ (324.5)	$ (316.0)	$ (552.2)	$ (638.8)	$ (697.0)	$ (58.1)	9.1%	$ (372.4)	114.8%
Less Proceeds of Debt	$ (72.3)	$ (95.0)	$ (95.3)	$ (77.1)	$ (77.2)	$ (0.1)	0.1%	$ (4.9)	6.8%
Total	**$ 6,541.7**	**$ 6,991.6**	**$ 7,339.5**	**$ 7,838.6**	**$ 8,218.3**	**$ 379.7**	**4.8%**	**$ 1,676.5**	**25.6%**

Note: Adopted appropriations were used because actual expenditures by object were not available. Some differences may appear due to rounding.

Source: City of Chicago, Annual Appropriation Ordinances, FY2013-FY2016, Summary D; and FY2017 Budget Recommendation, Summary D.

Appropriation Trends by Program Area

In the City of Chicago budget, agencies are organized into eight functional program areas.[37] These areas are as follows:

- **Finance and Administration** departments manage the City's finances, personnel, legal and technology functions and day-to-day operations. These departments include the Office of the Mayor and the Departments of Finance, Law, Human Resources, Procurement Services, Fleet and Facility Management as well as City Clerk and Treasurer.

[36] City of Chicago, FY2017 Budget Overview, p. 33.

[37] City of Chicago FY2017 Budget Overview, pp. 52-54

- **Legislative and Elections** departments incur the costs necessary to hold Primary and General Elections and administer appropriations for the City Council and its various committees.
- **City Development** departments include the City's Department of Planning Development and Department of Cultural Affairs and Special Events, which handle community, economic, cultural and infrastructure development in the City.
- **Community Services** departments include the Chicago Public Library, Department of Public Health, Department of Family and Support Services, Commission on Human Relations and the Mayor's Office for People with Disabilities. These departments provide services such as home heating assistance programs, assistance for the disabled, affordable housing and homeowner programs and Chicago's Plan to End Homelessness.
- **Public Safety** is composed of the Chicago Police Department, Police Board, Civilian Office of Police Accountability, Fire Department and the Office of Emergency Management and Communications.
- **Regulatory** departments are responsible for the day-to-day enforcement of City ordinances and include the Commission on Animal Care and Control, License Appeal Commission, Department of Buildings, the Department of Business Affairs and Consumer Protection, the Board of Ethics and the Office of the Inspector General.
- **Public Service Enterprises and Infrastructure Services**[38] departments are responsible for the reconstruction of streets, sidewalks and bridges, the issuance of permits, the maintenance and repair of water and sewer infrastructure and the management of the two Chicago airports. These departments include Transportation, Streets and Sanitation, Water Management and Aviation.
- **General Financing Requirements** are pension and other employee benefits, long-term debt payments, and other cross-departmental expenses.

This section compares the FY2016 adopted appropriations to the FY2017 proposed appropriations for all local funds and grant funds. In a comparison of FY2016 adopted appropriations and FY2017 proposed appropriations, spending by program area, including grant funding, will increase by $523.9 million, or 5.2%. Grant funds help provide services to City residents while relieving the operating budget. However, a government cannot be overly reliant on grants because grants are non-recurring revenue sources that are only available for fixed amounts of time. Of the program areas that receive grant funds, Infrastructure Services and Public Service Enterprises will receive the greatest dollar amount in grant funding, totaling $805.6 million, which is a $52.7 million, or 7.0%, increase over the prior year.

Appropriations for General Financing Requirements will increase significantly over the two-year period, growing by $251.6 million or 5.7%. The increase is primarily due to the same changes in the Specific Items/Contingencies Fund described earlier in this section, including increased pension contributions, funding for capital improvement projects for the City's water and sewer systems and airports, debt service payments and increasing Real Property Transfer Tax revenues, which are transferred to the Chicago Transit Authority. The General Financing Requirements for FY2017 includes a total of $1.03 billion in employee and annuitant pension payments and a total of $2.1 billion for the payment of debt service. It also includes $439.3 million in employee

[38] In FY2016 the City of Chicago combined Infrastructure Services with Public Service Enterprises.

benefit costs (excluding pension costs) for active employees and annuitants, among other expenses.[39]

Legislative and Elections is the only program area that will experience a decrease in funding. Appropriations for all other program areas will increase over the two-year period. The most significant dollar increase over the two-year period will occur in Public Safety, which will increase by $70.9 million, or 3.1%, due to the proposed increase in police hiring.

Estimated grant fund appropriations will increase by $86.0 million, or 5.7%, from $1.5 billion in FY2016 to nearly $1.6 billion in FY2017. In both years, grants account for the majority of funding for City Development, Community Services and Infrastructure Services and Public Service Enterprises.

The following table compares the FY2016 adopted appropriations and FY2017 proposed appropriations for all local funds and grants funds by program area.

[39] City of Chicago, FY2017 Budget Overview, p. 158.

City of Chicago All Funds Appropriations by Program Area FY2016 Adopted & FY2017 Proposed (in $ millions)				
	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change
Finance and Administration				
Local Fund	$ 516.8	$ 535.0	$ 18.2	3.5%
Grants	$ 28.2	$ 22.3	$ (5.9)	-20.9%
Subtotal Finance and Administration	**$ 545.0**	**$ 557.3**	**$ 12.3**	**2.3%**
Legislative and Elections				
Local Fund	$ 42.1	$ 38.0	$ (4.1)	-9.7%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 42.1**	**$ 38.0**	**$ (4.1)**	**-9.7%**
City Development				
Local Fund	$ 72.1	$ 93.4	$ 21.4	29.6%
Grants	$ 101.8	$ 107.0	$ 5.1	5.0%
Subtotal City Development	**$ 173.9**	**$ 200.4**	**$ 26.5**	**15.2%**
Community Services				
Local Fund	$ 153.1	$ 167.7	$ 14.6	9.6%
Grants	$ 432.5	$ 470.5	$ 38.0	8.8%
Subtotal Community Services	**$ 585.5**	**$ 638.2**	**$ 52.6**	**9.0%**
Public Safety				
Local Fund	$ 2,133.7	$ 2,208.7	$ 75.0	3.5%
Grants	$ 178.7	$ 174.6	$ (4.1)	-2.3%
Subtotal Public Safety	**$ 2,312.4**	**$ 2,383.3**	**$ 70.9**	**3.1%**
Regulatory			$ -	
Local Fund	$ 63.0	$ 66.0	$ 3.1	4.8%
Grants	$ 7.7	$ 7.9	$ 0.2	2.6%
Subtotal Regulatory	**$ 70.7**	**$ 74.0**	**$ 3.3**	**4.6%**
Infrastructure Services and Public Service Enterprises				
Local Fund	$ 1,129.2	$ 1,187.3	$ 58.1	5.1%
Grants	$ 752.9	$ 805.6	$ 52.7	7.0%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,882.0**	**$ 1,992.8**	**$ 110.8**	**5.9%**
General Financing Requirements				
Local Fund	$ 4,444.7	$ 4,696.4	$ 251.6	5.7%
Grants	$ -	$ -	$ -	
Subtotal General Financing Requirements	**$ 4,444.7**	**$ 4,696.4**	**$ 251.6**	**5.7%**
Subtotal All Program Areas	**$ 10,056.4**	**$ 10,580.2**	**$ 523.9**	**5.2%**
Less Internal Transfers	$ (638.8)	$ (697.0)	$ (58.1)	9.1%
Less Proceeds of Debt	$ (77.1)	$ (77.2)	$ (0.1)	0.1%
Less Grant Funds	$ (1,501.8)	$ (1,587.8)	$ (86.0)	5.7%
All Local Funds Total	**$ 7,838.6**	**$ 8,218.3**	**$ 379.7**	**4.8%**

Note: Minimal differences may appear in chart due to rounding.
Source: City of Chicago, FY2016 Annual Appropriation Ordinance, Summary G; and FY2017 Budget Recommendations, Summary G.

The next table shows a five-year comparison of local funds and grant funds by program area. Between FY2013 and FY2017, appropriations by program area, including grant funds, will increase by $1.8 billion or 21.0%. Grant funding for all program areas will decrease by $219.0 million, or 12.1%, over the five-year period.

Appropriations will increase across all program areas over the five-year period with the exception of City Development, which will decline by 11.1% or $25.0 million. The decrease is attributable to a decline in grant funding from $164.6 million in FY2013 to $107.0 million in FY2017.

In FY2013 and FY2017, grants make up the majority of funding for City Development, Community Services and Public Services Enterprises and Infrastructure Services. There were no grant funds for General Financing Requirements and Legislative and Elections in FY2013 through FY2017. Local fund appropriations will increase by 1.7 billion, or 25.6%, for these program areas over the five year period.

City of Chicago All Funds Appropriations by Program Area: FY2013 & FY2017 (in $ millions)				
	FY2013 Adopted	FY2017 Proposed	Five-Year $ Change	Five-Year % Change
Finance and Administration				
Local Fund	$ 490.8	$ 535.0	$ 44.2	9.0%
Grants	$ 38.0	$ 22.3	$ (15.7)	-41.3%
Subtotal Finance and Administration	**$ 528.8**	**$ 557.3**	**$ 28.5**	**5.4%**
Legislative and Elections				
Local Fund	$ 35.4	$ 38.0	$ 2.5	7.2%
Grants	$ -	$ -	$ -	-
Subtotal Legislative and Elections	**$ 35.4**	**$ 38.0**	**$ 2.5**	**7.2%**
City Development				
Local Fund	$ 60.7	$ 93.4	$ 32.7	53.8%
Grants	$ 164.6	$ 107.0	$ (57.6)	-35.0%
Subtotal City Development	**$ 225.3**	**$ 200.4**	**$ (25.0)**	**-11.1%**
Community Services				
Local Fund	$ 99.5	$ 167.7	$ 68.2	68.6%
Grants	$ 434.4	$ 470.5	$ 36.1	8.3%
Subtotal Community Services	**$ 533.8**	**$ 638.2**	**$ 104.3**	**19.5%**
Public Safety				
Local Fund	$ 1,918.9	$ 2,208.7	$ 289.8	15.1%
Grants	$ 228.6	$ 174.6	$ (54.0)	-23.6%
Subtotal Public Safety	**$ 2,147.5**	**$ 2,383.3**	**$ 235.8**	**11.0%**
Regulatory				
Local Fund	$ 55.2	$ 66.0	$ 10.9	19.7%
Grants	$ 7.5	$ 7.9	$ 0.4	5.3%
Subtotal Regulatory	**$ 62.7**	**$ 74.0**	**$ 11.3**	**18.0%**
Infrastructure Services and Public Service Enterprises				
Local Fund	$ 1,046.1	$ 1,187.3	$ 141.1	13.5%
Grants	$ 933.8	$ 805.6	$ (128.2)	-13.7%
Subtotal Infrastructure Services and Public Service Enterprises	**$ 1,979.9**	**$ 1,992.8**	**$ 13.0**	**0.7%**
General Financing Requirements				
Local Fund	$ 3,231.9	$ 4,696.4	$ 1,464.5	45.3%
Grants	$ -	$ -	$ -	-
Subtotal General Financing Requirements	**$ 3,231.9**	**$ 4,696.4**	**$ 1,464.5**	**45.3%**
Subtotal All Program Areas	**$ 8,745.3**	**$ 10,580.2**	**$ 1,834.9**	**21.0%**
Less Internal Transfers	$ (324.5)	$ (697.0)	$ (372.4)	114.8%
Less Proceeds of Debt	$ (72.3)	$ (77.2)	$ (4.9)	6.8%
Less Grant Funds	$ (1,806.8)	$ (1,587.8)	$ 219.0	-12.1%
All Local Funds Total	**$ 6,541.7**	**$ 8,218.3**	**$ 1,676.5**	**25.6%**

Note: FY2017 Recommendations, Summary G combines Public Service Enterprises with Infrastructure Services. For a more accurate five-year trend analysis the Civic Federation combined FY2013 Public Service Enterprises and Infrastructure Services.

Source: City of Chicago, FY2013 Annual Appropriation Ordinance, Summary G and FY2017 Budget Recommendations, Summary G.

RESOURCES

This section of the analysis provides an overview of City of Chicago resources including trend analyses of all local funds, Corporate Fund revenue and the Chicago property tax levy. This analysis includes two-year and five-year trend analyses, comparing proposed FY2017 revenue estimates to FY2016 approved budget figures and prior year actual revenues when available.

Projected FY2017 Resources for All Local Funds

The City of Chicago's projects total resources for all local funds to be nearly $9.0 billion in FY2017. "All local funds" are the funds used by the City for its non-capital operations, including the Corporate Fund (the City's general operating fund), special revenue funds, pension funds, debt service funds and enterprise funds. They exclude the $1.59 billion in grant funds the City expects to receive from federal and State agencies, private foundations and other entities in FY2017.[40] Projected grant funding brings the total budget resources to $9.81 billion.[41]

The chart below provides an overview of the proposed FY2017 resources for all local funds by source.[42] Grant funds and capital funding are excluded from the chart.

The FY2017 budget proposes an increase in the City's base property tax levy to nearly $1.32 billion, bringing total property tax revenue to $1.36 billion.[43] Property taxes are projected to compose 15.1% of total resources. The largest resource in FY2017 is revenue from Chicago's Midway and O'Hare airports, estimated at $1.5 billion, or 16.7% of total resources. Revenue from water and sewer fees will account for 12.3% of revenue, or $1.1 billion in FY2017. Sales taxes are projected to bring in $698.8 million, or 7.8% of total resources.

Other Local Taxes[44] include taxes on activities such as businesses, hotels, parking and recreation (amusement tax, liquor tax, cigarette tax, etc.). Other Local Taxes are projected to account for 11.3% of total resources, or $1.0 billion. Other Fees, Fines and Forfeitures,[45] which include non-tax revenues from sources such as licenses, permits and other fees and charges, are projected to compose 8.7% of total resources, or $778.0 million. Other Resources,[46] which include transfers

---

[40] City of Chicago FY2017 Budget Overview, p. 31.

[41] City of Chicago FY2017 Budget Overview, p. 17.

[42] The funds included in the chart are the Corporate Fund (the City's general fund), Special Revenue Funds, Pension Funds, Debt Service Funds and Enterprise Funds (water, sewer and airport funds).

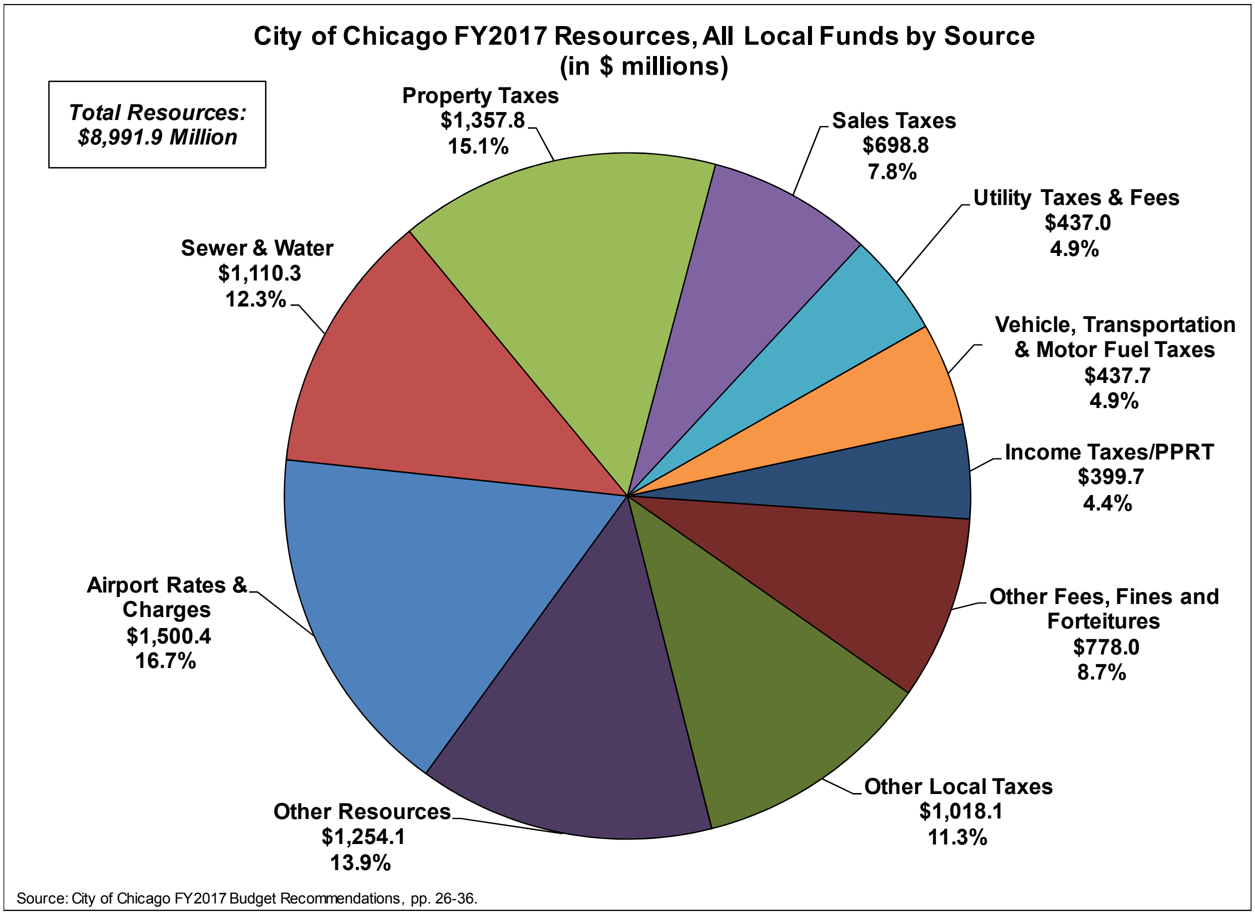
[43] City of Chicago, FY2017 Budget Recommendations, Summary B, p. 2. This includes the City Colleges of Chicago property tax levied by the City of Chicago.

[44] The Other Local Taxes category as calculated in the pie chart includes the following resources: transaction taxes; recreation taxes; hotel operator's tax; emergency communications surcharge; real property transfer tax – CTA portion; home rule retailers occupation tax; business taxes; and municipal parking and parking tax.

[45] The Other Fees, Fines and Forfeitures category as calculated in the pie chart includes the following resources: fines, forfeitures and penalties, licenses and permits; charges for services; leases, rentals and sales; impoundment fees; facility rentals; garbage collection fee; abandoned auto towing; pavement cut fees; recreation fees and charges; building permits; and sale of impounded autos.

[46] The Other Resources category as calculated in the pie chart includes the following resources: other resources and other revenue; transfers in; intergovernmental revenue from the municipal auto rental tax and reimbursements for city services; payments from other funds; prior year available resources; proceeds of debt; TIF administrative reimbursement; current expense; and interest income.

in, prior year available resources and interest income, are projected to account for 13.9% of total resources, or $1.3 billion.



All Local Funds Trends

The next table presents resources for all local funds by fund from FY2013 through FY2017. The City of Chicago's total resources for all local funds are projected to increase by 6.7%, or $567.1 million, to nearly $9.0 billion in FY2017 from the total resources adopted in the prior year budget. The increase is due in part to property tax increases to fund the City's Fire and Police pensions, a new water and sewer tax to fund the Municipal Employees' pension fund, as well as some growth in economic activity and improved fiscal management and collections enforcement.[47]

Corporate Fund revenues are expected to increase in FY2017 by 2.8%, or $100.2 million, from the FY2016 adopted budget. Since FY2013, Corporate Fund revenues have increased by 20.3%, or $614.5 million. Corporate Fund revenues are discussed in more detail in the next section.

Revenues within the Special Revenue Funds are expected to increase by 3.8%, or $24.7 million from FY2016 adopted levels to FY2017 projected revenue of $670.1 million. The increase is

[47] City of Chicago FY2017 Budget Overview, pp. 10, 11 and 29.

largely driven by the FY2016 creation of the Affordable Housing Fund which is estimated to bring in $35.3 million of revenue in FY2017 from the City's density program and the Affordable Requirements ordinance;[48] the new Neighborhood Opportunity Fund which is expected to generate $9.7 million in FY2017 from expanded downtown zoning fees;[49] and an increase in the CTA Real Estate Transfer Tax Fund.

The City is projecting Enterprise Fund revenues to increase by $102.5 million, or 4.0%, in FY2017 from the FY2016 adopted budget to a total of $2.65 billion. Enterprise Funds are revenues generated from Midway and O'Hare Airports and from water and sewer charges. Over the five-year period, enterprise revenues are projected to increase by $678.1 million, or 34.4%.

Resources allocated for the City's four pension funds will increase by $181.0 million, or 21.3%, from the FY2016 adopted budget to a total of $1.03 billion in FY2017. The increase is due in large part to the increased required contributions to the Police and Fire Pension funds defined in Public Act 99-0506,[50] which allowed the City to levy additional property taxes beginning in 2015 to meet the required pension contributions. The City also attempted to increase its contributions to the Municipal and the Laborers' pension funds through Public Act 98-0641, but this law was struck down by the Illinois Supreme Court.[51] The Municipal Employees' pension fund will receive increased funding in FY2017 through a tax on water and sewer usage approved by the City Council in September 2016.

Over the past five years, pension revenues are projected to increase by $585.1 million, or 131.5%. For more information on the City's pension funds, see the pension chapter of this report on p. 55.

The City is planning to use approximately $876.2 million of its resources toward debt service in FY2017. This represents an $84.3 million, or 10.6%, increase from the FY2016 approved budget and a $281.3 million, or 47.3%, increase from FY2013. $63.1 million of the FY2017 debt service funding is increased revenue transferred from the Corporate Fund to make general obligation debt service payments as part of the City's efforts to end "scoop and toss."[52]

Other resources the City plans to utilize in FY2017 include $37.0 million in proceeds and transfers-in into the Corporate Fund, which includes $29.0 million in interest income from asset lease reserves;[53] $37.0 million of unreserved Corporate Fund fund balance;[54] and $45.8 million of fund balance available in other funds from the prior year.

[48] City of Chicago FY2017 Budget Overview, p. 26.
[49] City of Chicago FY2017 Budget Overview, p. 24.
[50] Available at http://www.ilga.gov/legislation/publicacts/fulltext.asp?Name=099-0506.
[51] For more information, see the Civic Federation's blog: http://civicfed.org/civic-federation/blog/chicago-pension-reforms-struck-down-illinois-supreme-court.
[52] City of Chicago FY2017 Budget Overview, p. 29.
[53] City of Chicago FY2017 Budget Overview, p. 26.
[54] For more information on fund balance, see the Reserve Funds section of this report on p. 49.

City of Chicago All Local Funds Resources by Fund: FY2013-FY2017 (in $ millions)									
	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted	FY2017 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate Fund									
Tax Revenues	$ 2,101.0	$ 2,178.2	$ 2,378.0	$ 2,477.7	$ 2,523.5	$ 45.8	1.8%	$ 422.5	20.1%
Non-Tax Revenues	$ 929.4	$ 998.0	$ 1,088.6	$ 1,067.0	$ 1,121.4	$ 54.4	5.1%	$ 192.0	20.7%
Total Corporate Fund Revenue	**$ 3,030.4**	**$ 3,176.2**	**$ 3,466.6**	**$ 3,544.7**	**$ 3,644.9**	**$ 100.2**	**2.8%**	**$ 614.5**	**20.3%**
Special Revenue Funds									
Vehicle & Motor Fuel Taxes	$ 230.2	$ 266.8	$ 238.3	$ 248.0	$ 251.2	$ 3.2	1.3%	$ 21.0	9.1%
Library	$ 83.6	$ 83.6	$ 84.8	$ 98.7	$ 98.6	$ (0.1)	-0.1%	$ 15.0	17.9%
Emergency Communication	$ 68.4	$ 74.8	$ 102.7	$ 96.1	$ 94.7	$ (1.4)	-1.5%	$ 26.3	38.5%
Special Events and Hotel Tax	$ 39.6	$ 39.8	$ 40.8	$ 42.1	$ 42.5	$ 0.4	1.0%	$ 2.9	7.3%
CTA Real Estate Transfer Tax	$ 56.1	$ 63.1	$ 76.1	$ 63.3	$ 66.4	$ 3.1	4.9%	$ 10.3	18.4%
Affordable Housing Fund	$ -	$ -	$ -	$ 24.0	$ 35.3	$ 11.3	47.1%	$ 35.3	N/A
TIF Administration	$ 5.4	$ 5.9	$ 8.7	$ 10.5	$ 10.5	$ -	0.0%	$ 5.1	94.4%
Garbage Collection	$ -	$ -	$ -	$ 62.7	$ 61.2	$ (1.5)	-2.4%	$ 61.2	N/A
Neighborhood Opportunity	$ -	$ -	$ -	$ -	$ 9.7	$ 9.7	N/A	$ 9.7	N/A
Total Special Revenue Funds Revenue	**$ 483.3**	**$ 534.0**	**$ 551.4**	**$ 645.4**	**$ 670.1**	**$ 24.7**	**3.8%**	**$ 186.8**	**38.7%**
Enterprise Funds									
Water & Sewer	$ 894.8	$ 1,007.3	$ 1,150.4	$ 1,149.0	$ 1,150.9	$ 1.9	0.2%	$ 256.1	28.6%
Aviation	$ 1,078.4	$ 1,169.0	$ 1,299.0	$ 1,399.8	$ 1,500.4	$ 100.6	7.2%	$ 422.0	39.1%
Total Enterprise Funds Revenue	**$ 1,973.2**	**$ 2,176.3**	**$ 2,449.4**	**$ 2,548.8**	**$ 2,651.3**	**$ 102.5**	**4.0%**	**$ 678.1**	**34.4%**
Pension Funds									
Municipal	$ 151.8	$ 164.3	$ 151.9	$ 162.0	$ 267.0	$ 105.0	64.8%	$ 115.2	75.9%
Laborers'	$ 13.9	$ 14.8	$ 14.1	$ 15.0	$ 36.0	$ 21.0	140.0%	$ 22.1	159.0%
Police	$ 196.1	$ 193.8	$ 198.6	$ 464.0	$ 500.0	$ 36.0	7.8%	$ 303.9	155.0%
Fire	$ 83.1	$ 110.6	$ 115.0	$ 208.0	$ 227.0	$ 19.0	9.1%	$ 143.9	173.2%
Total Pension Funds Revenue	**$ 444.9**	**$ 483.5**	**$ 479.6**	**$ 849.0**	**$ 1,030.0**	**$ 181.0**	**21.3%**	**$ 585.1**	**131.5%**
Debt Service Funds									
Bond Redemption and Interest	$ 594.9	$ 805.2	$ 1,072.4	$ 791.9	$ 876.2	$ 84.3	10.6%	$ 281.3	47.3%
Total Debt Service Funds Revenue	**$ 594.9**	**$ 805.2**	**$ 1,072.4**	**$ 791.9**	**$ 876.2**	**$ 84.3**	**10.6%**	**$ 281.3**	**47.3%**
Total Revenues	**$ 6,526.7**	**$ 7,175.2**	**$ 8,019.4**	**$ 8,379.8**	**$ 8,872.5**	**$ 492.7**	**5.9%**	**$ 2,345.8**	**35.9%**
Corporate Fund Proceeds & Transfers In	$ 21.0	$ 39.7	$ 53.9	$ 26.0	$ 37.0	$ 11.0	42.3%	$ 16.0	76.2%
Corporate Fund Prior Year Unrestricted Fund Balance	$ 77.2	$ 33.8	$ -	$ -	$ 37.0	$ 37.0		$ (40.2)	-52.1%
Other Funds Prior Year Unrestricted Fund Balance	$ 54.3	$ 75.3	$ 85.6	19.4	$ 45.8	$ 26.4	136.0%	$ (8.5)	-15.7%
Total Resources	**$ 6,679.2**	**$ 7,324.0**	**$ 8,158.9**	**$ 8,425.2**	**$ 8,992.3**	**$ 567.1**	**6.7%**	**$ 2,313.1**	**34.6%**

Note: Minor differences may appear due to rounding.

Sources: City of Chicago FY2016 Annual Appropriation Ordinance, Summary A and B, pp. 1-2; and FY2017 Budget Overview, pp. 164-170.

Corporate Fund Resources Trends

The Corporate Fund is the City's general fund for governmental operations. It supports a wide variety of services including public safety, public health, sanitation and transportation. The City projects $3.7 billion in Corporate Fund revenue in FY2017, a 4.2%, or $148.3 million increase compared to the FY2016 adopted budget.

The Corporate Fund receives revenues from both taxes and non-tax sources such as fees, licenses and fines. Sales taxes account for 19.0% of Corporate Fund revenue, and other local taxes account for 27.0%. Non-tax revenue is another large component of Corporate Fund revenues, composing 20.0%. Two-year and five-year Corporate Fund revenue trends are shown in the table below.

<u>Tax Revenues</u>

Corporate Fund tax revenues are projected to increase by 1.8% between FY2016 adopted levels and FY2017 projections, rising by $45.8 million to $2.5 billion. The City anticipates the following changes in tax revenues between FY2016 and FY2017:

- A 3.1%, or $21.0 million, increase in sales tax revenues;
- A 14.6%, or $50.2 million, increase in transaction taxes. Transaction taxes are taxes on the transfer of property, rental of personal property, and short-term lease of motor vehicles;

- An increase of 8.8%, or $10.0 million, in business taxes largely due to the proposed implementation of a $0.07 tax on disposable paper and plastic bags, of which the City would receive $0.05 per bag. The bag tax is expected to bring in $9.2 million in FY2017;[55]
- A slight 1.7%, or $3.6 million, increase in recreation taxes due to growth in the tourism industry and a simplification of the tax on ticket re-sales.[56] Recreation taxes include taxes on amusements, liquor, cigarettes and e-cigarettes, boat moorings and off track betting; and
- A decline in income taxes distributed to the City by the State of Illinois, including the personal property replacement tax (PPRT), of 8.3%, or $36.0 million. This decline is largely due to a misallocation error the State made in its distribution of PPRT to local governments.[57]

Non-Tax Revenues

Non-tax revenues are expected to increase by $54.5 million, or 5.1%, to $1.12 billion in FY2017 over the prior year. The City expects to see the following changes in non-tax revenues between FY2016 adopted budget levels and FY2017 projected levels:

- The largest projected increase in this category is revenue from municipal parking. Revenue from parking permits is expected to more than double in FY2017 to $21.8 million;
- Revenues from fines and forfeitures, licenses and permits and charges for services are all expected to increase slightly by approximately 2.0%; and
- Reimbursements, Interest and Other make up the largest non-tax revenue category at $461.9 million, which is an expected increase of 6.7%, or $29.0 million. This category includes transfers to the Corporate Fund from other City funds, investment returns and surplus Tax Increment Financing revenue. The City expects to receive $40.5 million in TIF surplus in FY2017.[58]

Over the five-year period beginning in FY2013, all tax and non-tax revenues are expected to increase except for utility tax and franchise fees and charges for services. This overall upward trend reflects modest economic growth and the City's efforts in recent years to increase sustainable and diverse revenue sources.

The City is using unrestricted fund balance for the first time since FY2014 in the amount of $37.0 million. Corporate Fund resources also include $37.0 million in transfers-in from other

[55] City of Chicago, FY2017 Budget Overview, p. 22.
[56] City of Chicago, FY2017 Budget Overview, p. 22.
[57] City of Chicago, FY2017 Budget Overview, p. 23.
[58] City of Chicago, FY2017 Budget Overview, p. 24.

funds to the Corporate Fund. These include $29.0 million in interest income from the Asset Lease and Concession Reserves.[59]

City of Chicago Corporate Fund Resources: FY2013-FY2017 (in $ millions)

Tax Revenue	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted	FY2017 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
City + State Sales & Use Taxes	$ 583.7	$ 620.3	$ 665.8	$ 677.8	$ 698.8	$ 21.0	3.1%	$ 115.1	19.7%
Utility Tax & Franchise Fees	$ 456.9	$ 473.5	$ 437.8	$ 441.0	$ 437.0	$ (4.0)	-0.9%	$ (19.9)	-4.4%
Income Taxes (Incl. PPRT)	$ 308.9	$ 278.1	$ 337.0	$ 435.7	$ 399.7	$ (36.0)	-8.3%	$ 90.8	29.4%
Transaction Taxes	$ 288.4	$ 316.2	$ 390.3	$ 344.7	$ 394.9	$ 50.2	14.6%	$ 106.5	36.9%
Transportation Taxes	$ 182.5	$ 185.1	$ 197.9	$ 240.4	$ 241.4	$ 1.0	0.4%	$ 58.9	32.3%
Recreation Taxes	$ 169.1	$ 193.7	$ 227.5	$ 218.0	$ 221.6	$ 3.6	1.7%	$ 52.5	31.0%
Business Taxes	$ 105.7	$ 104.8	$ 115.8	$ 113.9	$ 123.9	$ 10.0	8.8%	$ 18.2	17.2%
Other Intergovernmental	$ 5.9	$ 6.5	$ 6.0	$ 6.2	$ 6.2	$ -	0.0%	$ 0.3	5.1%
Total Tax Revenue	**$ 2,101.1**	**$ 2,178.2**	**$ 2,378.1**	**$ 2,477.7**	**$ 2,523.5**	**$ 45.8**	**1.8%**	**$ 422.4**	**20.1%**
Non-Tax Revenue									
Fines & Forfeitures	$ 313.5	$ 338.3	$ 366.3	$ 350.5	$ 358.8	$ 8.3	2.4%	$ 45.3	14.4%
Licenses & Permits	$ 123.6	$ 119.9	$ 126.7	$ 124.8	$ 128.0	$ 3.2	2.6%	$ 4.4	3.6%
Charges for Services	$ 119.9	$ 134.6	$ 119.6	$ 112.6	$ 114.9	$ 2.3	2.0%	$ (5.0)	-4.2%
Leases, Rentals & Sales	$ 19.0	$ 24.1	$ 25.5	$ 36.0	$ 36.0	$ -	0.0%	$ 17.0	89.5%
Municipal Parking	$ 6.4	$ 7.3	$ 6.5	$ 10.1	$ 21.8	$ 11.7	115.8%	$ 15.4	240.6%
Reimbursement, Interest, Other	$ 346.9	$ 373.8	$ 443.9	$ 432.9	$ 461.9	$ 29.0	6.7%	$ 115.0	33.2%
Total Non-Tax Revenue	**$ 929.3**	**$ 998.0**	**$ 1,088.5**	**$ 1,066.9**	**$ 1,121.4**	**$ 54.5**	**5.1%**	**$ 192.1**	**20.7%**
Prior Year Unrestricted Fund Balance	**$ 77.2**	**$ 33.8**	**$ -**	**$ -**	**$ 37.0**	**$ 37.0**	**N/A**	**$ (40.2)**	**-52.1%**
Proceeds & Transfers In	**$ 21.0**	**$ 39.7**	**$ 53.9**	**$ 26.0**	**$ 37.0**	**$ 11.0**	**42.3%**	**$ 16.0**	**76.2%**
Total Corporate Resources	**$ 3,128.6**	**$ 3,249.7**	**$ 3,520.5**	**$ 3,570.6**	**$ 3,718.9**	**$ 148.3**	**4.2%**	**$ 590.3**	**18.9%**

Source: City of Chicago FY2016 Annual Appropriation Ordinance, pp. 17-19 and FY2017 Budget Overview, pp. 164-165.

Property Tax Levy

In order to better understand the City of Chicago property tax proposals contained in the FY2017 budget, it is necessary to provide a brief description of the levy and billing processes. For most taxing districts, the amount of available property tax revenue is an important consideration as they develop their annual budgets. The governing body of a unit of local government typically makes decisions about property taxation during its annual budget process and presents property tax revenues along with other revenue sources in its budget proposal.

The amount of property tax revenue a taxing district requests from taxpayers is the levy. A levy must be filed with the County Clerk by a certain date each year so that the Clerk has sufficient time to calculate tax rates for that tax year, **which residents pay in the following calendar year**. So the property tax levy for the current fiscal year, which is FY2016, is payable in calendar year 2017.

Property Tax Revenues

The City of Chicago levies property taxes for four purposes: to support payments to the City's four pension funds; to pay the City's debt service obligations; to help the Chicago Public Library with long-term borrowing for capital projects and short-term borrowing for general operations; and for General Obligation Bonds to fund City Colleges of Chicago capital projects. None of the property tax levy is used for Corporate Fund operating purposes.[60]

---

[59] City of Chicago, FY2017 Budget Overview, p. 24. The Asset Lease and Concession Reserves were established with the lease transactions of the City's parking meters and the Skyway.

[60] FY2004 is the last year that any of the City property tax levy was used for the Corporate Fund.

The City's proposed FY2017 property tax levy is $1.32 billion, which is a 9.7%, increase over the $1.26 billion levy adopted in the FY2016 budget. The City's property tax levy has increased significantly in the past two years due to a pension funding plan that increases required contributions to the City's Police and Fire pension funds.

In FY2015, the City adopted a gross property tax levy of $831.5 million. However, in October 2015 the City amended the property tax levy for 2015 along with the passage of its FY2016 budget. The amendment increased the 2015 property tax levy to $1.15 billion in order to make increased pension payments to the Police and Fire pension funds. The FY2015 amendment increased the levy by $326.9 million, or 38.0%, over FY2014 levels.

The FY2016 property tax levy increased to $1.26 billion. The property tax levy proposed for FY2017 (payable in 2018) is $1.32 billion. The majority of the FY2017 levy, $839.0 million, will go toward pension payments. The *increase* over the amended FY2015 level is being used solely to increase contributions to the Police and Fire pension funds as part of a property tax increase through FY2018 that was approved as part of the FY2016 budget process.

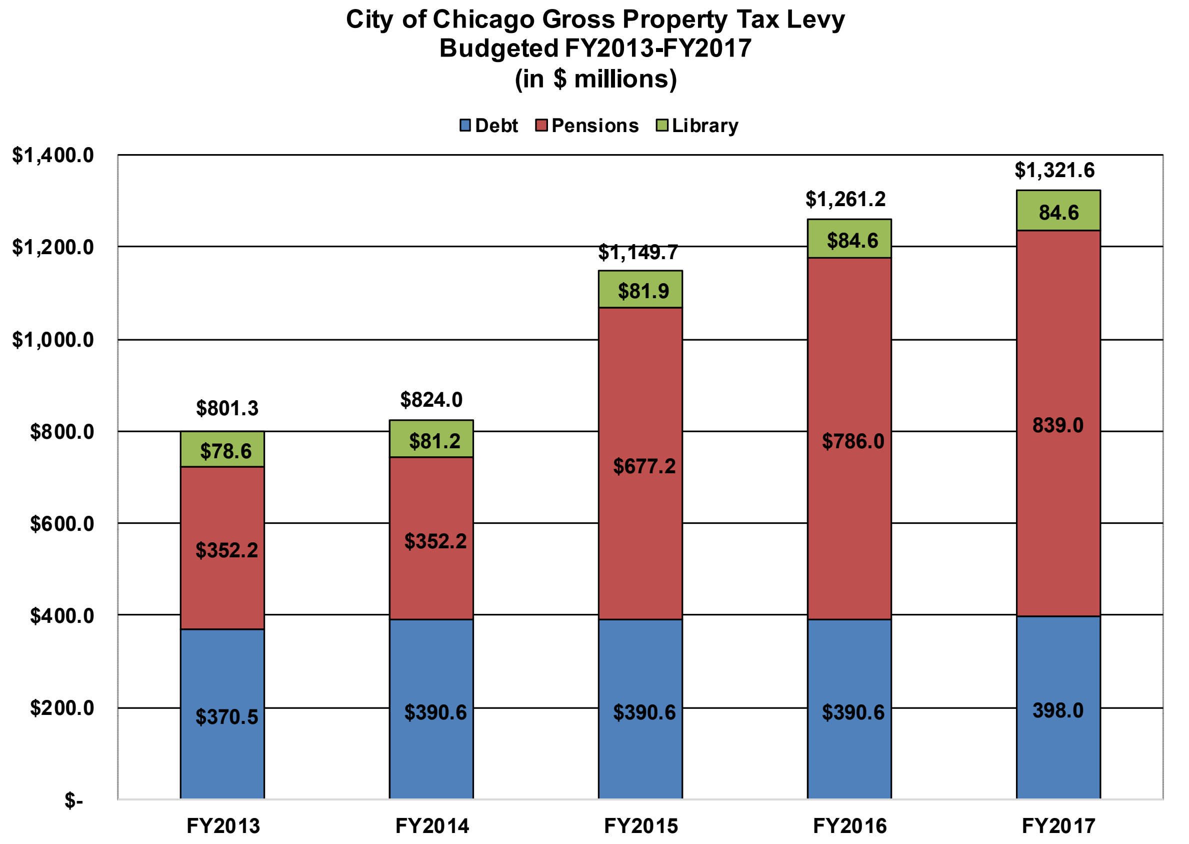
The proposed 2016 levy includes $89.9 million of total property taxes levied for the Chicago Public Library, which is a department of city government.[61] However, the chart below indicates a Library levy of $84.6 million, because it excludes the amount provided for library pensions. Roughly $5.3 million of the library levy is for pensions.[62] The remainder provides funding for debt service payments on bonds issued for the library's capital program and for short-term borrowing to support the library's operating expenses. The City issues short-term debt (tax anticipation notes) for the library in order to bridge the roughly 18-month gap between approval of the levy and collection of taxes.

Of the proposed FY2017 property tax levy, $398.0 million, or approximately 30.0%, will be used for long term debt service payments. Property taxes levied for debt service reflect the City's borrowing activities and bond payment schedule.

The chart below provides the dollar amounts of the City's gross property tax levy dedicated to

[61] Since 1996 the library has been listed as a separate line item on Chicago property tax bills.
[62] City of Chicago, FY2017 Budget Overview, p. 30.

pensions, debt service and libraries.



Note: Excludes levy for City Colleges.
Source: FY2013-FY2017 Budget Recommendations, Summary B.

Property taxes were previously levied for pensions as a direct result of payroll increases, including retroactive increases, since the City's employer contributions to pensions are set in State statute as a multiple of employee contributions made two years prior. Amended property taxes levied for FY2015 and for FY2016 for pension contributions are now based on a five-year ramp to actuarially calculated statutory funding formulas for the Police and Fire funds, rather than the previous multiple of employee contributions two years prior. Employee contributions are a percentage of pay.

As a home rule unit of government, the City of Chicago is exempt from State legal limits on property tax extension increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.[63]

[63] The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The "aggregate extension" includes everything except property tax extensions for Special Service Areas, several kinds of bonds and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the library levy from the definition of "aggregate extension."

Additional Property Tax Revenues

There are three significant additional uses of property tax revenue levied by the City: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools and Tax Increment Financing (TIF) district revenue. The City Colleges and Chicago Public Schools are separate units of government with their own property tax levies collected from all property owners in the City of Chicago.

These three additional property tax uses are described here because it is important for property taxpayers to have an accurate description of the total amount of property taxes they actually pay as well as which governments receive those property tax dollars and for what purpose. Without accurate descriptions, it is impossible for the public to hold elected officials responsible for the level of property taxation they impose and for the uses of those dollars.

City Colleges

The City Council adopted an ordinance on September 29, 1999 authorizing the issuance of up to $385 million in General Obligation Bonds to pay for City Colleges capital projects.[64] The City of Chicago levies taxes to pay debt service on capital improvement bonds for the City Colleges. This is done to compensate for the expiration of the City Colleges' authority to issue debt through the Public Building Commission (PBC).

Debt service limits for the City Colleges were fixed at the time the property tax cap law was implemented in 1995.[65] At that time the District's debt burden consisted of obligations issued through the PBC and paid for through an Operations and Maintenance (O&M) levy. When these obligations were fulfilled, the O&M levy was eliminated, which required the District to seek other ways to issue debt. The City of Chicago, by means of an intergovernmental agreement, now levies property taxes that are used to pay for Public Building Commission obligations that fund City Colleges projects.[66] This arrangement results in no net increase for property taxpayers, but rather transfers part of the City Colleges levy to the City of Chicago. The effect is an increase in the City of Chicago tax rate and a decrease in the City Colleges tax rate.

The City's levy for City Colleges debt was flat at $5.7 million for several years and then jumped to $33.5 million in FY2007 and to $36.6 million in FY2008.[67] It will remain at $36.1 million in FY2017.[68]

Although this levy is part of the City of Chicago's tax rate and is listed as a line item in the City budget revenue estimates, it is largely absent from the budget narrative and budget totals where

---

[64] Journal of Proceedings of the City Council, September 29, 1999. Available at http://www.chicityclerk.com/journalofproceedings90s.php.
[65] Property Tax Extension Limitation Law, 35 ILCS 200/18.
[66] Information provided by City Colleges of Chicago Finance Office, June 26, 2008.
[67] This is because the debt schedule called for interest payments only from 1999-2007. Principal had to be paid starting in 2008. See City Colleges of Chicago Capital Improvement Projects Series 1999 City of Chicago General Obligation Bonds Official Statement, p. B-7. http://emma.msrb.org/MS162961-MS138269-MD268443.pdf
[68] City of Chicago, FY2017 Budget Recommendations, Summary B, p. 2.

the City's property tax levy is described.[69] When the City Colleges levy of $36.1 million is added to the City's levy, it brings the total FY2017 gross property tax levy to $1.36 billion.[70]

Chicago Public Schools

The City of Chicago and the Chicago Public Schools have an intergovernmental agreement through which the City levies taxes to pay for some of the school district's capital needs. The intergovernmental agreement was approved on October 1, 1997 and has been used to fund and refund several bond issuances.[71]

The City has taken on a greater role in capital funding for the Chicago Public Schools following the passage of Public Act 89-15 in 1995, which gave substantial control of the school district to the Mayor of Chicago. Pursuant to that Act, the School Finance Authority (SFA), which had been created in 1980 to provide capital debt financing for the Chicago Public Schools, ceased issuing debt for the schools and ended operations on June 1, 2010.[72] The SFA levied its final property tax in tax year 2007, payable in 2008.

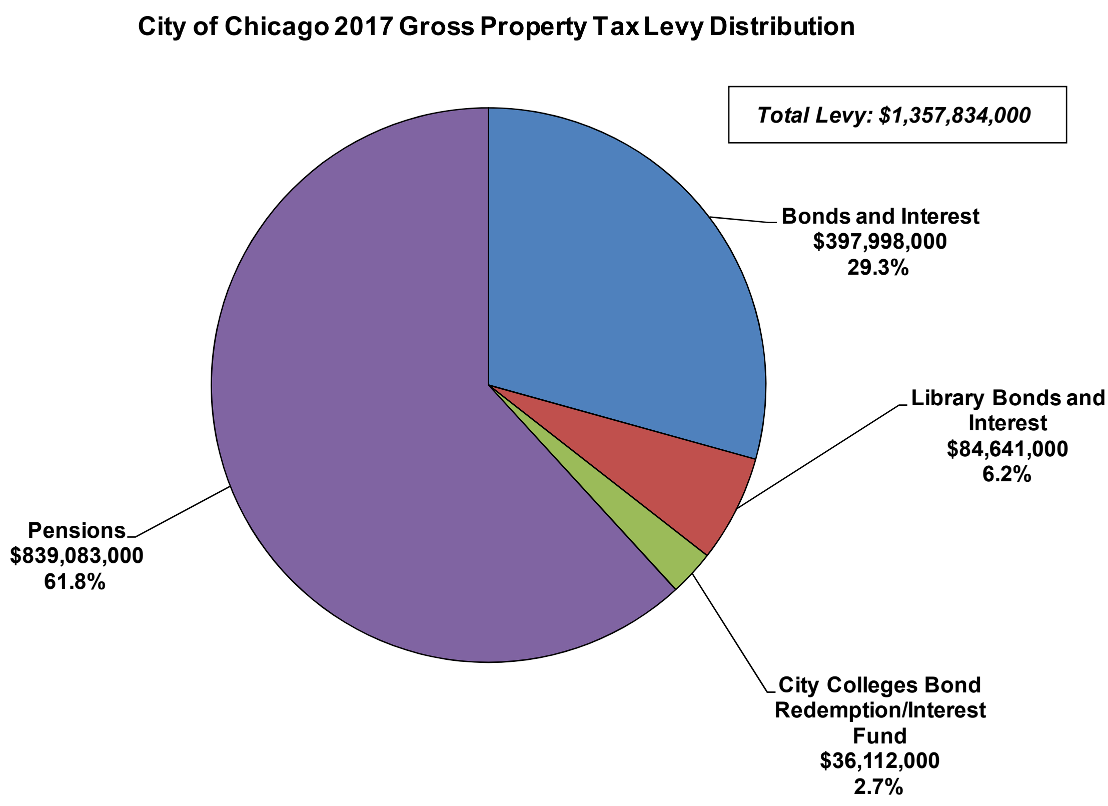
According to the debt service schedule for bonds covered by the intergovernmental agreement, City of Chicago payments for school bonds were to increase from $18.8 million in 2008 to $91.0 million in 2009 and remain at $91.0 million annually through 2018.[73] The intergovernmental agreement is not mentioned in the City's budget documents. Unlike the City Colleges bond levy, it is not even listed as a line item in the City budget revenue estimates.

The following pie chart illustrates the distribution of the City's gross proposed property tax levy for 2017 (taxes payable in 2018). Approximately 2.7% of the City's proposed FY2017 property tax levy is for City Colleges bonds and 6.2% is for the library. Roughly 61.8% is dedicated to pension payments and 29.3% of the levy is for the debt service on City bonds. The bonds issued

---

[69] The City Colleges levy appears in the City's FY2017 Budget Recommendations book (p. 2 & 33) but is absent from the property tax discussion in the FY2017 Budget Overview book (p. 30).
[70] City of Chicago, FY2017 Budget Recommendations, Summary B, p. 2.
[71] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 2, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also Chicago Public Schools Comprehensive Annual Financial Report for the Year Ended June 30, 2008, pp. 57, 58, 155.
[72] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, pp. 49-50, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf. See also http://www.civicfed.org/civic-federation/blog/school-finance-authority-creation-dissolution
[73] Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bond Official Statement, Series 2007A, p. 42, available at http://emma.msrb.org/MS263138-MS238446-MD465315.pdf.

per the intergovernmental agreement with the Chicago Public Schools are included in the Bonds and Interest amount but are not itemized. The total City levy is $1.36 billion.



Source: City of Chicago FY2017 Budget Recommendations Summary B, p. 2.

Tax Increment Financing Districts

The City of Chicago receives and distributes the property tax revenue for tax increment financing (TIF) districts within its boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There will be 144 active TIFs in Chicago in FY2017.[74]

TIF revenue is available to the City of Chicago for implementation of TIF Redevelopment Plans. Some TIF revenue is used to support capital projects of the City or other local governments, such as building schools and parks, provided that these projects fit the Redevelopment Plan of the TIF District.[75] According to the City of Chicago's TIF Reform Panel report, 47% of all TIF allocations between 1983 and 2010 were for public works projects.[76] On November 8, 2014, Mayor Emanuel issued Executive Order No. 2013-3 establishing a practice of annually

[74] City of Chicago, FY2017 Budget Overview, p. 37.
[75] See, for example, Chicago Park District FY2009 Budget Summary, page 111 on the value of TIF dollars received by the Park District.
[76] City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 15.

identifying and declaring a TIF surplus.[77] More recently, Mayor Emanuel announced that he would freeze seven downtown TIF districts that would generate nearly $250 million over the next five years.[78] This year, Mayor Emanuel declared a TIF surplus of $175 million, $87 million of which will go to Chicago Public Schools as part of the labor agreement reached with the Chicago Teachers Union on October 11, 2016, and $40.5 million of which will go to the City.[79] The City plans to use $34.0 million of its TIF surplus to close the FY2017 budget gap.

It is important to note that the property tax dollars collected for TIF are not a *levy*. A levy is the amount a government asks for each year and is the basis on which a tax rate is calculated. TIF does not have its own levy or rate, but is a product of applying the composite rates of all the other extensions to the incremental EAV growth in a TIF district.[80] Since TIF revenue is a product of the tax rates of local governments, TIF revenue cannot be known until the tax rates of the governments are calculated. The most recent tax rates available are 2015 rates (taxes payable in 2016).[81]

The following table presents the gross property tax levy and TIF revenues for FY2011-FY2015, which is the most recent data available. For tax year 2015, the City of Chicago will collect $460.6 million in TIF revenue, up 23.9% from the $371.8 million collected in 2014.

Adding TIF revenue to the total City of Chicago property tax levy (including levies for the City Colleges and Chicago Public Schools' capital programs) brings the City's 2015 property tax revenues to a total of $1.8 billion. This is a 41.3% increase over the five year period from FY2010 to FY2015.

City of Chicago FY2011-2015 Gross Property Tax Levy and TIF Revenue (in $ thousands)

Fund Name	FY2011	FY2012	FY2013	FY2014	FY2015
City Government Funds	$ 796,862	$ 797,972	$ 801,272	$ 824,039	$ 1,321,722
City Colleges Bond Redemption/Interest Fund	$ 36,637	$ 36,632	$ 36,632	$ 35,470	$ 36,112
TIF Property Tax Revenues	$ 453,672	$ 457,007	$ 422,065	$ 371,791	$ 460,638
GRAND TOTAL	**$ 1,287,171**	**$ 1,291,611**	**$ 1,259,969**	**$ 1,231,300**	**$ 1,818,472**

Source: City of Chicago, FY2010-FY2014 Appropriations Ordinance, Summary B and Cook County Clerk TIF Reports 2011-2015, available at http://www.cookcountyclerk.com/tsd/tifs/pages/tifreports.aspx.

Beginning with the FY2012 budget (enacted in 2011), the City started shifting property taxes from expiring Tax Increment Financing (TIF) districts back to the general property tax levy. These additional property tax revenues would be allocated to the pension fund levies, thus freeing up the personal property replacement tax (PPRT) revenue normally needed to make the full pension payments for general Corporate Fund use.[82]

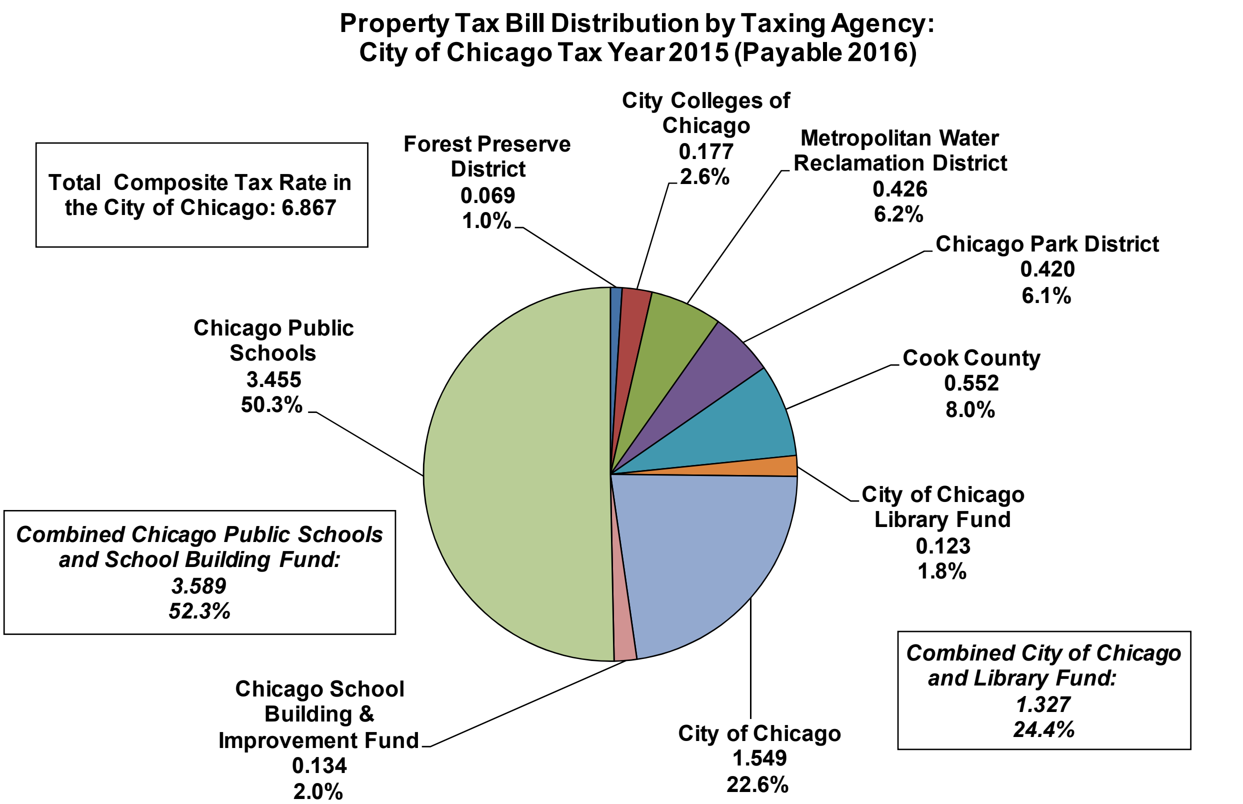
---

[77] City of Chicago, Office of the Mayor, October 13, 2013, available at http://docs.chicityclerk.com/exec/MayorEmanuel/20131108-executive-order-2013-3-tif-surplus-funds.pdf.
[78] Fran Spielman, "Chicago to get $250 million as Emanuel winds down 7 downtown TIF districts." http://chicago.suntimes.com/news/7/71/765492/chicago-get-250-million-emanuel-winds-7-downtown-tif-districts.
[79] City of Chicago FY2017 Budget Overview, p. 10.
[80] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-.
[81] Available on the Cook County Clerk's website at www.cookcountyclerk.com.
[82] Information provided by City of Chicago Office of Budget and Management, November 1, 2011. City of Chicago, TIF Reform Panel Report, August 23, 2011, p. 51.

Transparency and Accountability Issues

It is important for property taxpayers to understand how much of their property tax dollars governments receive and for what purpose so that they may hold public officials accountable for the level of property taxation imposed. The information currently provided in the City financial documents and on property tax bills does not provide an accurate picture of property tax distribution.

The property tax rates of the various governments and their pension funds are printed on property tax bills so that taxpayers may see an estimate of how much of their tax bill goes to which government. The Cook County Clerk also publishes information showing the distribution of the City of Chicago tax bill among the different governments.[83] The 2015 distribution of property taxes is reproduced below. From the tax rates shown on tax bills and in the pie chart, it appears that 24.4% of a typical City property tax bill is for the City of Chicago, including the library, and 52.3% is for the Chicago Public Schools, including the Chicago School Building and Improvement Fund. However, as discussed in the preceding pages, the City of Chicago tax rate includes taxes levied for the Chicago Public Schools and the City Colleges of Chicago, thus the pie chart does not accurately represent the distribution of property tax dollars among these local governments. The following chart shows each taxing agency's tax rate and percentage of the total composite tax rate in the City of Chicago, as reported by the Cook County Clerk.



Source: Cook County Clerk 2015 Tax Rate Report, available at http://www.cookcountyclerk.com/tsd/DocumentLibrary/2015%20Tax%20Rate%20Report.pdf.

[83] Cook County Clerk 2015 Tax Rate Report, available at http://www.cookcountyclerk.com/tsd/DocumentLibrary/2015%20Tax%20Rate%20Report.pdf.

There has been a discrepancy in some years between the City levy as reported by the Cook County Clerk (who is responsible for calculating final tax rates) and the City levy as reported by the City in its budgets and financial statements. The tables below show the City's 2011-2015 gross property tax levies as reported by the Cook County Clerk and the City's 2011-2015 gross property tax levy as reported by the City Budget Appropriation Ordinances from FY2012-FY2016. Some of the differences may be attributable to the City's levy for the Chicago Public Schools capital programs, which is not listed in the City appropriations but presumably is part of the Bond and Interest fund levy in the Clerk's reports.

The final City tax rate is calculated based on the total levy reported by the Cook County Clerk. Therefore, property taxpayers collectively owe the full amount as reported by the Clerk, not the amount reported by the City. For tax year 2015 (payable in 2016), City of Chicago taxpayers collectively owed $1.17 billion in total property taxes for the City of Chicago.

City of Chicago Gross Property Tax Levy: Tax Year 2011-2015
As Reported in the Cook County Clerk Agency Tax Rate Reports

Fund #	Fund Name	2011	2012	2013	2014	2015
3	Bonds & Interest	$ 407,105,446	$ 407,116,767	$ 407,115,466	$ 407,115,368	$ 407,116,150
120	Police Pension	$ 143,785,000	$ 143,865,000	$ 138,146,000	$ 136,680,000	$ 361,987,000
121	Fire Pension	$ 66,125,000	$ 65,461,000	$ 81,518,000	$ 81,363,000	$ 179,424,000
122	Municipal Pension	$ 121,297,000	$ 123,438,000	$ 116,766,000	$ 117,939,000	$ 119,406,000
125	Laborers Pension	$ 11,759,000	$ 11,202,000	$ 10,486,000	$ 10,934,000	$ 11,070,000
	Subtotal City	**$ 750,071,446**	**$ 751,082,767**	**$ 754,031,466**	**$ 754,031,368**	**$ 1,079,003,150**
3	Bonds & Interest	$ 4,339,922	$ 4,340,234	$ 4,341,536	$ 4,343,529	$ 4,298,542
128	Library Municipal Pension	$ 5,700,000	$ 5,700,000	$ 5,300,000	$ 5,300,000	$ 5,300,000
259	Library Note Redemption	$ 73,377,000	$ 73,481,000	$ 74,231,000	$ 76,948,000	$ 77,595,000
	Subtotal Library	**$ 83,416,922**	**$ 83,521,234**	**$ 83,872,536**	**$ 86,591,529**	**$ 87,193,542**
	GRAND TOTAL City + Library	**$ 833,488,368**	**$ 834,604,001**	**$ 837,904,002**	**$ 840,622,897**	**$ 1,166,196,692**

Note: Funds for which there were no levies in these years are excluded.
Source: Cook County Clerk Agency Tax Rate Reports for City of Chicago and City of Chicago Library Fund, available at http://www.cookcountyclerk.com/tsd/taxagencyreports/pages/default.aspx.

City of Chicago Gross Property Tax Levy: Tax Year 2011-2015
As Reported in the City of Chicago Appropriation Ordinances

Fund #	Fund Name	2011	2012	2013	2014	2015
509	Note Redemption and Interest Fund	$ -	$ -	$ -	$ 20,113,000	$ 20,113,000
510	Bond Redemption and Interest Fund	$ 370,485,000	$ 370,485,000	$ 370,485,000	$ 370,485,000	$ 370,485,000
516	Library Bond Redemption Fund	$ 4,334,000	$ 4,340,000	$ 4,340,000	$ 4,277,000	$ 4,300,000
521	Library Note Redemption and Interest Fund	$ 73,377,000	$ 73,481,000	$ 74,231,000	$ 76,948,000	$ 77,595,000
681	Municipal Pension	$ 126,997,000	$ 129,138,000	$ 122,066,000	$ 123,239,000	$ 124,706,000
682	Laborers' Pension	$ 11,759,000	$ 11,202,000	$ 10,486,000	$ 10,934,000	$ 11,070,000
683	Police Pension	$ 143,785,000	$ 143,865,000	$ 138,146,000	$ 136,680,000	$ 361,987,000
684	Fire Pension	$ 66,125,000	$ 65,461,000	$ 81,518,000	$ 81,363,000	$ 179,424,000
	Subtotal City Government Funds	**$ 796,862,000**	**$ 797,972,000**	**$ 801,272,000**	**$ 824,039,000**	**$ 1,149,680,000**
549	City Colleges Bond Redemption/Interest Fund	$ 36,637,000	$ 36,632,000	$ 36,632,000	$ 35,470,000	$ 36,632,000
	GRAND TOTAL	**$ 833,499,000**	**$ 834,604,000**	**$ 837,904,000**	**$ 859,509,000**	**$ 1,186,312,000**

Source: City of Chicago, FY2012-FY2016 Appropriations Ordinances, Summary B, p. 2 and 2015 Supplemental Appropriation.

PERSONNEL

This section describes the City of Chicago's personnel levels and appropriations. It includes information on all local funds personnel services appropriations, a full-time equivalent (FTE) position count and Corporate Fund personnel service appropriations.[84] The FY2017 Budget Recommendations, which the City Council will vote on to become the FY2017 Appropriations Ordinance, describes position count and personnel services appropriations by fund. Position count and personnel services appropriations reflect budgeted FTE positions and include

[84] Personnel services include salaries and wages. It does not include benefits and pensions, which are included in Finance General.

personnel related expenses such as pension and health care costs.[85] The actual number of full-time equivalent positions is not available. Therefore, for the purposes of this analysis, the Civic Federation presents *budgeted* FTE positions from the FY2013 through FY2016 appropriation ordinances and FY2017 proposed budget.

All Local Funds Personnel Services and Full-Time Equivalent Positions

The personnel summaries in the City of Chicago FY2017 Budget Overview book describe personnel for all local funds, which include the Corporate Fund, special revenue funds and enterprise funds, but exclude grant funds. The City proposes to increase its workforce from 33,065 FTEs in FY2016 to 34,492 FTEs in FY2017 across all local funds. This is an increase of 1,427 FTEs or 4.3%.

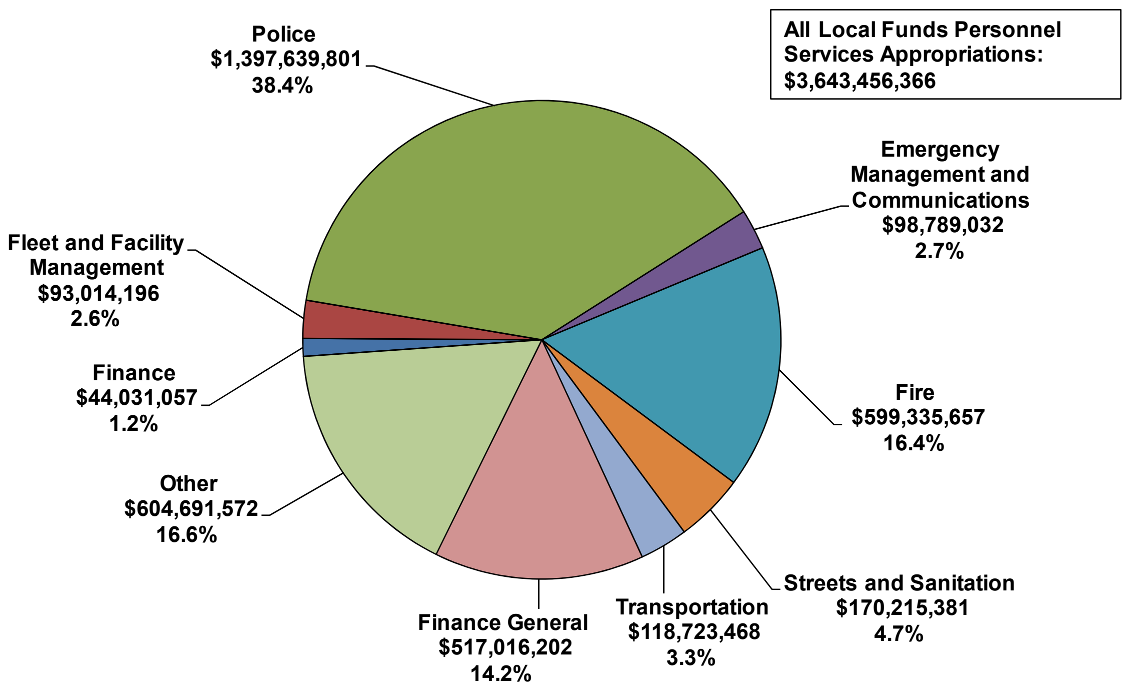
The City of Chicago proposes to appropriate just over $3.6 billion for personnel services across all local funds in FY2017. Approximately $2.1 billion, or 57.3%, of all local funds personnel services appropriations will be allocated to police.[86] Police includes the Police Board, Independent Police Review Authority (IPRA), Civilian Office of Police Accountability (COPA) and Police Department. This appropriation percentage is a slight increase from FY2016 approved appropriations when public safety represented 56.8% of all local funds personnel services expenses. The second largest percentage is the Finance General category which accounts for citywide expenditures such as pension contributions, debt service and employee health care for employees across all departments. Finance General represents 14.2%, or approximately $517.0 million, of all local funds for FY2017.

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

[86] Public Safety includes the Police Board, Independent Police Review Authority, Police Department, Office of Emergency Management & Communication and Fire Department.

The following chart illustrates the City's personnel services appropriation for all local funds by department.

City of Chicago FY2017 All Local Funds
Personnel Services Appropriation by Department and Purpose



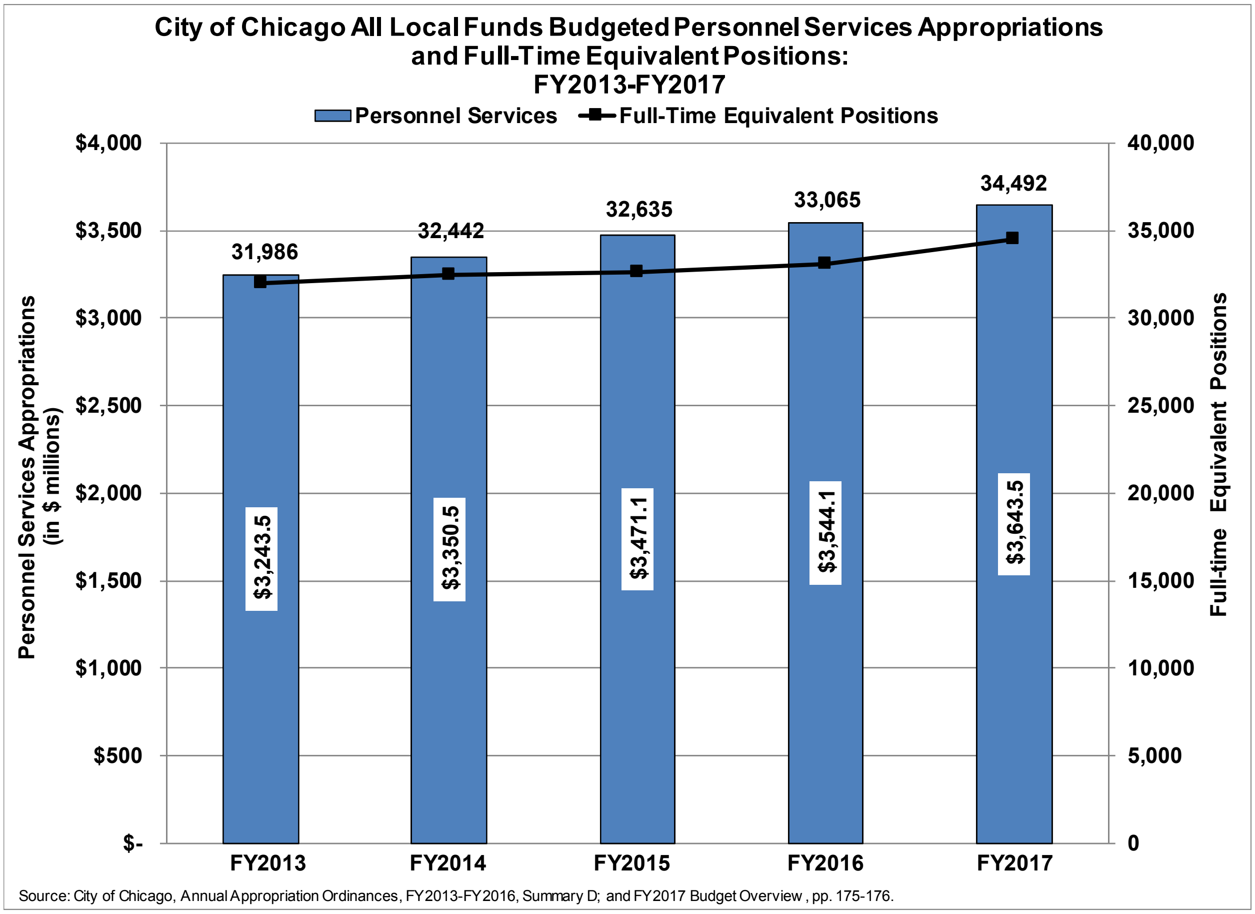
Note: Other includes: Office of the Mayor, Office of the Inspector General, Office of Budget and Management, Department of Innovation and Technology, City Council, City Clerk, City Treasurer, Department of Administrative Hearings, Department of Law , Department of Human Resources, Department of Procurement Services, Board of Election Commissioners, Department of Public Health, Commission on Human Relations, Mayor's Office for People with Disabilities, Department of Family and Support Services, Department of Planning and Development, Department of Buildings, Department of Business Affairs and Consumer Protection, Commission on Animal Care and Control, License Appeal Commission and Board of Ethics; Department of Water Management; Libary and Department of Aviation.
Source: City of Chicago, FY2017 Budget Recommendations, Summary D.

The following chart illustrates the five-year trend in personnel services appropriations and budgeted FTE positions. Between FY2013 and FY2017, local fund budgeted appropriations for personnel services, which include salaries, health care, overtime pay, workers' compensation, pension payments and other benefits, increased by $400.0 million, or 12.3%, from $3.2 billion to $3.6 billion. Personnel services appropriations will increase in FY2017 from FY2016 budgeted appropriations by $99.4 million, or 2.8%. The growth in personnel appropriations over the five-year period from FY2013 to FY2017 is attributable to the following:

- Increases in salaries and wages under collective bargaining agreements as unions represent most of the City's public safety and civilian employees; and
- Additional hiring in the area of public safety that is tied to the Mayor's comprehensive public safety strategy, such as the new Civilian Office of Police Accountability and additional staff in the Office of the Inspector General.[87] The Department of Aviation will also see increases in staffing in FY2017 by 221 FTEs to support operations and capital projects.[88] However, costs for employee benefits will decline in FY2017 as a result of the

[87] City of Chicago, FY2017 Budget Overview, p. 33.
[88] City of Chicago, FY2017 Budget Overview, p. 33.

City fully phasing out retiree healthcare coverage for city employees who were hired after August 23, 1989.[89]



Budgeted FTE position count will rise from 33,065 FTEs in FY2016 to 34,492 FTEs in FY2017 across all local funds. This is a net increase of 1,427 FTE positions or 4.3%. Public Safety will see the greatest increase in FTEs, growing from 20,727 FTEs in FY2016 to 21,682 FTEs in FY2017, an increase of 955 FTEs or 4.6%. Infrastructure Services will see the next largest increase in FTEs of 387, rising from 7,318 FTEs in FY2016 to 7,705 FTEs in FY2017. As noted above, the increase of FTEs in Public Safety is tied to the Mayor's public safety strategy and additional hiring in the Department of Aviation.

The following table shows the City's FTE counts for all local funds by function. In the five-year period from FY2013 to FY2017, the City proposes to increase its budgeted workforce by 2,506 FTEs, or 7.8%, from 31,986 FTEs in FY2013 to 34,492 FTEs proposed in FY2017. Over the same period, the most significant increase in personnel count occurred in Public Safety, increasing from 20,396 FTEs in FY2013 to 21,682 FTEs proposed for FY2017. The increase in Public Safety is mainly due to the increased police hiring as part of the Mayor's public safety

[89] City of Chicago, FY2017 Budget Overview, p. 32; and Chicago Daily Law Bulletin, http://www.chicagolawbulletin.com/Archives/2016/09/28/City-retiree-benefit-end-9-28-16.aspx (last accessed October 26, 2016).

strategy, which was announced in September 2016 and includes increasing the number of sworn personnel in the police department by 970 positions over the next two years.[90]

City of Chicago All Local Funds Budgeted Full-Time Equivalent Positions by Function: FY2013-FY2017									
Function	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Finance and Administration	2,589	2,647	2,673	2,722	2,757	35	1.3%	168	6.5%
Legislative and Elections	355	358	358	357	357	0	0.0%	2	0.6%
City Development	245	246	248	247	251	4	1.6%	6	2.4%
Community Services	1,023	1,054	1,112	1,126	1,129	3	0.3%	106	10.4%
Public Safety	20,396	20,429	20,455	20,727	21,682	955	4.6%	1,286	6.3%
Regulatory	566	564	566	569	612	43	7.6%	46	8.1%
Infrastructure Services	6,812	7,144	7,223	7,318	7,705	387	5.3%	893	13.1%
Total	**31,986**	**32,442**	**32,635**	**33,065**	**34,492**	**1,427**	**4.3%**	**2,506**	**7.8%**

Note: The full-time positions presented above do not include grant-funded positions.
Note 2: Totals may not add due to rounding.
Source: City of Chicago, FY2017 Budget Overview, pp. 175-176.

Corporate Fund Personnel Services Trends

Personnel service appropriations in the Corporate Fund are projected to increase by $59.6 million, or 2.2%, from approximately $2.76 billion in the adopted FY2016 budget to $2.82 billion in FY2017. The FY2017 Personnel Services appropriations represents 75.9% of the Corporate Fund budget of over $3.7 billion. Personnel service appropriations by department include salaries and wages. The Corporate Fund does include $105.5 million in pension contributions in FY2017. However, personnel benefits such as health care, overtime pay, workers' compensation, unemployment compensation and pension contributions are appropriated in the Finance General area.[91]

Personnel spending in the Finance General category will decrease by $7.7 million, or 1.9%, over the two-year period.

Between FY2013 and FY2017, personnel services appropriations in the Corporate Fund will increase by $210.4 million or 8.1%. During the five-year period, personnel services appropriations for public safety departments will increase by $242.2 million or 13.6%. This increase in public safety personnel expenditures is tied to salary increases under collective bargaining agreements reached during the course of 2014 with unions representing most of the City's public safety and civilian employees, which are reflected in the proposed FY2016 budget and increased public safety hiring in FY2017, as previously noted.[92] Personnel services appropriations will decrease 38.7%, or $54.6 million for Streets and Sanitation expenses, declining from $141.2 million in FY2013 to $86.6 million in FY2017. This decrease is the result of the City creating a new Garbage Collection Fund in FY2017, which shifted personnel related costs tied to the collection of solid waste from the Corporate Fund into the new special revenue fund. Finance General will also see a decrease in personnel expenses between FY2013 and FY2017 that total $20.4 million or 4.8%. The remaining departments will see increases ranging from $0.9 million to $21.6 million, over the five-year period.

---

[90] City of Chicago FY2017 Budget Overview, p. 33.
[91] City of Chicago FY2017 Budget Overview, p. 54.
[92] City of Chicago FY2016 Budget Overview, p. 35; and FY2017, p. 33.

The percentage of Corporate Fund appropriations earmarked for personnel services will increase from 68.0% in FY2013 to 71.6% in FY2017.

City of Chicago Corporate Fund Personnel Services: FY2013-FY2017 (in $ millions)									
Department	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*	$ 1,777.5	$ 1,825.6	$ 1,925.3	$ 1,970.0	$ 2,019.7	$ 49.7	2.5%	$ 242.2	13.6%
Streets and Sanitation	$ 141.2	$ 139.8	$ 139.4	$ 83.8	$ 86.6	$ 2.7	3.3%	$ (54.6)	-38.7%
Fleet and Facility Management	$ 67.2	$ 65.9	$ 67.9	$ 69.9	$ 77.1	$ 7.3	10.4%	$ 9.9	14.8%
Transportation	$ 30.8	$ 31.4	$ 33.4	$ 35.3	$ 36.2	$ 0.9	2.6%	$ 5.4	17.6%
City Council	$ 19.7	$ 19.9	$ 20.0	$ 20.4	$ 20.6	$ 0.2	1.0%	$ 0.9	4.4%
Finance	$ 32.9	$ 33.7	$ 34.7	$ 36.7	$ 37.3	$ 0.6	1.5%	$ 4.4	13.2%
Office of the Mayor	$ 5.4	$ 5.5	$ 5.6	$ 6.0	$ 6.3	$ 0.3	5.3%	$ 0.9	17.0%
Finance General	$ 419.7	$ 438.0	$ 414.0	$ 407.1	$ 399.3	$ (7.7)	-1.9%	$ (20.4)	-4.8%
All Other	$ 117.8	$ 120.9	$ 134.5	$ 133.8	$ 139.5	$ 5.7	4.2%	$ 21.6	18.4%
Total Personnel Services	**$ 2,612.2**	**$ 2,680.7**	**$ 2,774.7**	**$ 2,763.0**	**$ 2,822.6**	**$ 59.6**	**2.2%**	**$ 210.4**	**8.1%**
Total Corporate Fund	**$ 3,158.6**	**$ 3,290.2**	**$ 3,534.4**	**$ 3,570.8**	**$ 3,719.0**	**$ 148.2**	**4.2%**	**$ 560.4**	**17.7%**

*Public Safety includes Police Board, Independent Police Review Authority (IPRA), Civilian Office of Police Acctountability (COPA), Department of Police, Office of Emergency Management and Communications (OEMC) and Fire Department.

Source: City of Chicago Annual Appropriation Ordinances, FY2013-FY2016, Summary D; and FY2017 Budget Recommendations, Summary D.

The following chart displays two- and five-year trends for Corporate Fund appropriations by object classification and separates public safety appropriations from non-public safety appropriations. Between FY2016 and FY2017, public safety appropriations will increase by $67.5 million, or 3.3%, while appropriations for non-public safety departments will increase by $80.8 million or 5.4%. During the same time period, Personnel Services appropriations for public safety and non-public safety will increase by $49.7 million, or 2.5% and $9.9, or 1.3%, respectively. Specific Items and Contingencies, which include personnel-related legal and medical expenses, will remain relatively flat for public safety departments, while non-public safety departments will see an increase of $59.4 million or 16.5%, over the two-year period. Appropriations for Contractual Services will increase by $14.8 million, or 44.7% for public safety departments and $16.6 million, or 6.0% in non-public safety departments, over the two-year period. Appropriations for Travel, Commodities and Equipment will increase for public safety departments by 28.8%, or $2.4 million, but will decline for non-public safety departments by 6.9% or $5.2 million, over the two-year period.

Over the five-year period between FY2013 and FY2017, public safety appropriations will increase by $269.5 million, or 14.5%, while non-public safety appropriations will increase by $290.9 million, or 22.4%. Personnel Services appropriations will increase for all public safety departments by $242.2 million, or 13.6%. In contrast, Personnel Services appropriations for non-public safety departments will decrease by $31.8 million or 3.8%. In public safety departments, spending for Contractual Services and for Travel, Commodities and Equipment will increase over the five-year period by $18.0 million and $2.9 million, respectively. Appropriations for Specific Items and Contingencies, which include personnel-related legal and medical expenses, will increase in both public safety and non-public safety departments, the latter of which will see a significant $296.4 million or 241.9% increase. This is primarily due to the City paying for settlements and judgements from operating funds rather than borrowing to pay for these costs.

City of Chicago Corporate Fund Appropriations by Object: FY2013-FY2017 (in $ millions)									
Object Classification	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Public Safety*									
Personnel Services	$ 1,777.5	$ 1,825.6	$ 1,925.3	$ 1,970.0	$ 2,019.7	$ 49.7	2.5%	$ 242.2	13.6%
Contractual Services	$ 29.9	$ 30.5	$ 29.5	$ 33.1	$ 47.9	$ 14.8	44.7%	$ 18.0	60.3%
Travel, Commodities and Equipment	$ 7.9	$ 8.18	$ 8.81	$ 8.39	$ 10.81	$ 2.4	28.8%	$ 2.9	36.4%
Specific Items and Contingencies**	$ 47.0	$ 52.0	$ 52.7	$ 52.8	$ 53.4	$ 0.6	1.1%	$ 6.4	13.7%
Sub-Total Public Safety	**$ 1,862.3**	**$ 1,916.2**	**$ 2,016.4**	**$ 2,064.3**	**$ 2,131.8**	**$ 67.5**	**3.3%**	**$ 269.5**	**14.5%**
Non-Public Safety									
Personnel Services	$ 834.7	$ 855.09	$ 849.37	$ 792.95	$ 802.87	$ 9.9	1.3%	$ (31.8)	-3.8%
Contractual Services	$ 284.9	$ 288.78	$ 288.56	$ 278.01	$ 294.64	$ 16.6	6.0%	$ 9.7	3.4%
Travel, Commodities and Equipment	$ 54.2	$ 69.91	$ 58.62	$ 76.00	$ 70.78	$ (5.2)	-6.9%	$ 16.6	30.7%
Specific Items and Contingencies**	$ 122.5	$ 160.25	$ 321.51	$ 359.47	$ 418.90	$ 59.4	16.5%	$ 296.4	241.9%
Sub-Total Non-Public Safety	**$ 1,296.3**	**$ 1,374.0**	**$ 1,518.1**	**$ 1,506.4**	**$ 1,587.2**	**$ 80.8**	**5.4%**	**$ 290.9**	**22.4%**
Total Corporate Fund	**$ 3,158.6**	**$ 3,290.2**	**$ 3,534.4**	**$ 3,570.8**	**$ 3,719.0**	**$ 148.2**	**4.2%**	**$ 560.4**	**17.7%**

*Includes Police Board, Independent Police Review Authority (IPRA), Department of Police, Office of Emergency Management and Communications, Fire Department and Civilian Office of Police Accountability (COPA).

**Includes payments for tort and non-tort judments, outside counsel expenses and expert costs, as approved by the Corporation Counsel; for cost and administration of hospital and medical expenses for employees injured on duty who are not covered under Workers Compensation Act; and for physical exams.

Source: City of Chicago, Annual Appropriation Ordinances, FY2013-FY2016, Summary D; and FY2017 Budget Recommendations, Summary D.

RESERVE FUNDS

Reserve funds, or fund balance, are terms commonly used to describe the net assets of a governmental fund.[93] Fund balance is an important financial indicator for local governments and serves as a measure of financial resources. It represents the difference between the assets and liabilities in a governmental fund. Fund balance is more a measure of liquidity than of net worth and can be thought of as the savings account of the local government.[94]

The Governmental Accounting Standards Board (GASB) defines a government's fund balance through Statement No. 54, which went into effect in June 2010, as the available funds in a government's unrestricted General Fund. Unrestricted refers to any funds that are not set aside under any legal constraints, and are therefore spendable. The City of Chicago's General Fund is its Corporate Fund. When analyzing the City's level of unrestricted, spendable fund balance, the Civic Federation focuses primarily on the unrestricted Corporate Fund fund balance.

In 2016, the City created a new Fund Stabilization Policy that accounts for available fund balance using the unassigned General Fund fund balance as defined by GASB plus two additional funds: Asset Lease and Concession Reserves and Operating Liquidity Fund. The Civic Federation will also examine the City's fund balance according to this new policy.

Recent Changes to Fund Balance Reporting

Starting with the FY2011 audited financial statements for the City of Chicago, a modification in fund balance reporting was implemented, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifts the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the

[93] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[94] Stephen J. Gauthier, *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."[95]

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.[96]

Current Components of Fund Balance

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

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[97]

Historically, the focus of the Civic Federation fund balance analysis had been on the unreserved general fund balance. Given the components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government's *unrestricted* fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are synonymous.[98]

---

[95] Stephen J., Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009 and GASB Statement No. 54, paragraph 5.
[96] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[97] Gauthier, Stephen J., "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[98] Gauthier, Stephen J., *The New Fund Balance* (Chicago: GFOA, 2009), p. 34.

GFOA Best Practices

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain, calculated in accordance with generally accepted accounting principles. The GFOA recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[99] Two months of operating expenditures is approximately 17%. GFOA also states that in practice, a level of unrestricted fund balance lower than the recommended minimum may be appropriate for states and America's largest governments, such as cities and counties, because they can often better predict contingencies and they typically have diverse revenue streams.[100] Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.[101]

GFOA recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[102] GFOA specifies several factors that should be considered when establishing a fund balance policy: revenue predictability and expenditure volatility; perceived exposure to one-time disasters or immediate expenses; the potential drain on general fund resources from other funds and the availability of resources in other funds; the potential impact on the government's bond rating and borrowing costs; and funds that are already committed or assigned for specific purposes.

City of Chicago Audited Fund Balance

This section examines the City's Corporate Fund (i.e. General Fund) fund balance as a percent of general operating expenditures based on audited data from the City's most recent Comprehensive Annual Financial Report. This ratio serves as a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[103]

A ten-year trend analysis of the City's fund balance ratio is not possible because the data has been classified differently with implementation of GASB No. 54. Therefore, the first table below presents a five year analysis of *unreserved* fund balance from FY2006-FY2010 prior to the reporting changes made in FY2011, followed by a five year analysis of *unrestricted* fund balance from FY2011-FY2015.

Between FY2006 and FY2010, the City's Corporate Fund unreserved fund balance remained very low, below 1.0% of operating expenditures until increasing to 2.67% in FY2010. The fund balance ratio level during this period was well below the level currently and previously

---

[99] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015). Available at http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund.
[100] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[101] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[102] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[103] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).

recommended by the GFOA.[104]

City of Chicago Unreserved Corporate Fund Fund Balance Ratio: FY2006-FY2010			
	Unreserved Corporate Fund Balance	Operating Expenditures	Ratio
FY2006	$ 26,834,000	$ 2,902,202,000	0.92%
FY2007	$ 4,634,000	$ 3,063,019,000	0.15%
FY2008	$ 226,000	$ 3,107,284,000	0.01%
FY2009	$ 2,658,000	$ 3,014,077,000	0.09%
FY2010	$ 81,151,000	$ 3,033,941,000	2.67%

Source: City of Chicago, Comprehensive Annual Financial Reports FY2006-FY2010, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

In FY2011, unrestricted fund balance reached a high of 10.2% of operating expenditures, then subsequently declined for three years before increasing again in FY2015. In FY2015 the City's unrestricted Corporate Fund fund balance totaled $191.4 million, or 5.6% of Corporate Fund expenditures. These resources include an assigned portion of $98.4 million and an unassigned portion of fund balance of $93.0 million. The unassigned portion is made up of the City's net resources without any self-imposed or external constraints and represents 2.7% of Corporate Fund expenditures.[105]

City of Chicago Unrestricted Corporate Fund Fund Balance Ratio: FY2011-FY2015			
	Unrestricted Corporate Fund Balance	Operating Expenditures	Ratio
FY2011	$ 311,478,000	$ 3,040,436,000	10.2%
FY2012	$ 210,417,000	$ 3,081,369,000	6.8%
FY2013	$ 142,269,000	$ 3,109,074,000	4.6%
FY2014	$ 116,780,000	$ 3,231,258,000	3.6%
FY2015	$ 191,404,000	$ 3,433,102,000	5.6%

Source: City of Chicago, Comprehensive Annual Financial Reports FY2011-FY2015, Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The City's 5.6% fund balance ratio is lower than the GFOA recommendation of 17%. However, as noted above the GFOA acknowledges that it may be appropriate for states and the country's largest governments with a diverse revenue base and better position to predict contingencies to maintain a smaller fund balance based on the government's own financial policies and other available financial resources.

---

104 Previously, the GFOA had recommended a general fund balance of 5 to 15%.
105 Calculation made based on Unassigned General Fund balance stated in the City of Chicago FY2015 Comprehensive Annual Financial Report, p. 34.

City of Chicago Budget Stabilization Fund

In 2016, the City of Chicago established a new Fund Stabilization policy to maintain sufficient fund balance to mitigate financial risks and revenue shortfalls. City officials said the policy is aimed at maintaining a reasonable rainy day fund while avoiding the build-up of unneeded cash reserves.[106] The new policy is included in the FY2017 budget proposal.

The City's policy states that it will retain a Budget Stabilization fund, or unrestricted fund balance, from three sources: Unassigned Fund Balance (discussed above), Asset Lease and Concession Reserves, and Operating Liquidity Fund.[107] Asset Lease and Concession Reserves account for leftover revenue generated from agreements to lease the Chicago Skyway and the parking meter system. The Operating Liquidity Fund is intended to cut down the cost of short-term borrowing by assigning a portion of unassigned fund balance for liquidity purposes. Together with the Unassigned General Fund fund balance, these funds make up what the City considers to be its budgetary reserves.

The Fund Stabilization policy states that the City will not appropriate more than 1.0% of the general operating budget from the prior year's audited unassigned fund balance for the current year's budget.[108] Additionally, the City has a mechanism to build the City's unrestricted Corporate Fund reserves based on an executive order signed by Mayor Emanuel in October 2013.[109] This order calls for the transfer of at least 10% of the previous year's Corporate Fund unreserved fund balance into the City's Corporate Fund reserves for unanticipated future needs.

Evaluation of Budget Stabilization Fund

The Fund Stabilization policy states that the City will adhere to the GFOA's recommended fund balance level of two months of general operating expenses, or approximately 17%. The Unassigned General Fund fund balance in FY2015 (the most recent audited data) was $93.0 million. The asset lease and concession reserves total approximately $620 million (these reserves are discussed further below). Together, the two reserve funds total $713.0 million. The City's FY2015 general operating expenses totaled $3.43 billion. The $713.0 million of reserves in the City's Budget Stabilization Fund equals 20.7% of general operating expenses. Therefore, the Budget Stabilization Fund reserves meet the City's own fund balance policy.

Asset Lease Reserve Balance

The City maintains Asset Lease and Concession Reserves, which were created after the City leased the Chicago Skyway and the City's parking meters to private companies. The City also used to have two other lease assets – a downtown parking garage lease and a Midway Airport lease. Both of these accounts no longer have reserve fund balances. An update on the remaining asset lease reserve funds is discussed further below.

---

[106] Communication with City of Chicago Office of Management and Budget, October 10, 2016.
[107] City of Chicago FY2017 Budget Overview, p. 39.
[108] City of Chicago FY2017 Budget Overview, p. 39.
[109] Executive Order No. 2013-2 (Rainy Day Fund).

In 2005 the City of Chicago leased the Skyway toll road for $1.83 billion to the Skyway Concession Company LLC for 99 years. In 2009 the City completed a similar deal that leased its parking meters for $1.15 billion to Chicago Parking Meters, LLC for 75 years. The City set aside a portion of the proceeds from each transaction for reserve accounts, including $500.0 million for a Skyway long-term reserve and $400.0 million for a parking meter long-term reserve.

The purpose of the long-term reserves was to supplement Corporate Fund reserves through interest earned on the parking meter and Skyway funds, leaving the principal intact. However, the City used the proceeds from these lease transactions to balance the budget from FY2005 until FY2011. Each year a portion was transferred to the Corporate Fund to support general operations. In FY2012, Mayor Rahm Emanuel's administration ended the practice of using reserves to pay for the City's operating expenditures and ordered that only interest generated from the funds be transferred to the Corporate Fund. The City also began replenishing the parking meter long-term reserve fund.

In addition to long-term reserves, the City established mid-term reserves to supplement Corporate Fund revenues, human infrastructure funds for community quality of life programs, and a parking meter budget stabilization fund to mitigate the national economic downturn. Each of these funds have been drawn down as planned.

The remaining Skyway and parking meter lease proceeds that have not been expended or allocated to the Corporate Fund are held in an accounting entity called the Service Concession and Reserve Fund. The table below shows the balances that remain in the asset lease reserve funds. $500.0 million remains in the Skyway long-term reserve fund and $120.0 million remains in the parking meter long-term reserve fund, totaling $620.0 million.

Asset Lease Reserve Balances: FY2005-FY2017 (in $ millions)

Year	Skyway Mid-Term Reserve Fund	Skyway Long-Term Reserve Fund	Parking Meter Mid-Term Reserve Fund	Parking Meter Long-Term Reserve Fund	Parking Meter Budget Stabilization Fund	Total
Skyway Deposit (2005)	**$ 375**	**$ 500**				**$ 875**
2005	$ 275	$ 500				$ 775
2006	$ 225	$ 500				$ 725
2007	$ 150	$ 500				$ 650
2008	$ 100	$ 500				$ 600
Parking Meter Deposit (2008)			**$ 325**	**$ 400**	**$ 326**	**$ 1,051**
2009	$ 50	$ 500	$ 175	$ 380	$ 101	$ 1,206
2010	$ -	$ 500	$ 75	$ 220	$ -	$ 795
2011	$ -	$ 500	$ -	$ 80	$ -	$ 580
2012	$ -	$ 500	$ -	$ 100	$ -	$ 600
2013	$ -	$ 500	$ -	$ 115	$ -	$ 615
2014	$ -	$ 500	$ -	$ 120	$ -	$ 620
2015	$ -	$ 500	$ -	$ 120	$ -	$ 620
2016	$ -	$ 500	$ -	$ 120	$ -	$ 620
FY2017 Balance	**$ -**	**$ 500**	**$ -**	**$ 120**	**$ -**	**$ 620**

Note: Does not include Skyway Long-Term interest earnings as these are recurring. Does not include Human Infrastructure Funds.

Source: City of Chicago, 2016 Annual Financial Analysis, online at http://chicago.github.io/annual-financial-analysis/Long-term-asset-lease-and-reserve-funds/.

Going forward, interest earned on the long-term asset lease funds will continue to be transferred to the Corporate Fund to support general operations. In FY2017, the City has budgeted $24.0 million from interest earned on the Skyway long-term reserve to be transferred into the Corporate Fund for operating expenses.[110] The City plans to maintain its $620.0 asset lease fund balance, to be used only in the event of an economic downturn. If the City were to spend the funds in the Asset Lease Reserves, its credit rating would likely be downgraded.

Operating Liquidity Fund

In addition to the asset lease reserve funds, the City created an Operating Liquidity Fund in 2016. The City plans to assign a portion of unassigned fund balance to this Liquidity Fund each year. The City states that the fund will function as a reoccurring short-term funding solution for City operations that are funded from a dedicated revenue source (e.g. Chicago Public Library property tax revenue), allowing the City to manage liquidity issues associated with timing of revenue collection.[111] The City states that it has set aside $5 million in the 2015 assigned fund balance and that revenue for the operating liquidity fund in 2016 will be identified as part of the fund balance in the audited financial statements for 2016.[112]

PENSION FUNDS

The Civic Federation analyzed four indicators of the fiscal health of the City of Chicago's pension funds: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the City's pension benefits.

Plan Descriptions

The City of Chicago maintains four employee pension funds: the Fire, Police, Municipal and Laborers' Funds. Each plan is a single-employer defined benefit pension plan for a specific group of City employees. The provisions of the plans can be amended only by the Illinois General Assembly.

The Firemen's Annuity and Benefit Fund of Chicago was created in 1931 by Illinois State statute to provide retirement and disability benefits for fire service employees of the City of Chicago and their dependents.[113] It is governed by an eight-member Board of Trustees. Four members are ex-officio (City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner), three are elected by active employee members and one is elected by annuitant members.

The Policemen's Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for police service employees of the City of

---

[110] City of Chicago FY2017 Budget Overview, p. 164.
[111] City of Chicago FY2017 Budget Overview, p. 39.
[112] City of Chicago Online 2016 Annual Financial Analysis, available at http://chicago.github.io/annual-financial-analysis/Long-term-asset-lease-and-reserve-funds.
[113] Firemen's Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2015, p. 9.

Chicago and their dependents.[114] It is governed by an eight-member Board of Trustees. Four members are appointed by the Mayor, three are elected by active employee members and one is elected by annuitant members.

The Municipal Employees' Annuity and Benefit Fund of Chicago was created in 1921 by Illinois State statute to provide retirement and disability benefits for general employees of the City of Chicago and the Chicago Board of Education and their dependents.[115] It is governed by a five-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller) and three are elected by active employee members.

The Laborers' Annuity and Benefit Fund of Chicago was created in 1935 by Illinois State statute to provide retirement and disability benefits for labor service employees of the City of Chicago and their dependents.[116] It is governed by an eight-member Board of Trustees. Two members are ex-officio (City Treasurer and City Comptroller), two are appointed by the City Department of Human Resources, one is appointed by the local labor union, two are elected by active employee members and one is elected by annuitant members.

Pension Benefits

The following section describes the pension benefits provided by each of the City's four funds and describes recent changes to those benefits enacted in 2010 and changes to funding enacted and proposed in 2016.

Municipal and Laborers' Funds

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Chicago Municipal and Laborers' pension funds.[117] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 hires" as those persons hired on or after January 1, 2011. The City and most of its labor unions have agreed to a proposed Tier 3 for persons hired on or after January 1, 2017 as part of an agreement on a new funding structure for the Municipal and Laborers' Funds.[118] However, the proposal will require a change to State statute and no legislation has yet been introduced in the Illinois General Assembly.

---

[114] Policemen's Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2015, p. 5.

[115] Municipal Employees' Annuity and Benefit Fund of Chicago, Comprehensive Annual Financial Report for the year ended December 31, 2015, p. 31. Covered employees include all employees of the City of Chicago and the Chicago Board of Education who are not policemen, firemen, teachers, laborers or participants in any other pension plan.

[116] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, Financial Statements, December 31, 2015, p. 7.

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

[118] https://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2016/may/Mayor-Emanuel-Laborers-Retirement-Board.html and https://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2016/august/Final-Pension-Funding-Solution-Reached.html

Tier 1 employees in the Municipal and Laborers' funds are eligible for full retirement benefits once they reach age 60 and have at least 10 years of employment at the City, age 55 with 25 years, or age 50 with 30 years of service. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 63 year-old employee in the Municipal Fund with 23 years of service and a $57,000 final average salary could retire with a $31,464 annuity: 23 x $57,000 x 2.4% = $31,464.[119] The annuity increases by 3%, compounded annually. Tier 1 employees with 20 years of service may retire as young as age 55 but their benefit is reduced by 0.25% for each month they are under age 60.

The following table compares Tier 1 employee benefits to Tier 2 employee benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest four year average to the highest eight year average; the $106,800 cap on pensionable salary; and the

[119] The average FY2015 benefit at retirement for Municipal Fund participants was $ 31,686; the average age at retirement was 62.6 and the average years of service at retirement was 23.48. Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2015, p. 54. The average FY2015 benefit at retirement for the Laborers' Fund participants was $46,460; the average age at retirement was 60.6 and the average years of service at retirement was 28.09. Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2015, p. 51.

reduction of the automatic annual increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major City of Chicago Police and Fire Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 years of service
Early Retirement Eligibility: Age & Service*	age 50 with 10 years of service	
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
Annuity Formula*	2.5% of final average salary for each year of service	
Early Retirement Formula*	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1955, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1955, starts at later of age 60 or retirement, with a limit of 30%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

* There are several variations and alternative benefit provisions for current employees. Benefits shown in this table are simplified descriptions of major benefit provisions.

**The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.
Source: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2015; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2015; Public Act 96-1495.

Public Act 98-0641

Public Act 98-0641, signed into law on June 9, 2014, made changes to pension benefit levels for current retirees and employee members of two of the City of Chicago's four pension funds, the Municipal and Laborers' Funds. It also increased required employer funding by the City of Chicago to a 40-year plan to reach 90% funding. On March 24, 2016 the Illinois Supreme Court filed its opinion affirming the Cook County Circuit Court's ruling from the prior summer that the reforms made to the City of Chicago's Municipal and Laborers' Pension Funds in Public Act 98-0641 were unconstitutional because they reduced pension benefits in violation of the pension protection clause of the Illinois Constitution.

After the Circuit Court ruling in 2015, the Municipal and Laborers' funds refunded the increased contributions from active employees that began January 1, 2015 to the City of Chicago and the City disbursed the refunds to the active employee members of the funds.[120] The active employees' ongoing contributions as a percentage of their salaries were reduced to the levels in

[120] Communication with the City of Chicago Office of Budget and Management, October 5, 2015.

place prior to the implementation of P.A. 98-0641. The Municipal and Laborers' Funds also made a one-time payment to all retirees to restore the 3% compounded automatic annual increase to their annuities that was reduced to 0.85% simple interest by the provisions of P.A. 98-0641. Going forward, retirees' monthly checks will include the 3% compounded automatic annual increase.[121] Higher employer contributions that had been held in escrow were released after the Supreme Court ruling. The accrued liabilities of the two funds increased significantly as the savings from the benefit changes were erased. For more about the provisions of Public Act 98-0641, please see Appendix A.

Police and Fire Funds

Tier 1 members of the Chicago Police and Fire Funds are eligible for full retirement benefits once they reach age 50 with at least 20 years of service, or age 63 and 10 years of service. The amount of retirement annuity is 2.5% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 75% of final average salary. For example, a 55 year-old firefighter with 29 years of service and a $110,000 final average salary could retire with a $79,750 annuity: 29 x $110,000 x 2.5% = $79,750.[122]

Public Act 96-1495 was enacted in December 2010 and created a new tier of benefits for public employees who become members of police or fire pension funds on or after January 1, 2011.[123] The major benefit changes are an increase in full retirement age from 50 to 55, a reduction of final average salary from the highest four-year average to the highest eight-year average, a $106,800 cap on pensionable earnings (increased annually by the lesser of 3% or one half of the increase in Consumer Price Index), and a change in the automatic annual increase from 1.5% not

[121] Municipal Employees' Annuity and Benefit Fund of Chicago, "Public Act 98-0641 – Update," September 21, 2015. http://www.meabf.org/announcements.php. Laborers' & Retirement Board Employees' Annuity & Benefit Fund of Chicago, "What the Public Act 98-0641 Ruling Means For You." http://www.labfchicago.org/what-the-public-act-98-0641-ruling-means-for-you/.

[122] The FY2015 average final average salary at retirement for Fire fund participants was $109,241; the average age at retirement was 58.4; and the average years of service at retirement was 28.7. Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation, December 31, 2015, p. 40. The FY2015 average final average salary at retirement for Police Fund participants was $99,883; the average age at retirement was 57.5; and the average years of service at retirement was 26.5. Policemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ended December 31, 2015, p. 43.

[123] Public Act 96-1495 also applies to members of the Illinois Municipal Retirement Fund's Sheriff's Law Enforcement Program, but not to Cook County sheriff's employees or university public safety employees. See http://www.civicfed.org/civic-federation/blog/senate-bill-3538-police-and-fire-pension-reforms.

compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.[124]

Major City of Chicago Police and Fire Fund Pension Benefit Provisions		
	Tier 1 (hired before 1/1/2011)	**Tier 2 (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service*	age 50 with 20 years of service	age 55 with 10 years of service
Early Retirement Eligibility: Age & Service*	age 50 with 10 years of service	
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800**
Annuity Formula*	2.5% of final average salary for each year of service	
Early Retirement Formula*	accumulation of age and service annuity contributions plus 10% of City contributions for each year after 10 years of service	reduced by 0.5% per month under age 55
Maximum Annuity	75% of final average salary	
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% simple interest if born before 1/1/1955, starts at later of age 55 or retirement; 1.5% simple interest if born after 1/1/1955, starts at later of age 60 or retirement, with a limit of 30%	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 60 or the first anniversary of retirement

* There are several variations and alternative benefit provisions for current employees. Benefits shown in this table are simplified descriptions of major benefit provisions.

**The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

Source: Firemen's Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2015; Policemens' Annuity and Benefit Fund of Chicago, Actuarial Valuation Report for the Year Ending December 31, 2015; Public Act 96-1495.

Public Act 96-1495 did not change employee contributions but it did change employer contributions for the Chicago Police and Fire Funds. The City of Chicago was to be required to begin making contributions in tax year 2015, payable in 2016, that would be sufficient to bring the funded ratio of each fund to 90% by the end of 2040, using a level percentage of payroll and projected unit credit actuarial valuation method. City officials estimated that would represent a $549 million contribution increase in 2015.[125]

However, in the FY2016 budget and revised FY2015 budget, Chicago did not base its projected contribution for 2015, payable in 2016, and beyond on the provisions of Public Act 96-1495, but instead used the revised payment schedule set out in Senate Bill 777, which was passed by the Illinois General Assembly on May 31, 2015 but had not been sent to the Governor to be signed into law.[126] Senate Bill 777, as amended in the House, laid out five years of steadily increasing

[124] This is the change for Chicago Police and Fire Funds. Most other public safety funds' first tier benefits provide a 3% compounded automatic cost of living adjustment.
[125] City of Chicago, Annual Financial Analysis 2015, p. 90.
[126] City of Chicago FY2016 Budget Overview, p. 31.

payments to the City's public safety funds until it reaches a level where it starts to contribute enough to raise the funded level to 90% over 35 years for a total 40-year funding plan. The amount the City must contribute each year to each fund between FY2016 and FY2020 is specified in dollar amounts in the legislation. The first year of contributions is $220 million lower than under the 2010 funding law, but significantly increases funding from the previous statutory level. Projections of the contributions that will be made under the actuarial calculations in budget year 2021 (tax year 2020) and beyond have not been made available.[127] On May 27, 2016 Illinois Governor Bruce Rauner vetoed the legislation, calling it "bad policy" and "gambling with the pensions of…police officers and firefighters."[128] However, three days later both houses of the Illinois General Assembly voted to override the Governor's veto. Senate Bill 777 became Public Act 99-0506 and went into effect on May 31, 2016.[129]

Members of the four City of Chicago pension funds do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their City employment when they retire.

Members

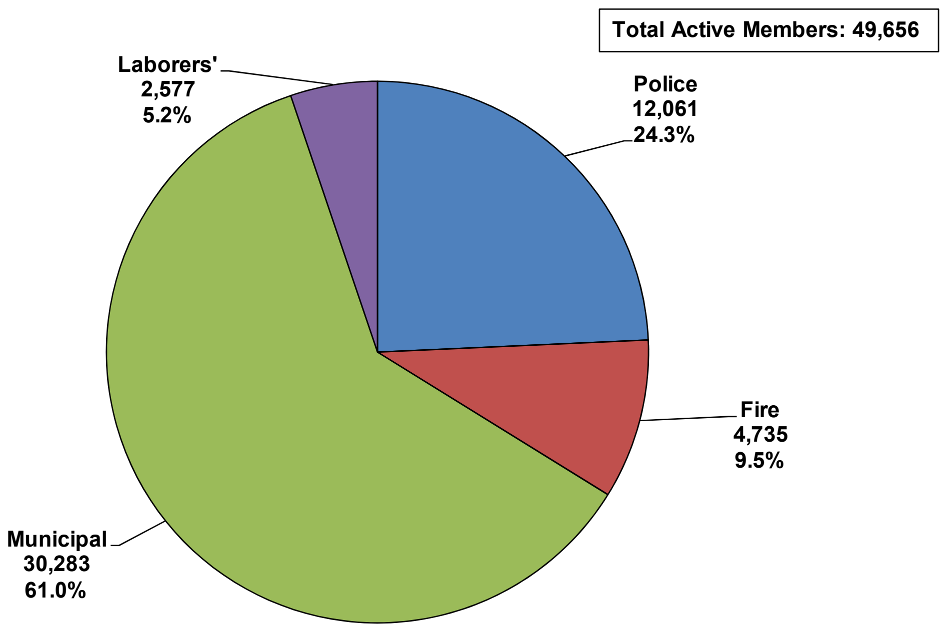
In FY2015 there were 49,656 employees participating in the four pension funds. The Municipal Fund constitutes 61.0% of total active employee membership. However, roughly half of the

---

[127] Civic Federation Blog, "Chicago Police and Fire Employer Pension Funding Changes Passed in Illinois General Assembly," June 5, 2015. https://www.civicfed.org/civic-federation/blog/chicago-police-and-fire-employer-pension-funding-changes-passed-illinois-gener.
[128] Senate Bill 777, Governor's Message, May 27, 2016.
[129] John O'Connor, "Chicago gets some pension relief as Rauner veto overridden," Associated Press, May 30, 2016.

30,283 active Municipal Fund members are not City employees, but rather are non-teacher employees of Chicago Public Schools.[130]

City of Chicago Four Pension Funds Active Employee Members: FY2015



Note: Roughly half of the Municipal Fund members are non-teacher employees of the Chicago Public Schools.
Sources: FY2015 Actuarial Valuations for the Police, Fire, Municipal and Laborers' pension funds.

Funded Ratios – Actuarial and Market Value of Assets

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[131] The market value of assets measurement presents the ratio of assets to liabilities by recognizing

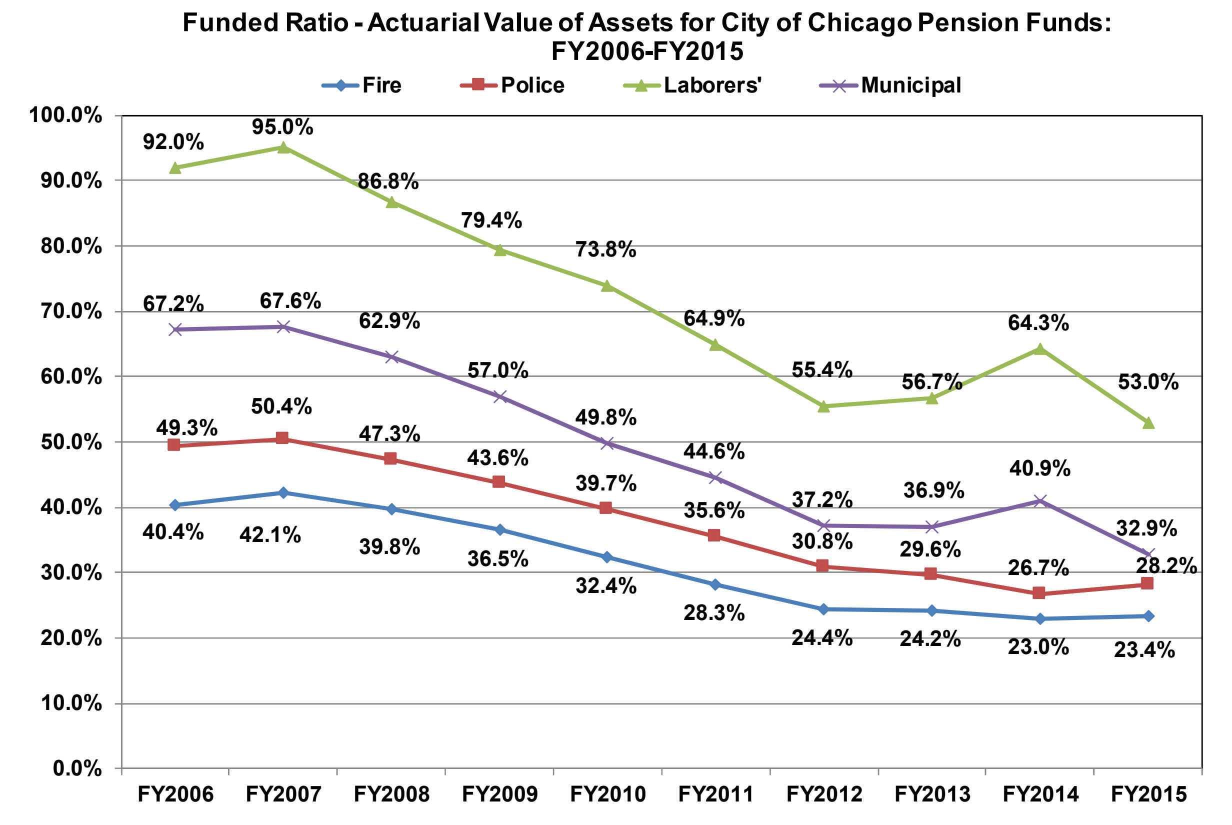
---

[130] The most recent data available on the number of Board of Education employees in the Municipal Fund is of December 31, 2014. As of that date 55.5%, or 16,732 of the 30,160 active members of the Municipal Fund were employees of Chicago Public Schools (CPS). Certified teachers employed by CPS participate in the Public School Teachers' Pension and Retirement Fund of Chicago. All other CPS employees are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund. Chicago Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015*, p. 70.

[131] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012,* October 2, 2014.

investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for two of the four City pension funds increased in FY2015. The Fire Fund increased very slightly to 23.4% and the Police Fund increased to 28.2%.[132] The funded ratio for the Municipal and Laborers' Funds decreased significantly to 32.9% and 53.0%, respectively, due to increased liabilities after P.A. 98-0641 was declared unconstitutional by the Illinois Supreme Court. A low funded ratio is cause for concern as it raises questions about the ability of the government to adequately fund its retirement systems over time.

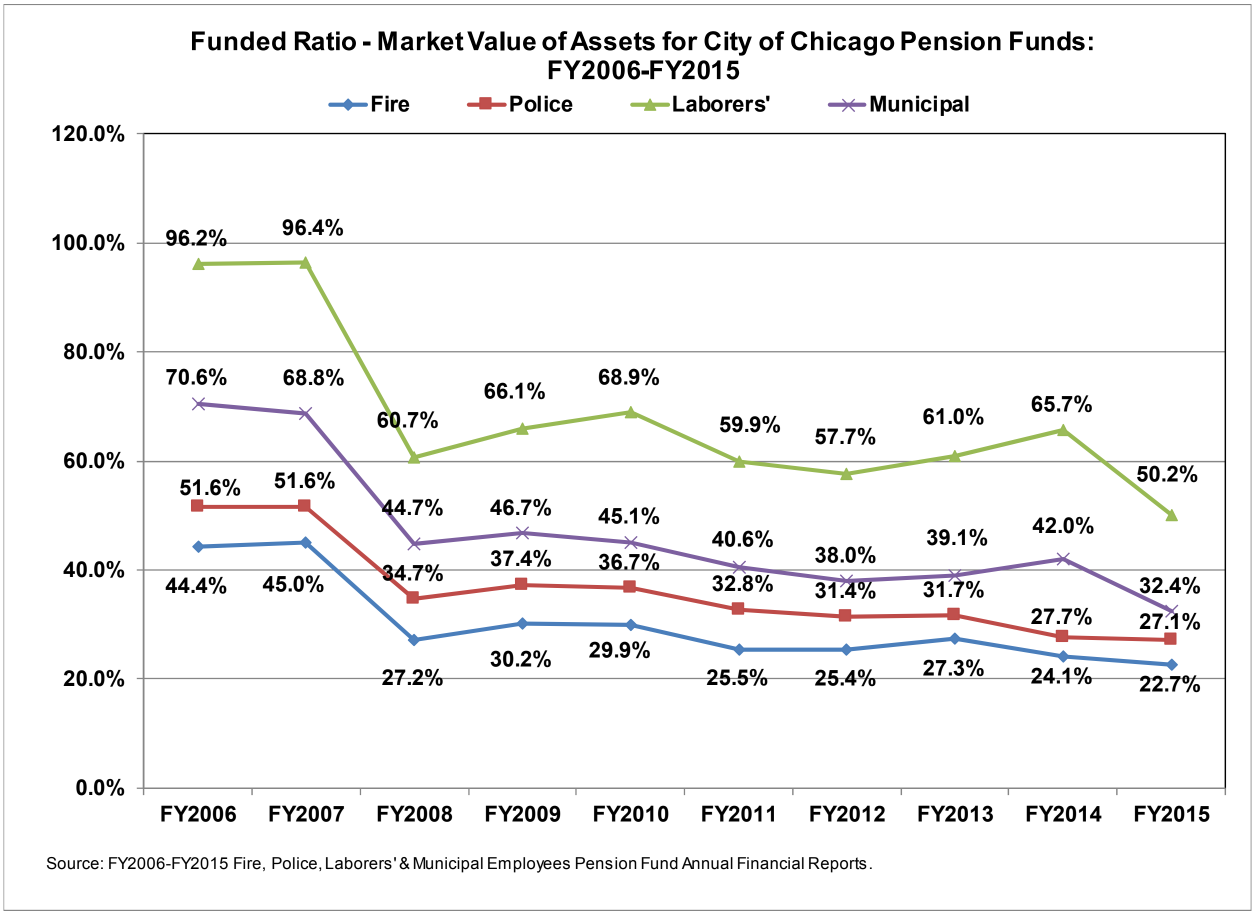


Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2006-FY2015 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

The following exhibit shows market value funded ratios for each of the four pension funds. The market value funded ratios for two of the four funds declined sharply in FY2015. As noted above, the liabilities of the Municipal and Laborers' Funds rose due to the revocation of benefit

[132] Both the Police and Fire Funds' FY2015 Actuarial Valuations incorporate the higher employer payment schedule under the 2010 funding law that was in place as of December 31, 2015, instead of P.A. 99-0506 which did not go into effect until May 31, 2016, but impacts the employer contributions for the FY2015.

reforms in Public Act 98-0641, leading to a lower funded ratio. The Fire Fund's market value funded ratio declined slightly and the Police Fund was relatively flat.



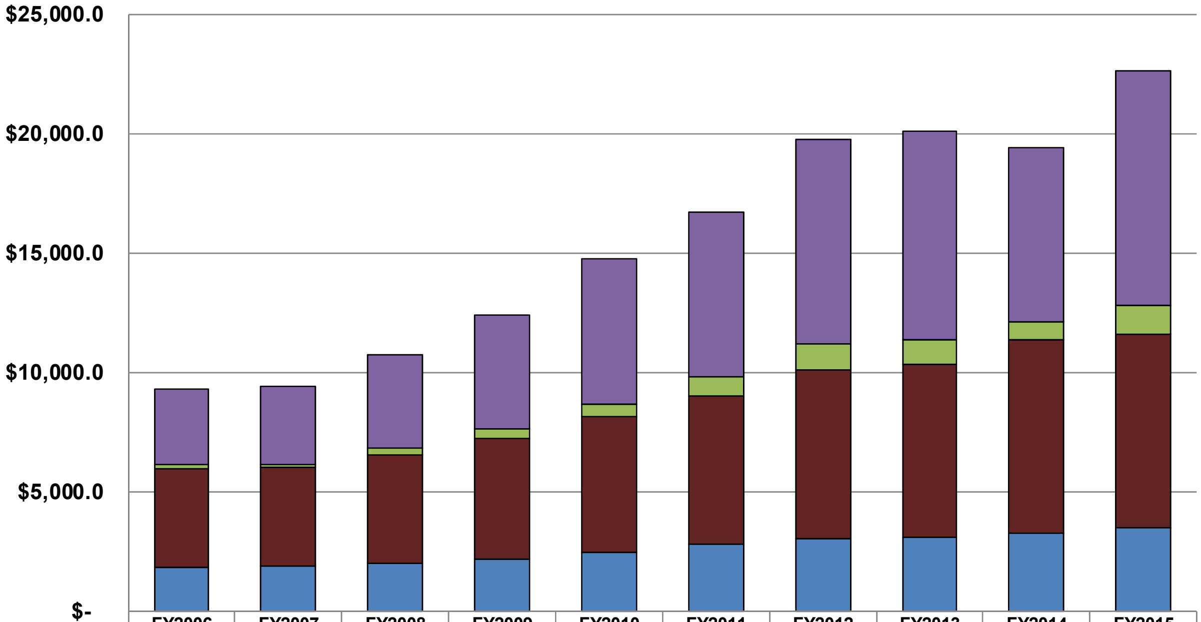
Unfunded Liabilities

Unfunded actuarial accrued liabilities (UAAL) are the dollar value of liabilities not covered by assets measured on an actuarial, not market value, basis. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by nearly $13.3 billion, or 143.0%. The total unfunded liabilities increased significantly to $22.6 billion from $19.4 billion in FY2014, due mostly to the UAAL of the Municipal and Laborers' Funds from the Supreme Court striking down Public Act 98-0641.

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

- Fire Pension Fund: 89.0% increase, or $1.7 billion;
- Police Pension Fund: 96.7% increase, or $4.0 billion;
- Laborers' Pension Fund: 699.8% increase, or $1.0 billion;[133] and
- Municipal Pension Fund: 209.1% increase, or $6.7 billion.

Unfunded Actuarial Accrued Liabilities for the City of Chicago Pension Funds: FY2006-FY2015 (in $ millions)

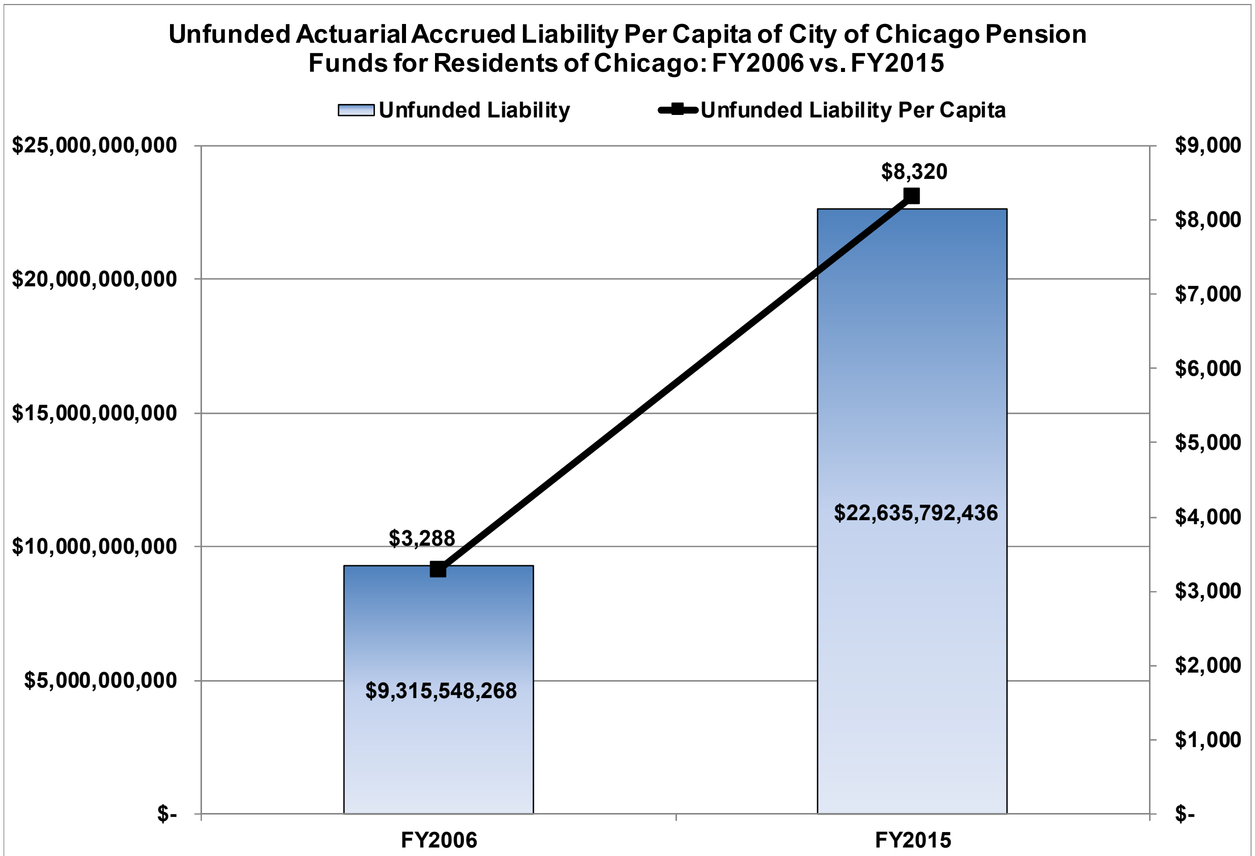


	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Municipal	$3,183.2	$3,296.2	$3,936.3	$4,758.5	$6,048.8	$6,903.9	$8,564.1	$8,742.3	$7,285.3	$9,840.1
Laborers'	$145.2	$92.0	$259.0	$416.1	$542.0	$768.8	$1,058.9	$1,036.3	$754.3	$1,161.2
Police	$4,118.6	$4,167.7	$4,558.8	$5,015.9	$5,655.9	$6,243.7	$7,071.7	$7,256.8	$8,093.9	$8,101.8
Fire	$1,868.6	$1,888.0	$2,022.9	$2,207.5	$2,505.1	$2,797.2	$3,073.1	$3,098.0	$3,305.6	$3,532.6
TOTAL	$9,315.5	$9,443.9	$10,777.0	$12,398.1	$14,751.9	$16,713.5	$19,767.8	$20,133.4	$19,439.0	$22,635.8

Source: FY2006-FY2015 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

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

Between FY2006 and FY2015, total unfunded liabilities per resident of Chicago grew from $3,288 per capita to $8,320 per capita. This is an increase of 153.1%.



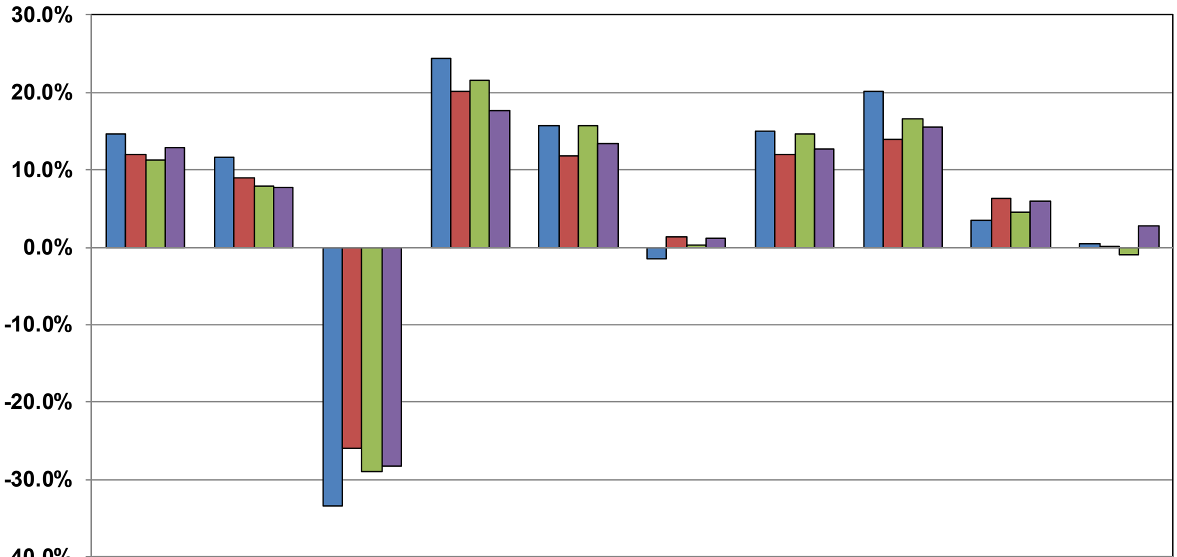
Source: U.S. Census Bureau; FY2006 and FY2015 Fire, Police, Laborers' & Municipal Employees Pension Fund Comprehensive Annual Financial Reports.

Investment Rates of Return

In FY2015 all four City pension funds experienced returns less than their expected rates of return on their investments, ranging from -0.9% for the Laborers' Fund to 2.8% for the Municipal Fund. This was the second year in a row that the funds did not meet their investment targets. The

FY2015 investment assumptions for all four funds was 7.5%. The Fire Fund reduced its expected rate of return on investment to 7.5% from 8.0% for FY2015.

Investment Rate of Return - City of Chicago Pension Funds: FY2006-FY2015



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Fire	14.6%	11.6%	-33.3%	24.4%	15.6%	-1.5%	15.0%	20.2%	3.5%	0.5%
Police	12.0%	9.0%	-25.9%	20.1%	11.9%	1.3%	12.0%	14.0%	6.3%	0.1%
Laborers'	11.3%	7.8%	-29.1%	21.6%	15.7%	0.3%	14.6%	16.7%	4.6%	-0.9%
Municipal	13.0%	7.7%	-28.3%	17.7%	13.4%	1.1%	12.8%	15.5%	6.0%	2.8%

Note: Actuarial Value of Assets smoothes investment returns over five years.
Source: FY2006-FY2015 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

Pension Liabilities and Actuarially Determined Employer Contribution as Reported Under Governmental Accounting Standards Board Statements Number 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements No. 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[134] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

[134] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. The City of Chicago and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The four City pension funds began reporting according to GASB 67 in their FY2014 CAFRs and actuarial valuations. The City of Chicago began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[135] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability – This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. The Municipal and Laborers' Funds use entry age normal for statutory reporting and funding purposes. The Police and Fire Funds use projected unit credit for statutory reporting and funding purposes.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
    - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
    - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
    - Under the funding provisions of P.A. 96-1495, the Police and Fire Funds were projected to have sufficient funding until 2061 and 2063, respectively, so their GASB 67 and 68 reporting is discounted at a blend of the full 7.5% assumed rate of return and a lower municipal bond rate of 3.57%. The reported blended rate was 7.15% for the Police Fund and 7.16% for the Fire Fund.[136] However, these were calculated using the old 25-year funding plan that was still in place as of December 31, 2015.[137] The 40-year funding plan

[135] Other differences and newly reported numbers are not central to the discussion here.
[136] GASB Statement No. 67 Actuarial Valuations.
[137] See Additional Disclosure – Public Act 99-0506 in the GASB 67 Actuarial Valuations for the Police and Fire Funds.

imposed by P.A. 99-0506 will result in different required blended single discount rates for the FY2016 actuarial valuations.

- The Municipal Fund is projected to run out of funding in 2025, so its GASB 67 and 68 reporting is discounted at a blend of the full 7.5% assumed rate of return and a lower municipal bond rate of 3.57%. The reported blended rate was 3.73%.[138]
- The Laborers' Fund is projected to run out of funding in 2027, so its GASB 67 and 68 reporting is discounted at a blend of the full 7.5% assumed rate of return and a lower municipal bond rate of 3.57%. The reported blended rate was 4.04%.[139]

Fiduciary Net Position – This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed basis under previous reporting requirements. All four City funds use smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

Actuarially Determined Contribution (ADC) – Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds will calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the ADC differs from the ARC for the four City funds.

Difference between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC.[140] The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets. There is almost no difference between the main assumptions of the ADC and ARC for the four City pension funds. The Police Pension fund uses a 30-year closed amortization period for the ADC and used a 30-year open period for the ARC. Otherwise, the ADC and ARC are calculated on almost the same basis.

---

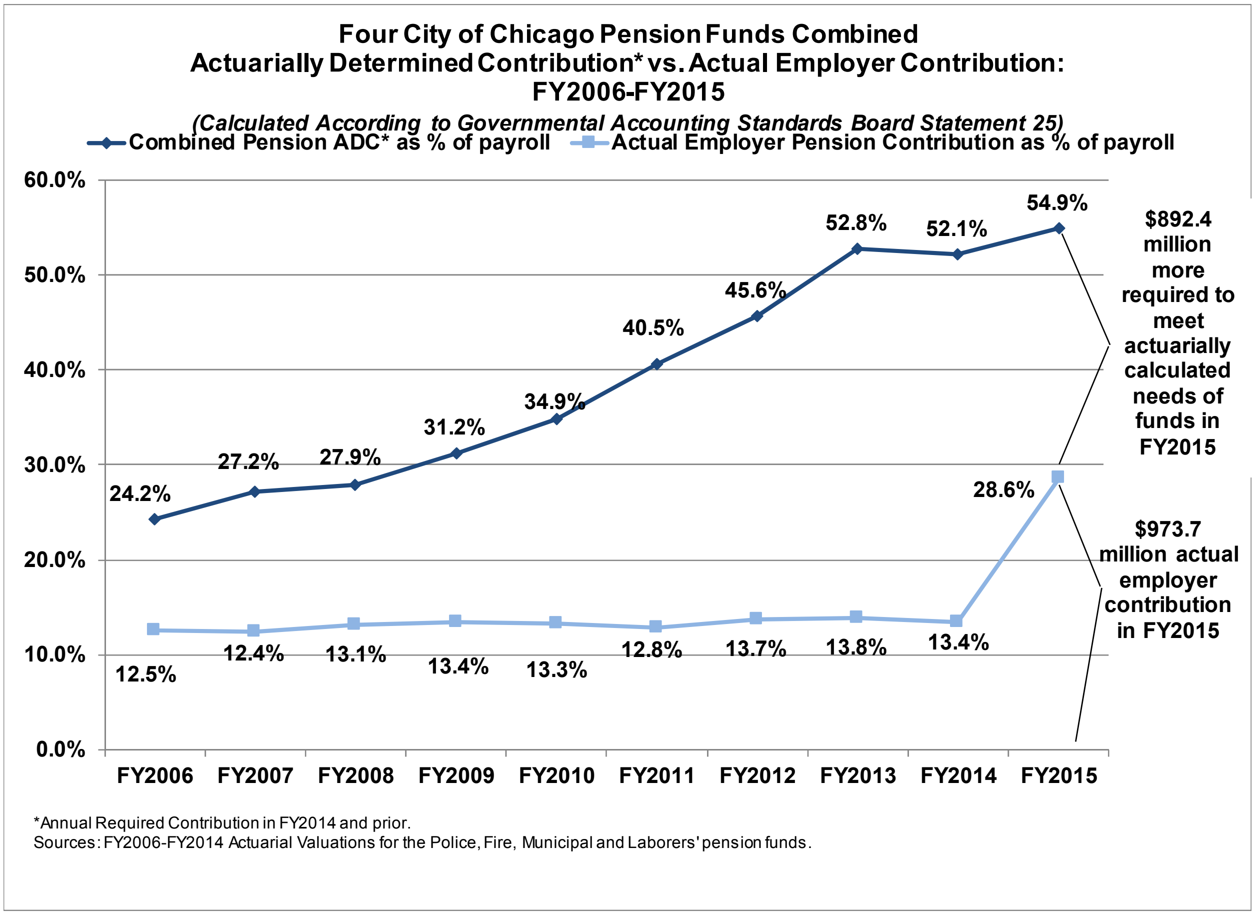
[138] Municipal Employees' Annuity and Benefit Fund of Chicago, Actuarial Valuation as of December 31, 2015, pp. v, 92.

[139] Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions, p. 33.

[140] Tables showing the assumptions for ADC/ARC reporting for all four funds can be found in Appendix B.

Because the ADC and ARC are calculated on a similar basis, the Civic Federation will continue to analyze the trend of the difference between the reported ADC/ARC and the statutorily required employer contribution the City must make under state law in order to demonstrate how far from sufficient the statutory payment is. The City of Chicago is required to make an annual employer contribution equivalent to 1.25 times the total employee contribution made two years earlier for the Municipal Fund and 1.0 for the Laborers' Fund. The reported employer contribution for the Police and Fire Funds in FY2015 is under the 25-year funding plan in P.A. 96-1495, rather than the 40-year plan that went into effect on May 31, 2016. So the amount actually contributed by the City in FY2015 will be smaller than what was reported.

The graph below illustrates the gap between the combined pension ARC of the four funds as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from a shortfall in FY2006 of 11.7 percentage points, or $359.1 million, to a gap of 38.7 percentage points in FY2014, before falling to a gap of 26.2 percentage points in FY2015, due to higher employer contributions for the Police and Fire Funds. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the City would have needed to contribute an additional 26.2% of payroll, or $892.4 million, in FY2015.[141]



The City of Chicago has consistently contributed its statutorily required amounts to its four pension funds. However, these amounts have been less than the ADC/ARC for the last ten years.

City of Chicago Pension Fund Reported Liabilities Under GASB Statements No. 67 and 68

The following table shows the City of Chicago's Pension Fund financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. Because all four funds' assets are forecast to be insufficient to cover projected benefit payments, the funds and Chicago must use blended discount rates that are lower than the expected rate of return on investment. A lower discount rate results in higher present values for liabilities and net pension liabilities.[142] The total reported net pension liability for all four funds in FY2015 was $33.9 billion, compared to the unfunded

[141] Again, the actual employer contribution for FY2015 will be much lower due to the enactment of P.A. 99-0506, which reduces the FY2015 contribution (made in FY2016) by $220 million.
[142] For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.

actuarial accrued liability of $22.6 billion. The City was required to include the net pension liability among the liabilities on its balance sheet for the first time in FY2015.

City of Chicago Pension Funds Combined GASB 67 Reporting FY2014-FY2015					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Combined Actuarially Determined Contribution
FY2014	$ 30,756,190,434	$ 10,665,601,909	$ 20,090,588,525	34.68%	$ 1,740,973,647
FY2015	$ 43,930,302,599	$ 10,084,134,932	$ 33,846,167,667	22.95%	$ 1,866,096,904
Two-Year Change	**$ 13,174,112,165**	**$ (581,466,977)**	**$ 13,755,579,142**	**-11.72%**	**$ 125,123,257**
Two-Year % Change	**42.83%**	**-5.45%**	**68.47%**	**-33.80%**	**7.19%**

Source: FY2014 and FY2015 Fund Actuarial Valuations.

OTHER POST EMPLOYMENT BENEFITS

The City of Chicago administered a retiree benefit healthcare plan under the terms of a settlement agreement that expired on June 30, 2013.[143] Under the agreement, the four City of Chicago pension funds additionally all subsidized the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The pension funds provided $95 per month for non-Medicare eligible annuitants and $65 per month for Medicare eligible annuitants. The City's contribution was roughly 55% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal and Laborers' pension funds each contributed roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[144]

The settlement agreement called for the creation of a Retiree Healthcare Benefits Commission ("RHBC") to "make recommendations concerning the state of retiree healthcare benefits, their related cost trends and issues affecting the offering of any retiree healthcare benefits after July 1, 2013." The agreement said the members of the RHBC must be experts who will be "objective and fair-minded as to the interests of both retirees and taxpayers." The other members of the Commission were to be a representative of the City and a representative of the pension funds.[145]

The City appointed a reconstituted Retiree Healthcare Benefits Commission, the members of which met for the first time on June 22, 2012 to explore the options available to the City in continuing to provide or not continuing to provide retiree healthcare benefits and make recommendations.[146]

---

[143] The most recent version of the settlement was dated April 4, 2003 and resulted from *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan*, No. 01 CH 4962 (Circuit Court of Cook County, Illinois, County Department, Chancery Division). See http://www.cityofchicago.org/city/en/depts/fin/supp_info/rhbc/rhbc_report_to_mayor.html.
[144] Cost allocation estimates provided to the Civic Federation by Sulan Tong, City of Chicago Department of Finance, April 2, 2013.
[145] *City of Chicago v. Marshall Korshak, et. al., and Martin Ryan,* Settlement Agreement, p. 8-10.
[146] Retiree Healthcare Benefits Commission, http://www.cityofchicago.org/city/en/depts/fin/provdrs/ben/alerts/2012/aug/retiree_health carebenefitscommissionmeeting.html.

The Commission finished its work in January 2013 and released its report on January 11, 2013.[147] On May 15, 2013, the City announced its decision on how it would continue retiree healthcare after June 30, 2013.[148] First, it would continue subsidies at current levels for all retirees through December 31, 2013. Second, annuitants retired before August 23, 1989, many of whom do not qualify for Medicare, would continue to receive current subsidy levels. Third, due to substantial projected increases in the cost of the plan, annuitants retired on or after August 23, 1989 would see a phase-out of the city's subsidy of benefits with an end to the plan by the beginning of 2017. Non Medicare-eligible retirees would then be able to access healthcare and federal subsidies through the federal Affordable Care Act exchanges. On May 30, 2013, the General Assembly passed legislation allowing the four City pension funds to continue their part of the OPEB subsidy through December 31, 2016 or whenever the City ends its retiree healthcare plan, whichever comes first. Governor Quinn signed the bill into law on June 28, 2013.[149] It is important to note that police officers and firefighters who retired on or after August 23, 1989 and are eligible to receive healthcare coverage pursuant to their collective bargaining agreements will see no change to their coverage unless it is negotiated through collective bargaining.[150]

On September 21, 2016, a three-justice panel of the Illinois First District Appellate Court ruled against a preliminary injunction sought by plaintiffs in the ongoing retiree healthcare litigation to prevent the City from completing the phase-out of retiree healthcare subsidies at the end of 2016. The justices agreed with a ruling by Cook County Circuit Court Judge Neil Cohen that the City of Chicago was not required to continue paying for retiree healthcare subsidies for retirees who retired after 1989 under the pension protection clause of the Illinois Constitution. Plaintiffs have announced their intention to appeal to the Illinois Supreme Court.[151]

OPEB Plan Unfunded Liabilities

The unfunded actuarial accrued liability for the City of Chicago's retiree healthcare plan totaled $802.6 million in FY2015. As described above, the City pays for a portion of the non Medicare-eligible retiree healthcare premiums, but the pension funds also subsidize part of the employee portion of the premium through December 31, 2016. The following table shows the unfunded accrued actuarial liability reported for the pension funds, reflecting the obligations of each fund

---

[147] Retiree Healthcare Benefits Commission, Report to the Mayor's Office on the State of Retiree Healthcare, January 11, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.

[148] City of Chicago Department of Finance, "Annuitant Notice," May 15, 2013. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/Annuitant_Notice_May_15_2013.pdf.

[149] Public Act 98-0043.

[150] A new collective bargaining agreement for city firefighters includes a provision that will require retirees not yet eligible for Medicare to contribute a portion of their annuity to defray the cost of their healthcare starting January 1, 2015. See Fran Spielman, "Council passes firefighters contract with ambulance upgrade," July 30, 2014. http://politics.suntimes.com/article/chicago/council-passes-firefighters-contract-ambulance-upgrade/wed-07302014-1217pm. Reportedly, a new tentative collective bargaining agreement for police officers may include the same provision. See Fran Spielman, "Police contract with retro pay a political coup for Emanuel," September 4, 2014. http://politics.suntimes.com/article/chicago/police-contract-retro-pay-political-coup-emanuel/thu-09042014-123pm.

[151] *Michael W. Underwood, et al., v. City of Chicago, et al.*, 2016 IL App (1st) 153613. See also David Thomas, "City wins right to end retiree health benefits," *Chicago Daily Law Bulletin*, September 30, 2016 and Jonathan Bilyk, "Appeals panel: IL governments can pare back retiree health coverage, if benefits included 'expiration date'," *Cook County Record*, Sep. 22, 2016.

based on their subsidy of the employee premium contribution. The City does not report its own obligation by pension fund, but in the FY2015 CAFR it did split the City obligation to show the amount of liability associated with the settlement plan and that associated with the special public safety retiree healthcare program. The City's financial statements reported an FY2015 unfunded OPEB liability of $21.9 million for the portion subsidized by the pension funds and an unfunded OPEB liability as of December 31, 2015 of $780.6 million for the portion subsidized by the City.[152] The City does not pre-fund OPEB, so there are no assets to offset the actuarial accrued liability and the funded ratio is 0%. The combined unfunded OPEB liability for the City and the pension funds is $802.6 million.

City of Chicago OPEB Unfunded Liabilities for Settlement Plan and CBA Special Benefits: FY2015 (in $ thousands)

	Municipal	Laborers'	Police	Fire	Total
Settlement Plan Unfunded Liability: Pension Funds	$ 8,147	$ 2,133	$ 9,255	$ 2,399	**$ 21,934**
Settlement Plan Unfunded Liability: City					**$ 311,748**
CBA Special Benefits Unfunded Liability: City					**$ 468,889**
TOTAL					**$ 802,571**

Sources: FY2015 Pension Fund CAFRs; FY2015 City of Chicago CAFR, p. 94.

SHORT-TERM LIABILITIES

Short-term or current liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The City of Chicago included the following short-term liabilities in the Governmental Funds Balance Sheet in its annual Comprehensive Annual Financial Report (CAFR) for FY2015, which is the most recent audited financial statement released by the City:

- *Voucher Warrants Payable*: Monies owed to vendors for goods and services carried over into the new fiscal year (called accounts payable by most other local governments);
- *Accrued Interest:* Includes interest due on deposits payable by the City in the next fiscal year;
- *Due to Other Funds:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;[153]
- *Accrued and Other Liabilities:* Includes self-insurance funds, unclaimed property and other unspecified liabilities;
- *Claims Payable*: Monies owed for claims against the City; and
- *Line of credit and commercial paper*:[154] Lines or letters of credit are commitments issued by a bank or other financial institution to provide a short-term loan for certain

---

[152] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 94. The City does not report a combined total liability for both the pension fund and the City OPEB subsidies, nor does it break out its liabilities by pension fund.

[153] City of Chicago FY2016 Comprehensive Annual Financial Report, p. 55.

[154] Information about the City of Chicago's use of letters of credit and commercial paper in FY2014 can be found in the FY2014 Comprehensive Annual Financial Report, p. 58.

purposes.[155] Commercial paper is a type of short-term borrowing whereby a government issues a security that can be traded by the lender to other parties.[156]

The chart below shows City of Chicago short-term liabilities by category and the percent change between FY2011 and FY2015.

In the two-year period between FY2014 and FY2015, total short-term liabilities decreased by $536.2 million or 24.7%. Much of this large decrease is due to the fact that the City did not engage in any short-term borrowing through commercial paper or line of credit vehicles in FY2015. In FY2014, Chicago issued a total of $297.3 million in these types of short-term debt.

Between FY2011 and FY2015, total short-term liabilities increased by 10.5%, or $155.9 million, rising from nearly $1.5 billion to $1.6 billion. The five year increase was primarily due to three items:

- A $93.5 million increase in accrued interest;
- A $77.5 million increase in voucher warrants payable[157]; and
- A $149.8 million increase in amounts due to other funds.[158]

There was also a $166.0 million, 58.6%, decrease in accrued and other liabilities. The reduction in accrued liabilities was primarily due to the accrual in FY2014 of retroactive salary payments owed to the members of the Fraternal Order of Police (FOP). The FOP contract was settled in 2014 and the City owed approximately $100 million in retroactive payments and benefits.[159]

City of Chicago Short-Term Liabilities in the Governmental Funds: FY2011 - FY2015 (in $ thousands)

Type	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Voucher Warrants Payable	$ 428,259	$ 564,952	$ 443,046	$ 564,629	$ 505,759	$ (58,870)	-10.4%	$ 77,500	18.1%
Accrued Interest	$ 177,026	$ 210,413	$ 209,399	$ 225,459	$ 270,551	$ 45,092	20.0%	$ 93,525	52.8%
Due to Other Funds	$ 580,254	$ 735,495	$ 945,701	$ 827,180	$ 730,006	$ (97,174)	-11.7%	$ 149,752	25.8%
Accrued & Other Liabilities	$ 283,313	$ 145,803	$ 149,540	$ 245,613	$ 117,288	$ (128,325)	-52.2%	$ (166,025)	-58.6%
Line of Credit & Commercial Paper	$ -	$ -	$ -	$ 297,309	$ -	$ (297,309)	--	$ -	---
Claims Payable	$ 12,554	$ 37,685	$ 29,487	$ 13,326	$ 13,748	$ 422	3.2%	$ 1,194	9.5%
Total	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 2,173,516**	**$ 1,637,352**	**$ (536,164)**	**-24.7%**	**$ 155,946**	**10.5%**

Source: City of Chicago FY2011-FY2015 Comprehensive Annual Financial Report Balance Sheets Governmental Funds.

Increasing short-term liabilities in a government's operating funds as a percentage of net

---

155 A. John Vogt. Capital Budgeting and Finance: A Guide for Local Governments (Washington, D.C.: ICMA, 2004), p. 389.

156 Steven A. Finkler. Financial Management for Public, Health, and Not-for-Profit Organizations (Upper Saddle River, Prentice Hall, 2001), p. 552.

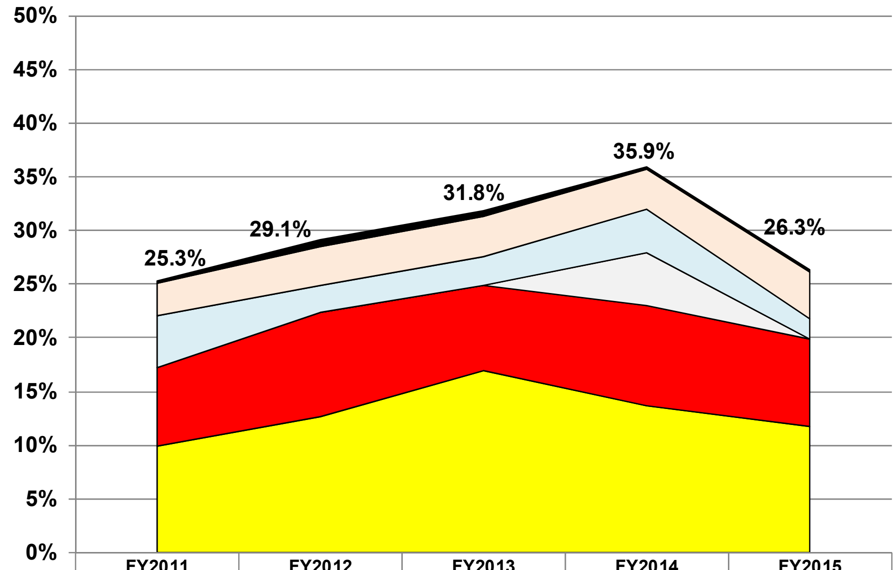
157 The large increase in voucher warrants payable between FY2013 and FY2014 was due to increased construction and acquisition activity for TIF-funded projects and grant-funded projects during the fourth quarter of FY2014 over the fourth quarter of FY2013, resulting in a higher volume of vouchers pending payment. Information provided by City of Chicago Office of Budget and Management, October 7, 2015.

158 Of the $730.0 million reported in FY2015 in the due to other funds category, $167.0 million was due to the Corporate Fund, $261.3 million was due to federal, state and local grant funds and $104.2 million was due to bond, note redemption and interest purposes. See Note 6: Interfund Balances and Transfers, City of Chicago FY2015Comprehensive Annual Financial Report, p. 68.

159 Information provide by City of Chicago Budget Office, October 28, 2016. The Budget Office noted that the entire retroactive payment was paid for with operating funds; no long term borrowing was used.

operating revenues may be a warning sign of possible future financial difficulties.[160] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The following graph shows the five-year trend in the City's short-term liabilities by category. The ratio increased between FY2011 and FY2014, rising from 25.3% to 35.9% before falling to 26.3% in FY2015. Much of the decrease was because the City did not issue short-term debt in FY2015. The average ratio during this five-year period was 29.7%.

City of Chicago Short-Term Liabilities as % of Operating Revenue: FY2011-FY2015



	FY2011	FY2012	FY2013	FY2014	FY2015
Claims Payable	0.2%	0.6%	0.5%	0.2%	0.2%
Accrued Interest	3.0%	3.6%	3.8%	3.7%	4.4%
Accrued & Other Liabilities	4.8%	2.5%	2.7%	4.1%	1.9%
Line of Credit & Commercial Paper	0.0%	0.0%	0.0%	4.9%	0.0%
Voucher Warrants Payable	7.3%	9.7%	7.9%	9.3%	8.1%
Due to Other Funds	9.9%	12.6%	16.9%	13.7%	11.7%

Note: As of FY2014, the City has reclassified lines of credit and commercial paper as short-term obligations.
Source: City of Chicago, FY2011-FY2015 Comprehensive Annual Financial Reports.

Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are

[160] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[161]

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a municipality, including:

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Cash and Investments with Escrow Agent*: Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated and earn and receive interest directly. The City uses separate escrow accounts in which certain tax revenues are deposited and held for payment of debt;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *Due from other funds or governments*: Receivables from those sources that are outstanding at the end of the fiscal year; and
- *Inventories:* The value of materials or supplies that will be used to provide goods or services within a one-year period.

Chicago's current ratio was 3.3 in FY2015, the most recent year for which data is available. In the past five years, the City's current ratio averaged 3.2, far above the preferred benchmark of 2.0 and thus demonstrated a healthy level of liquidity. Between FY2011 and FY2014, the current ratio declined, falling from 3.9 to 2.5 as the amount of current assets fell while the amount of current liabilities rose. In FY2015, the reverse occurred, with a small 0.2% increase in current

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

assets and a large 24.7% decrease in current liabilities. Correspondingly, the current ratio rose to 3.3.

City of Chicago Current Ratio in the Governmental Funds: FY2011-FY2015 (in $ thousands)									
	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year Change	Two-Year % Change	Five-Year Change	Five-Year % Change
Current Assets									
Cash and Cash Equivalents	$ 664,643	$ 729,095	$ 695,927	$ 537,665	$ 857,747	$ 320,082	59.5%	$ 193,104	29.1%
Investments	$ 1,869,980	$ 1,626,647	$ 1,307,700	$ 1,563,515	$ 705,364	$ (858,151)	-54.9%	$ (1,164,616)	-62.3%
Cash and Investments with Escrow Agent	$ 498,483	$ 499,754	$ 462,837	$ 411,085	$ 661,474	$ 250,389	60.9%	$ 162,991	32.7%
Receivables (Net of Allowances): Property Taxes	$ 1,350,049	$ 1,258,648	$ 1,207,362	$ 1,150,682	$ 1,560,464	$ 409,782	35.6%	$ 210,415	15.6%
Receivables (Net of Allowances): Accounts	$ 309,947	$ 285,918	$ 295,894	$ 242,233	$ 256,558	$ 14,325	5.9%	$ (53,389)	-17.2%
Due from Other Funds	$ 518,329	$ 644,731	$ 870,080	$ 724,769	$ 614,108	$ (110,661)	-15.3%	$ 95,779	18.5%
Due from Other Governments	$ 526,139	$ 639,312	$ 743,251	$ 735,640	$ 723,487	$ (12,153)	-1.7%	$ 197,348	37.5%
Inventories	$ 24,055	$ 20,885	$ 24,788	$ 24,498	$ 23,828	$ (670)	-2.7%	$ (227)	-0.9%
Total Current Assets	**$ 5,761,625**	**$ 5,704,990**	**$ 5,607,839**	**$ 5,390,087**	**$ 5,403,030**	**$ 12,943**	**0.2%**	**$ (358,595)**	**-6.2%**
Current Liabilities									
Voucher Warrants Payable	$ 428,259	$ 564,952	$ 443,046	$ 564,629	$ 505,759	$ (58,870)	-10.4%	$ 77,500	18.1%
Accrued Interest	$ 177,026	$ 210,413	$ 209,399	$ 225,459	$ 270,551	$ 45,092	20.0%	$ 93,525	52.8%
Due to Other Funds	$ 580,254	$ 735,495	$ 945,701	$ 827,180	$ 730,006	$ (97,174)	-11.7%	$ 149,752	25.8%
Accrued & Other Liabilities	$ 283,313	$ 145,803	$ 149,540	$ 245,613	$ 117,288	$ (128,325)	-52.2%	$ (166,025)	-58.6%
Line of Credit & Commercial Paper	$ -	$ -	$ -	$ 297,309	$ -				
Claims Payable	$ 12,554	$ 37,685	$ 29,487	$ 13,326	$ 13,748	$ 422	3.2%	$ 1,194	9.5%
Total Current Liabilities	**$ 1,481,406**	**$ 1,694,348**	**$ 1,777,173**	**$ 2,173,516**	**$ 1,637,352**	**$ (536,164)**	**-24.7%**	**$ 154,752**	**10.4%**
Current Ratio	**3.9**	**3.4**	**3.2**	**2.5**	**3.3**	**-**	**33.1%**	**-**	**-15.2%**

Source: FY2011-FY2015 City of Chicago Comprehensive Annual Financial Reports, Balance Sheet, Governmental Funds.

Accounts Payable as a Percentage of Operating Revenues

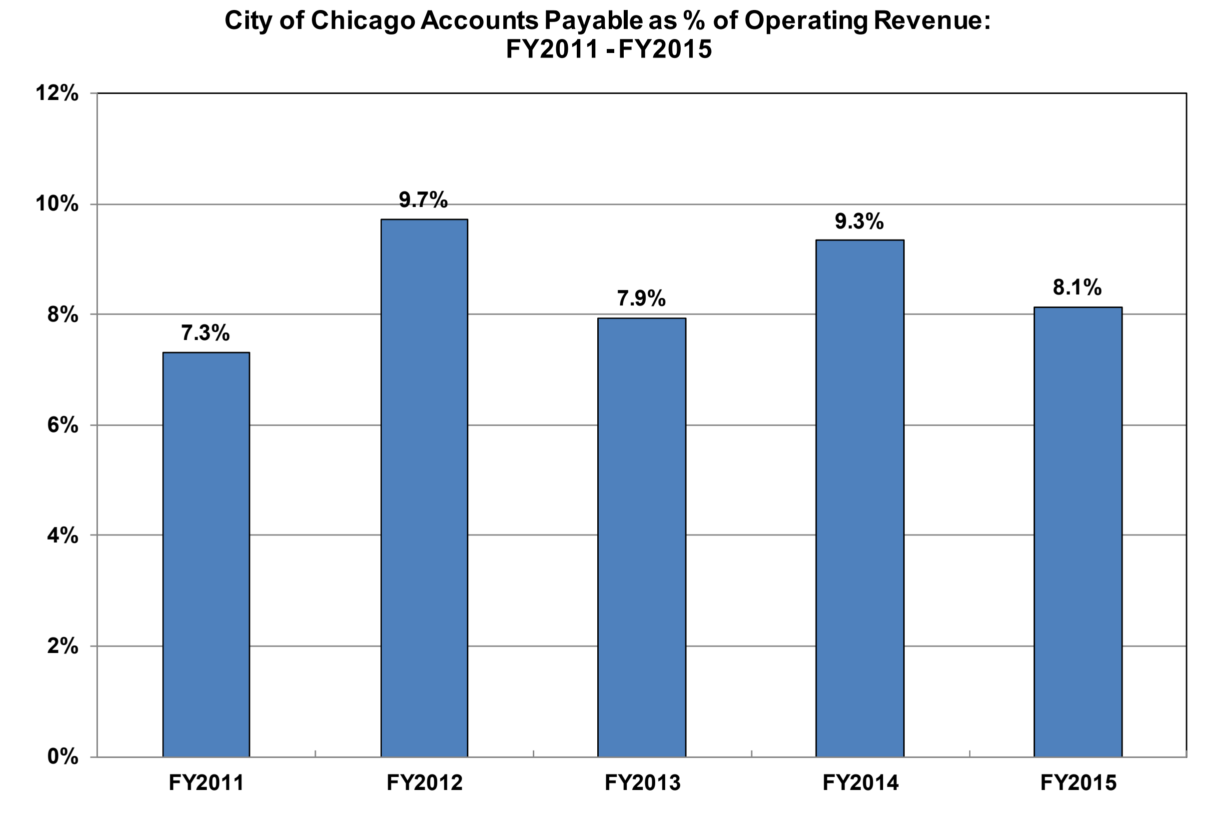
Over time, rising amounts of accounts payable may indicate that a government is having difficulty controlling expenses or keeping up with spending pressures. As noted previously, in the Chicago CAFR, accounts payable are referred to as voucher warrants payable.

The following graph shows the accounts payable as a percentage of operating revenues ratio trend between FY2011 to FY2015. The City's ratio has fluctuated over the past five years, rising and falling in successive years.

- Between FY2011 and FY2012, the ratio rose sharply from 7.3% to 9.7%. The City reports that this increase is due to an aggressive process of identifying and recording FY2012 year-end accruals that had been received but not yet paid. The majority of these accruals were related to capital improvement related expenses;[162]
- In FY2013, accounts payable ratio fell to 7.9% before rising again to 9.3% in FY2014. This increase was due to increased construction and acquisition activity for TIF-funded projects and grant-funded projects during the fourth quarter of FY2014 over the fourth quarter of FY2013, resulting in a higher volume of vouchers pending payment;[163] and
- In FY2015, the accounts payable ratio fell to 8.1%, a favorable trend.

[162] Information provided by City of Chicago Office of Budget and Management, November 11, 2013.
[163] Information provided by City of Chicago Office of Budget and Management, October 7, 2015.

Over the five-year period reviewed, the accounts payable to operating revenue ratio averaged 8.5%, which is equal to slightly more than one month's worth of outstanding bills. This is not considered to be a cause for concern.



Note: Accounts payable for Chicago are called voucher warrants.
Source: City of Chicago, FY2011-FY2015 Comprehensive Annual Financial Reports.

LONG-TERM LIABILITIES

This section of the analysis examines trends in City of Chicago long-term liabilities. It includes a review of trends in Chicago's total long-term governmental activities liabilities and a discussion of its tax supported long-term debt. Long-term liabilities are all of the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. Long-term liabilities include:

- *Bonds, Notes and Certificates Payable*: These are amounts reported for different types of tax supported long-term debt, including general obligation, lease, tax increment financing and revenue debt.
- *Net pension and other post employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. Beginning in FY2015,

this figure will be disaggregated. Net other post employment liabilities will be reported and net pension liabilities will be reported differently (see next bullet point).

- *Net Pension Liabilities*: Beginning in FY2015, Chicago will report 100% of the net pension liabilities of its four municipal pension funds in the Statement of Net Position to comply with GASB Statement 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of Chicago long-term liabilities **reported** will increase substantially. This is because it will reflect a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by Chicago to its pension funds has not significantly changed. It is only being reported more transparently.
- *Lease Obligations*: The amount reported annually is the present value of minimum future lease payments for a sale and lease back arrangements with third parties that the City entered into regarding the City-owned portion of a rapid transit line with a book value of $430.8 million in 2005.[164]
- *Claims and Judgments*: Claims and judgments are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. The amount reported for claims and judgments are amounts needed to finance future liabilities arising from personnel, property, pollution and casualty claims.[165]
- *Pollution Remediation*: The City's pollution remediation obligations are primarily related to Brownfield redevelopment projects. These projects include removal of underground storage tanks, cleanup of contaminated soil and removal of other environmental pollution identified at the individual sites. The estimated liability is calculated using the expected cash flow technique. The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology or changes in applicable laws or regulations.[166]

Total long-term liabilities rose by 41.6% or $12.2 billion, from FY2014 to FY2015. Most of this increase was due to the change in pension reporting in FY2015; in that year net pension liabilities totaled $29.7 billion. As noted above, the new pension liability reporting requirements of GASB Statement 68 present a more transparent approach to measuring these liabilities than the previous approach, rather than a one-year large increase in liabilities.

The five-year increase in these liabilities between FY2011 and FY2015 was 172.2%. This was a nearly $26.2 billion increase. Total long-term debt (bonds, notes and certificates payable) rose by 18.1%, from roughly $8.9 billion to $10.6 billion.

Other liabilities, which include net pension obligations, net other post employment obligations, lease obligations, pollution remediation liabilities and claims and judgments increased at a much faster rate, rising by 394.1% or $24.6 billion.

---

[164] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 70.
[165] City of Chicago, FY2015 Comprehensive Annual Financial Report, p. 57.
[166] City of Chicago, FY2015 Comprehensive Annual Financial Report, pp. 97-98.

Again, much of the total five-year increase between FY2011 and FY2015 and the large increase in other labilities during that same period was due to the new pension reporting guidelines, as net pension liabilities topped $29.7 billion.

The single largest percentage and dollar increase over the five-year period was for pension and other post employment benefit obligations, which increased by 110.7% or $4.7 billion. The steady increase in long-term obligations, particularly the large pension and OPEB obligation increase, is a serious cause for concern.

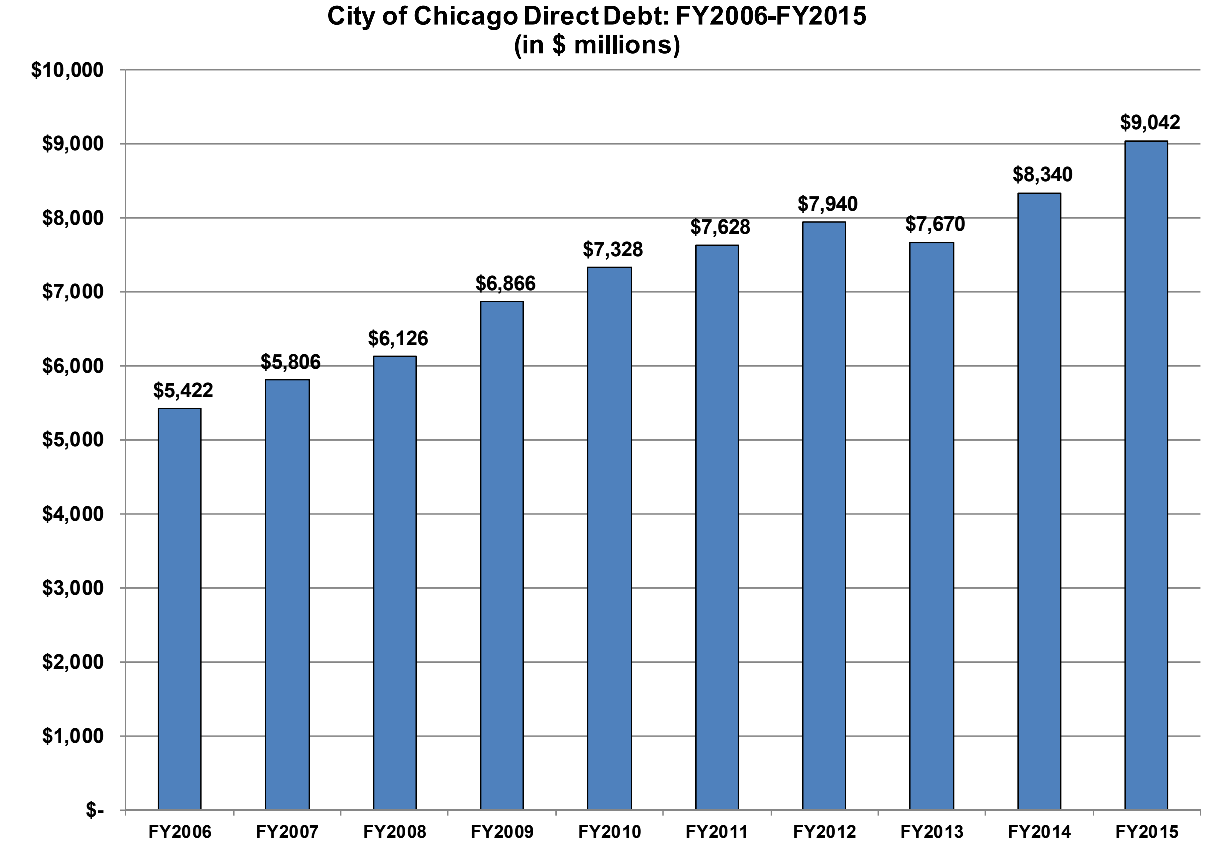
City of Chicago Long Term Liabilities for Governmental Activities
FY2011 - FY2015 (in $ thousands)

	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year Change	Two-Year % Change	5-Year Change	5-Year % Change
General Obligation Debt	$ 7,777,667	$ 8,011,830	$ 7,730,178	$ 8,335,506	$ 9,364,398	$ 1,028,892	12.3%	$ 1,586,731	20.4%
Tax Increment	$ 131,561	$ 112,151	$ 88,397	$ 74,395	$ 65,360	$ (9,035)	-12.1%	$ (66,201)	-50.3%
Revenue	$ 776,027	$ 770,312	$ 753,162	$ 743,795	$ 754,052	$ 10,257	1.4%	$ (21,975)	-2.8%
Subtotal Bonds, Notes and Certificates Payable	**$ 8,685,255**	**$ 8,894,293**	**$ 8,571,737**	**$ 9,153,696**	**$ 10,183,810**	**$ 1,030,114**	**11.3%**	**$ 1,498,555**	**17.3%**
Less unamortized debt refunding transactions	$ (166,065)	$ -	$ -	$ -	$ -	$ -	---	$ 166,065	---
Add unamortized premium	$ 196,637	$ 175,820	$ 160,014	$ 154,767	$ 117,199	$ (37,568)	-24.3%	$ (79,438)	-40.4%
Add accretion of capital appreciation bonds	$ 264,402	$ 283,010	$ 293,789	$ 298,012	$ 307,305	$ 9,293	3.1%	$ 42,903	16.2%
Total Bonds, Notes and Certificates Payable	**$ 8,980,229**	**$ 9,353,123**	**$ 9,025,540**	**$ 9,606,475**	**$ 10,608,314**	**$ 1,001,839**	**10.4%**	**$ 1,628,085**	**18.1%**
Pension & OPEB Obligations	$ 5,386,668	$ 6,364,927	$ 7,589,929	$ -	$ -	$ -	--	--	--
Net Pension Liability	$ -	$ -	$ -	$ 18,345,143	$ 29,697,694	$ 11,352,551	61.9%	$ 29,697,694	--
Net OPEB Obligation	$ -	$ -	$ -	$ 252,944	$ 214,535	$ (38,409)	-15.2%	$ 214,535	---
Lease Obligations	$ 166,787	$ 163,013	$ 171,674	$ 116,858	$ -	$ (116,858)	-100.0%	$ (166,787)	-100.0%
Pollution Remediation	$ 11,235	$ 8,373	$ 8,598	$ 8,532	$ 32,850	$ 24,318	285.0%	$ 21,615	192.4%
Claims and Judgments	$ 667,650	$ 888,593	$ 879,768	$ 900,616	$ 850,561	$ (50,055)	-5.6%	$ 182,911	27.4%
Total Other Liabilities	**$ 6,232,340**	**$ 7,424,906**	**$ 8,649,969**	**$ 19,624,093**	**$ 30,795,640**	**$ 11,171,547**	**56.9%**	**$ 24,563,300**	**394.1%**
Grand Total	**$ 15,212,569**	**$ 16,778,029**	**$ 17,675,509**	**$ 29,230,568**	**$ 41,403,954**	**$ 12,173,386**	**41.6%**	**$ 26,191,385**	**172.2%**

Beginning in FY2015, Governments will report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities will now be reported separately from net OPEB liabiliies.
Beginning in FY2013 commercial paper and lines of credit are no longer included in the general obligation line item. They have been reclassified as short-term debt.
Source: City of Chicago FY2011-FY2015 Comprehensive Annual Financial Reports. Note 10: Long-Term Obligations.

Long-Term Direct Debt Trends

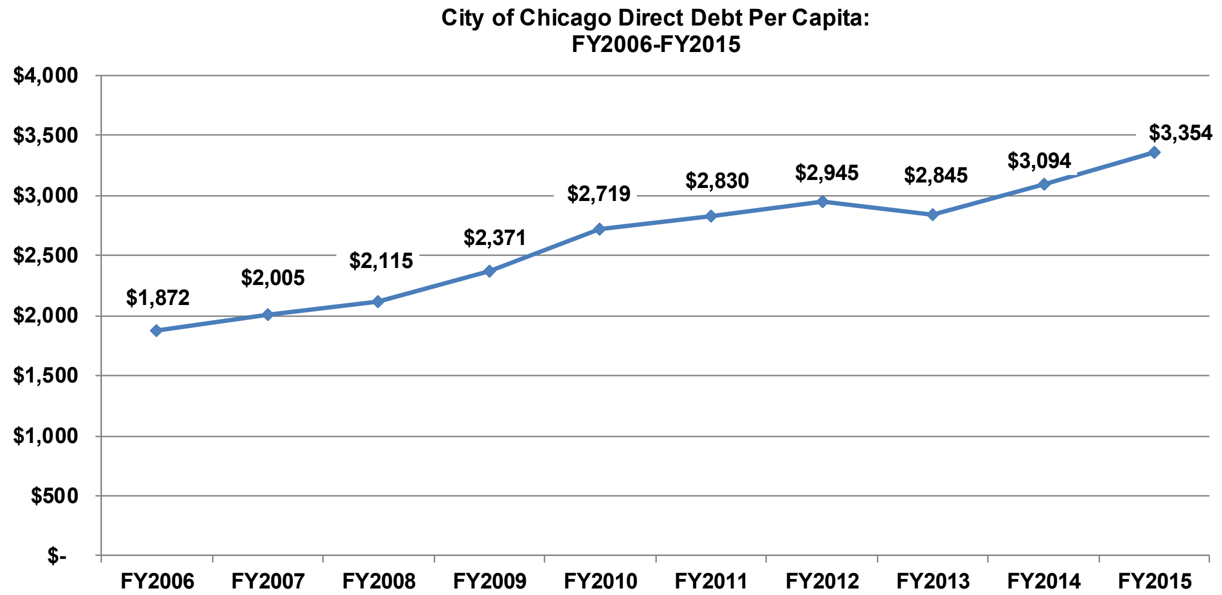
Direct debt is a government's tax-supported debt. Increases over time bear watching as a potential sign of rising financial risk. The exhibit below presents ten-year trend information for the total amount of City of Chicago net direct debt. During that time, total net direct debt rose by 66.8%, or $3.6 billion. This represents an increase from $5.4 billion in FY2006 to $9.0 billion ten years later. Long term debt did decline by 3.4% between FY2012 and FY2013. However, it then rose by 17.9% or nearly $1.4 billion by FY2015. The large increase over time bears watching and raises concerns about the affordability of the City's rising debt burden.



City of Chicago FY2015 Comprehensive Annual Financial Report, pp. 168-169.

Long-Term Direct Debt Per Capita

A common ratio used by ratings agencies and other public finance analysts to evaluate long-term debt trends is direct debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. In the ten years between FY2006 and FY2015, direct debt per capita rose by 79.2% from $1,872 to $3,354. The large upward trend in debt per capita between FY2006 and FY2015 is a cause for concern for the City of Chicago. It threatens to further reduce the City's credit rating, making borrowing more expensive and possibly limiting available capacity for additional borrowing.



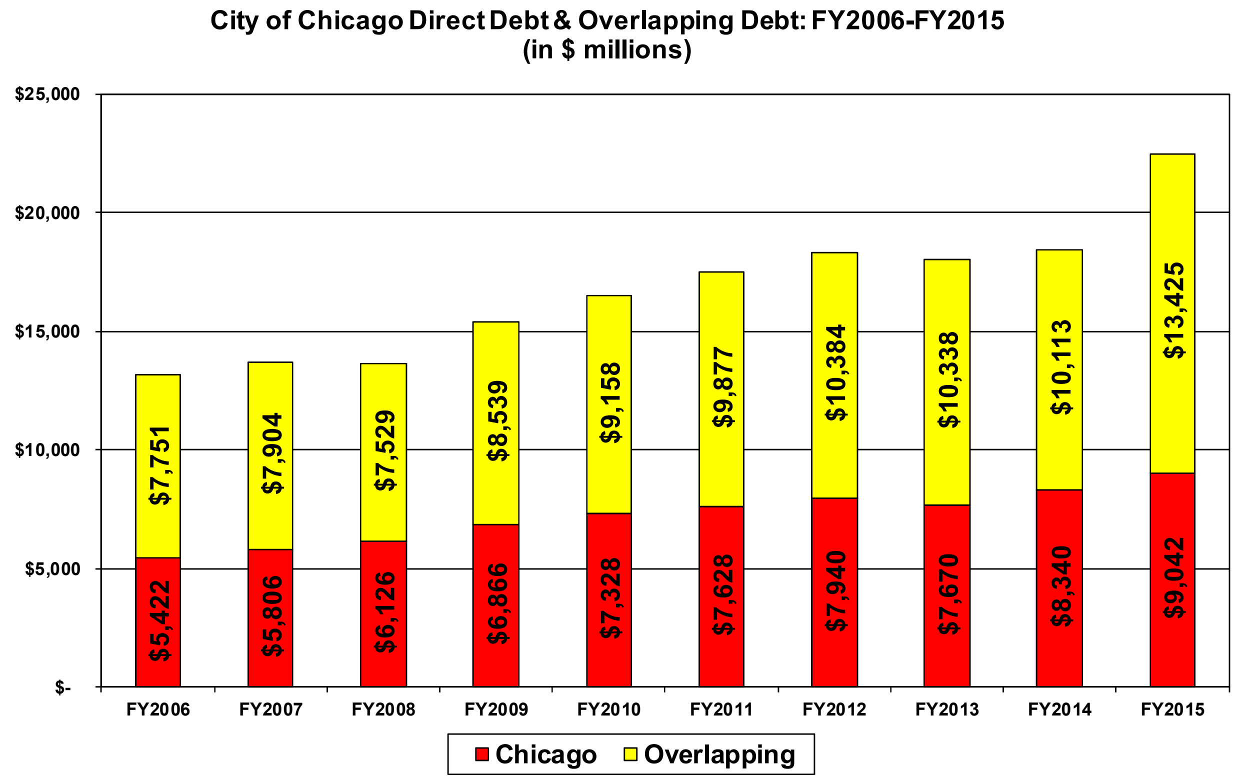
Source: City of Chicago, FY2015 Comprehensive Annual Financial Report, pp. 168-169.

Overlapping Debt: Chicago vs. Other Governments

The next exhibit compares total City of Chicago net direct debt with overlapping net debt reported by seven other major Cook County governments with boundaries coterminous with the City of Chicago or located partially within its boundaries. These governments are: the Chicago Public Schools, Cook County, the Forest Preserve District of Cook County, the Metropolitan Water Reclamation District, the Chicago Park District, City Colleges of Chicago, the former School Finance Authority and the Chicago School Building Improvement Fund.[167] Ratings agencies and other financial analysts commonly monitor overlapping debt trends as an affordability indicator when governments consider debt issuance. Between FY2006 and FY2015 combined direct debt from other overlapping governments increased by 73.2% at the same time

[167] School Finance Authority debt was retired in 2007 and the Authority dissolved on June 1, 2010. Debt is now issued by the City on behalf of the Chicago Public Schools through the Chicago School Building Improvement Fund. The City also issues debt on behalf of the City Colleges for capital improvements.

City of Chicago debt rose by 66.8%. Total direct debt from all eight major governments including Chicago rose by 70.6%. The rate of increase in direct debt issued by the other overlapping governments slightly outpaced the increase for Chicago.



Source: City of Chicago Comprehensive Annual Financial Reports, various years. Table 18: City of Chicago Computation of Direct and Overlapping Debt..

Debt Service Appropriation Ratio

Chicago debt service appropriations in FY2017 are projected to be 23.6% of total local fund net appropriations, or $1.9 billion out of expenditures of $8.2 billion. Since FY2013 debt service appropriations have risen by 27.5%, roughly at the same pace as the 25.7% increase in total net appropriations. The debt service ratio has averaged 23.6% over the five-year period analyzed. The ratings agencies consider a debt burden high if this ratio is between 15% and 20%.[168]

City of Chicago Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2013-FY2017			
	Debt Service	Total Net Appropriation	Ratio
FY2013	$ 1,520,332,540	$ 6,540,147,000	23.2%
FY2014	$ 1,708,603,837	$ 6,976,982,000	24.5%
FY2015	$ 1,743,440,463	$ 7,339,188,000	23.8%
FY2016	$ 1,794,543,572	$ 7,837,956,000	22.9%
FY2017	$ 1,938,455,902	$ 8,218,266,000	23.6%
Five-Year $ Increase	$ 418,123,362	$ 1,678,119,000	
Five Year % Increase	27.5%	25.7%	

Source: City of Chicago Budget Recommendations: FY2013-FY2017.

Continued Reduction in Scoop-and-Toss Bond Financing

In FY2016, the City announced a four-year phase out of scoop-and-toss bond financing techniques.

Scoop-and-toss debt financing reduces current year payments for outstanding bonds by pushing off large principal debt payments to future years. It provides budgetary relief in the beginning years as debt service expenses are reduced, but in the long-term it increases the total cost of borrowing. Essentially, it is method of borrowing to pay for operations.

The Mayor's recommended FY2017 budget proposes increasing revenue available for general obligation debt service payments by $63 million. In FY2016, a $100 million reduction in scoop-and-toss was budgeted.[169]

Credit Ratings

The ratings agencies have issued a number of credit rating downgrades since 2010, reflecting the City's continued deteriorating financial outlook. The following table summarizes credit ratings

[168] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[169] City of Chicago, FY2017 Budget Recommendations, p. 10.

as of October 11, 2016 for various types of City bonds. The narrative that follows discusses the various downgrade actions over the past several years.

City of Chicago Credit Ratings (as of 10/11/16)			
	Ratings Agency		
Type of Bonds	**Moody's**	**Standard & Poor's**	**Fitch**
General Obligation Bonds			
City	BBB-	BBB+	BBB-
Revenue Bonds			
O'Hare Airport			
Senior Lien General Airport Revenue Bonds	A2	A	A-
Passenger Facility Charge Revenue Bonds	A2	A	A
Customer Facility Charge	Baa1	BBB	Not Rated
Midway Airport			
First Lien - Revenue Bonds	A2	A	A
Second Lien - Revenue Bonds	A3	A-	A-
Water			
Senior Lien - Revenue Bonds	Baa1	A+	AA+
Junior Lien - Revenue Bonds	Baa2	A-	AA
Wastewater			
Senior Lien - Revenue Bonds	Baa2	A+	Not Rated
Junior Lien - Revenue Bonds	Baa3	A	AA
Sales Tax	Ba1	AA	BBB-
Motor Fuel Tax	Ba1	BBB+	BBB

Meaghan Kilroy. "Chicago credit rating slammed in wake of pension ruling," Crain's Chicago Business, March 29, 2016; BusinessWire. "Fitch downgrades Chicago, IL's ULTGOs and Sales Tax Bonds to BBB-; Outlook Negative at http://www.businesswire.com/news/home/20160328005541/en/Fitch-Downgrades-Chicago-ILs-ULTGOs-Sales-Tax; Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 - See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.
Moody's Investors Services Rating Action, July 17, 2013; Paul Merrion, Crain's Chicago Business, "Why state's falling credit ratings hurt Chicago, June 7, 2013; Fitch Ratings, Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to BBB+. Outlook Negative, June 4, 2013; Fitch Ratings, Fitch Rates Chicago O'Hare airport, IL Revs 'A-', Outlook Negative; Affs PFCs at 'A', Outlook Stable, September 25, 2013; Chicago Tribune, S & P turns 'negative' on Chicago's financial outlook, September 16, 2013; Chicago Sun-Times, "Fitch lowers Chicago's bond rating," November 11, 2013 at http://www.suntimes.com/23683456-761/fitch-lowers-chicagos-bond-rating.html; City of Chicago website at http://www.cityofchicago.org/city/en/depts/fin/supp_info/bond_issuances0/credit_information.html; CBS Chicago, Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit, March 4, 2014.

Chicago Credit Rating Changes in 2016

In late 2016 the City of Chicago received some good news related to its credit ratings. In October, Standard & Poor's revised its credit outlook from negative to stable, while re-affirming its previous BBB+ rating. The reason for S & P's action was the City' approval of increased water and sewer taxes to boost funding for the Municipal Pension Fund, increased property taxes for the Police and Fire pension funds and increases in telephone surcharges to shore up the Laborers' Pension Fund. These actions will help to stabilize the precarious financial position of these retirement funds.[170] S & P's action mirrored Fitch's decision to change its credit outlook

---

170 *Reuters*. "Chicago gets brighter credit rating outlook from S & P," October 7, 2016 at http://www.reuters.com/article/us-chicago-ratings-idUSKCN12727U.

from negative to stable in August, while re-affirming its previous BBB- rating. Fitch also cited the City's actions to increases taxes and fees to provide funding stability for its pension funds as the reason for its change in outlook.[171]

In March 2016, in the wake of the Illinois Supreme Court's rejection of pension reform laws that sought to stabilize the finances of the Chicago Municipal and Laborer's Pension Funds, Fitch downgraded City general obligation and sales tax bonds to BBB- from BBB+ with a negative outlook. Moody's Investor's Services characterized the court ruling as a "credit negative" action for Chicago, but did not change its previous credit rating or outlook. Standard & Poor's made no ratings change at that time.[172]

Chicago Credit Rating Downgrades in 2015

On February 27, 2015 Moody's downgraded the City of Chicago's General Obligation Bond rating one notch to Baa2 from Baa1, which triggered the termination clauses of several of the derivative instruments tied to the City's variable rate bonds, also referred to as swaps. At that time, Moody's cited a number of factors that could lead to a further reduction in the City's bond rating, including the Illinois Supreme Court issuing its ruling that the State's pension reform package was unconstitutional.[173]

In May 2015 Moody's Investors Service further downgraded the City of Chicago's general obligation bond ratings to Ba1 with a negative outlook, a rating below investment grade.[174] Soon after, Fitch Ratings and Standard & Poor's Ratings Services followed suit by downgrading Chicago's general obligation bond rating one notch to BBB+ from A- and to A- from A+, respectively, with negative outlook, but keeping Chicago's rating at investment grade.[175]

Chicago Credit Rating Downgrades in 2013 and 2014

Chicago motor fuel tax bonds credit ratings were lowered by both Fitch and Moody's in June 2013 after they downgraded the State of Illinois' general obligation ratings. Fitch lowered the rating to BBB+ from A-. This action was triggered by Fitch's downgrade of the State of Illinois' general obligation bond rating to A- from A. Moody's reduced the rating on the bonds to Baa1 with a negative outlook from A3 one day after their State of Illinois rating was lowered to A2 from A3. Motor fuel taxes are distributed according to formula set by the state and are subject to annual appropriation by the General Assembly. The ratings agencies expressed concern that

---

[171] Elizabeth Campbell. *Bloomberg.com*. "Chicago Outlook Lifted to Stable by Fitch on Pension Improvement," August 30, 2016 at http://www.bloomberg.com/news/articles/2016-08-30/chicago-outlook-lifted-to-stable-by-fitch-on-pension-improvement.

[172] Meaghan Kilroy. "Chicago credit rating slammed in wake of pension ruling," *Crain's Chicago Business*, March 29, 2016.

[173] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015. See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.

[174] *Chicago Tribune*. "Chicago credit junked, Moody's downgrades to Detroit-level status after pension fix tossed," May 13, 2015.

[175] Civic Federation, "Chicago Area Governments Bond Ratings Fall Below Investment Grade," May 22, 2015 See https://www.civicfed.org/civic-federation/blog/chicago-area-governments-bond-ratings-fall-below-investment-grade.

weakness in the state's financial condition raised questions about the reliability of state revenues provided to local governments that are used to pay for local debt.[176]

In July 2013, Moody's downgraded Chicago general obligation sales tax bonds to A3 from Aa3, water and sewer senior lien revenue bond to A1 from Aa2 and water and sewer junior lien bonds to A2 from Aa3. The outlook on all ratings was negative. The primary reason for the general obligation bond downgrade was the City's large and growing unfunded pension liabilities and the increasing budget pressures resulting from these obligations. The sales tax bonds were downgraded due to the "lack of legal separation between pledged sales tax revenues and the city's general operations." The downgrades of the water and sewer bonds reflected the ratings agency's concerns about how the City's water and sewer enterprises were linked to its general operations.[177]

In September 2013, S&P reduced the City's A+ general obligation bond rating from stable to negative. The downgrade was due to concerns that Chicago might reduce its reserves in order to pay for increased pension funding in fiscal year 2015. In that year S&P said that the City must substantially increase contributions to two of its four retirement funds to meet state statuary requirements. S&P noted that the City could retain its A+ rating with a stable outlook if it devised a plan to make the forthcoming pension payments while maintaining a balanced budget and keeping reserves at current levels.[178]

In November 2013 Fitch issued the following credit downgrades:

- $8 billion unlimited tax general obligation (ULTGO) bonds downgraded to 'A-' from 'AA-';
- $497.3 million sales tax bonds downgraded to 'A-' from 'AA-';
- $200 million commercial paper notes, 2002 program series A (tax exempt) and B (taxable) downgraded to 'BBB+' from 'A+'.

The rating outlook for Chicago debt was negative. The downgrade reflected the City's lack of action on solving its mounting unfunded pension liability problem.[179]

In March 2014 Moody's Investor's Services again downgraded the City of Chicago's credit rating, lowering it from A3 to Baa1 with a negative outlook, only three ranks above speculative status. The negative outlook indicates that another downgrade could come if the City does not implement a solution to its looming pension funding shortfall. As a result of the downgrade, Chicago had the worst credit rating of any major city except Detroit.[180]

---

[176] Fitch Ratings. "Fitch Downgrades Chicago, IL's Motor Fuel Tax Bonds to 'BBB+'; Outlook Negative," June 4, 2013 and Paul Merrion, *Crain's Chicago Business*, "Why state's falling credit rating hurts Chicago," June 7, 2013.
[177] Moody's Investors Services. Rating Action: Moody's downgrades Chicago to A3 from Aa3, affecting $8.2 billion of GO and sales tax debt; outlook negative.
[178] Reuters. "S&P turns 'negative' on Chicago's financial outlook," September 16, 2013.
[179] Reuters. "Fitch Downgrades Chicago, IL's ULTGOs to 'A-'; Outlook Negative," November 8, 2013 at http://www.reuters.com/article/2013/11/09/ny-fitch-ratings-chicago-idUSnBw085976a+100+BSW20131109.
[180] CBS Chicago. *Moody's Downgrades Chicago's Credit Rating, Lowest Of Any Major City Except Detroit,* March 4, 2014 and Civic Federation Blog. "Chicago Faces Significant Swaps Liabilities if Bond Rating Lowered Again," June 19, 2014.

Chicago Credit Rating Downgrades 2010-2012

In August of 2010, Fitch downgraded $6.8 billion in outstanding City general obligation bonds to AA from AA+.[181] The City's rating outlook was changed to "negative." The downgrade reflected the City's weakening financial condition as a result of revenue declines and the accelerated use of asset lease reserves to balance the operating budget. The downgrade and negative outlook also reflected the City's large unfunded accrued actuarial pension liability.[182] On October 28, 2010 Fitch announced another downgrade of the City's outstanding General Obligation bonds to AA- from AA, again citing the City's accelerated use of asset lease reserves and other non-recurring revenues for operating purposes as a key factor in assigning the downgrade.[183]

Moody's also downgraded the City's outstanding $6.8 million in long-term general obligation debt rating to Aa3 with a stable outlook from the previous rating of Aa2 in August 2010. The reasons given for the downgrade were that the City was overly dependent on asset lease reserves that were being rapidly depleted, the City's pension funds are severely underfunded and the City maintains an above average debt burden characterized by a slow 32-year payout. Moody's noted, however, that Chicago maintains a large and diverse tax base, it still maintains reserves from the Skyway long-term lease and that management has taken steps to reduce expenditures.[184]

Moody's, Standard & Poor's and Fitch reaffirmed the City of Chicago's general obligation and sales tax bond ratings and gave the City's credit a stable outlook on October 18, 2011. At that time, the ratings agencies noted that the City's FY2012 budget proposal relies on recurring revenue sources instead of reserves and non-recurring measures.[185]

In July 2012, Moody's downgraded O'Hare Airport senior lien general revenue bonds to A2 from A1 over concerns about slow growth in passengers and the bankruptcy of American Airlines, the airport's second largest carrier. The ratings agency noted that the ongoing O'Hare runway expansion effort faces considerable risk in its ability to contain costs and complete work on time because of the size and complexity of the project. Moody's affirmed the A2 rating for O'Hare passenger facility revenue bonds at this time.[186]

---

[181] The City's GO debt had been raised to AA+ as part of Fitch Ratings' recalibration of almost all municipal issuers in April 2010. Moody's and Standard & Poor's also undertook recalibrations intended to rate public and corporate debt on the same scale. Dan Seymour, "Fitch Recalibrates 38,000-Plus Ratings," *The Bond Buyer*, April 6, 2010.

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

[183] Fitch Ratings, "Fitch Rates City of Chicago, IL GO Bonds and Tender Notes 'AA'; Downgrades Outstanding GOs," August 5, 2010. Fitch Ratings, "Fitch Downgrades Chicago, IL's GO Bonds to 'AA-'; Outlook Revised to Stable," October 28, 2010.

[184] Moody's Investors Service, "City of Chicago High Profile New Issue," August 12, 2010.

[185] Fitch Ratings. Fitch Rates Chicago, IL GOs & Sales Tax Bonds 'AA-'; Outlook Stable. October 18, 2011 and Standard & Poor's. 'AAA' Rating Assigned To Chicago, IL's $229.5 Million Series 2011A-C Sales Tax Refunding Bonds. October 18, 2011. Fran Spielman, "500 jobs coming, bond rating steady," *Chicago Sun-Times*, October 19, 2011.

[186] Jon Hilkevitch and Hal Dardick. "O'Hare revenue bonds downgraded," Chicago Tribune, July 22, 2012.

CAPITAL PROGRAM

The City of Chicago has released a FY2016-2020 Capital Improvement Plan (CIP).[187] This is the fifth CIP released by the Emanuel administration. No CIP was published for the FY2011-FY2015 period. The CIP provides a plan for five years of capital programming.

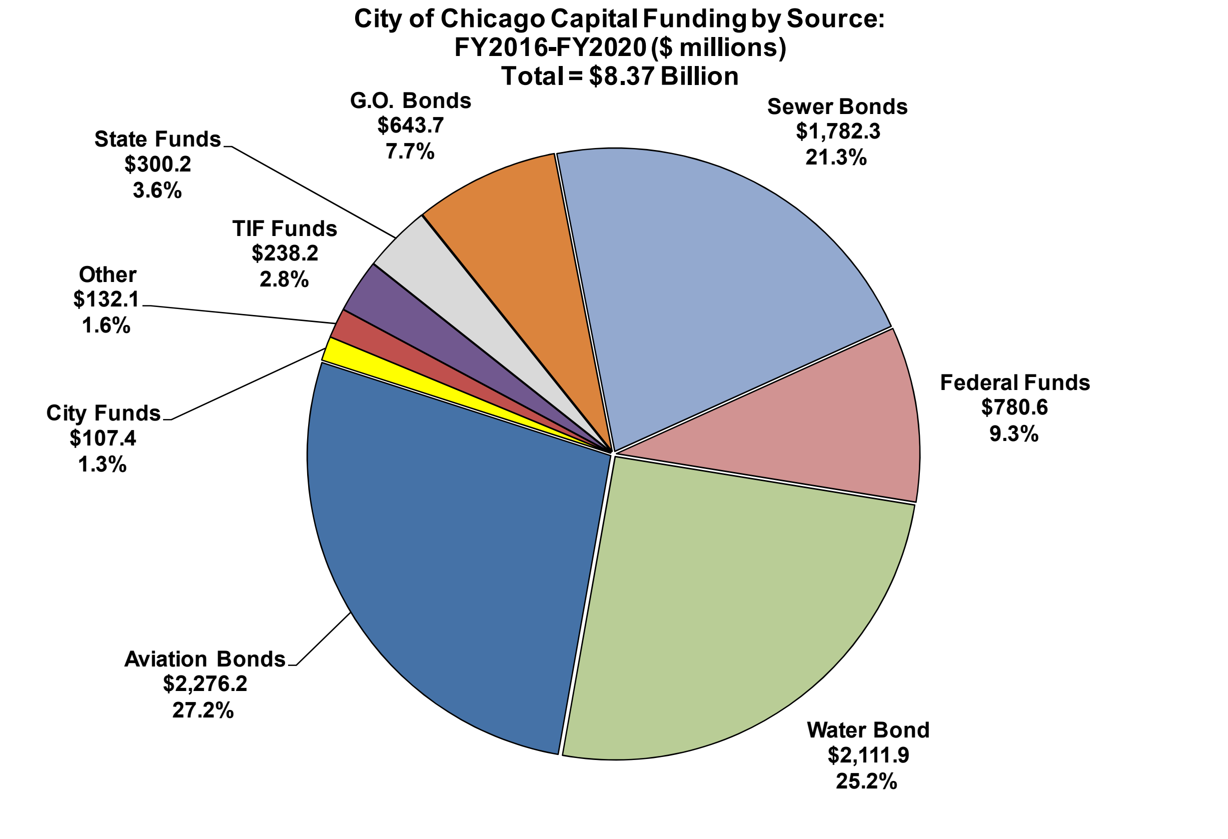
The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and provide an estimate of the size and timing of future debt issuance. The first year of a CIP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

The FY2016-FY2020 CIP proposes $8.37 billion in planned projects. Aviation, water and sewer projects paid for with revenue bond funds will consume 73.7% of the total or $6.2 billion. In addition:

- Federal funds will be used to finance 9.3% or $780.6 million in projects;
- City issued general obligation bonds will be used for $643.7 million, or 7.7%, of all projects;
- City funds, derived from fees and other resources, will account for $107.4 million, or 1.3%, of all five-year CIP spending; and

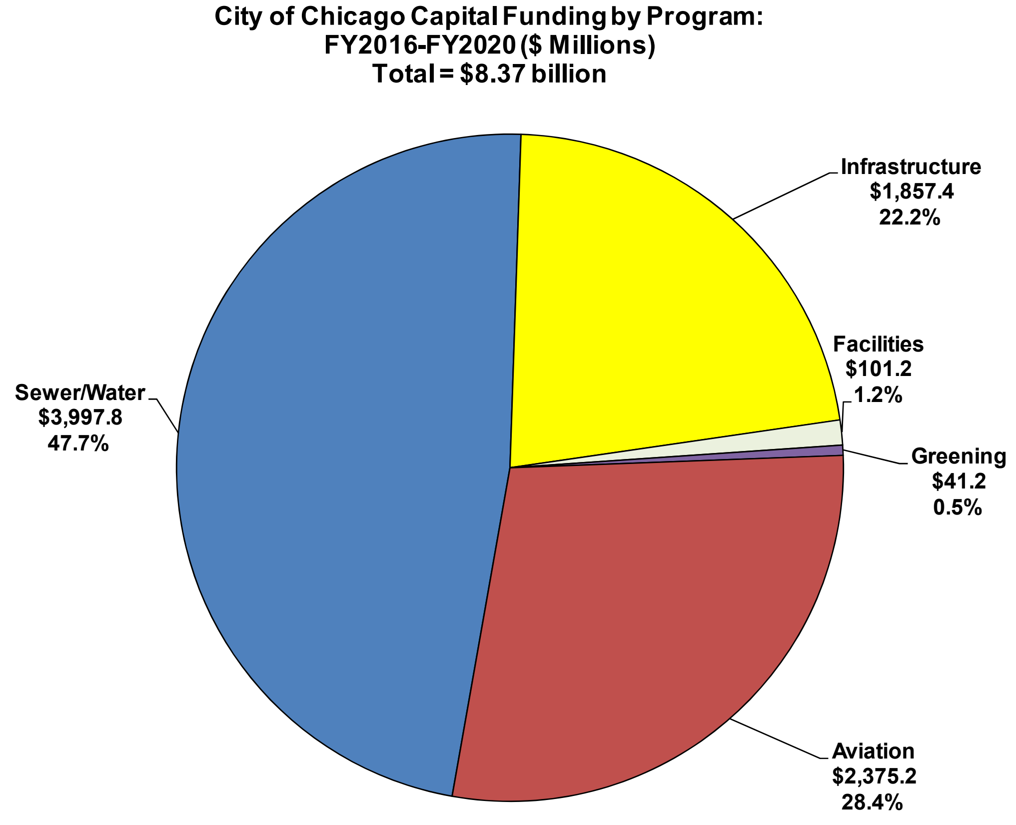
[187] The FY2016-FY2020 Capital Improvement Plan is available on the City's website at https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2016-2020_CIP.pdf.

- Additional amounts will be derived from the State of Illinois, tax increment financing districts and other funds.



Source: Chicago FY2016-FY2020 Capital Improvement Program, p. 6.

The next exhibit shows the distribution of Chicago FY2016-FY2020 CIP funds by program. The largest component of the capital program will be nearly $4.0 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total $2.4 billion, or 28.4% of all funding. The next largest capital program will be for infrastructure, which will total approximately $1.8 billion, or 22.2% of funding. Smaller amounts will be used for facilities and greenways.



Source: Chicago FY2016-FY2020 Capital Improvement Program, p. 7.

The following exhibit evaluates the City of Chicago's CIP format based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and Civic Federation budget analyses of local government budgets.[188]

This review is based on the FY2016-FY2020 capital improvement program posted online on the City's website.[189] The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City's website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan's impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While

[188] See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.
[189] See https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2016-2020_CIP.pdf.

aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

City of Chicago Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually, although no CIP was produced for the FY2011-2015 period.
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	No
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	No, but there is an overview of planned projects
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in a separate document.
• *Is the CIP available on the Web?*	Yes[190]
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	Unclear
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Unclear
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear

[190] City of Chicago Capital Improvement Plans are available at https://www.cityofchicago.org/city/en/depts/obm/provdrs/cap_improve.html.

APPENDIX A

Major Provisions of Public Act 98-0641

Before P.A. 98-0641 went into effect, and now after it has been struck down by the Illinois Supreme Court, employer contributions for the Municipal and Laborers' funds are set at 1.25 and 1.0 times employee contributions two years prior, respectively. These multiples have not been sufficient for the actuarial needs of either fund since FY2003 for the Municipal Fund and since FY2004 for the Laborers' Fund. The employer contribution shortfalls have contributed significantly to the fall in each fund's funded ratio over the past 10 years.

Under the provisions of the new law, the multiples contributed by the City for each fund increase gradually over five years starting in 2016 (tax year 2015) until in 2021 the city will begin to annually contribute an amount that will increase funding to 90% by the end of 2055. If the City fails to make the required contributions, the Illinois Comptroller will withhold State fund transfers to the City. This provision is similar to the intercept described below for the Police and Fire Funds that was enacted as part of Public Act 96-1495.

The following chart summarizes the benefit changes and increases to employee contributions included in the pension reform package.

Summary of Chicago Municipal Fund Pension Benefit Changes Under Public Act 98-0641		
Plan Components	**Current Funding Plan**	**Reform Plan**
COLA Rate (Tier 1) 3% compounded	3% compounded	3% or 50% of CPI (whichever is less); simple interest
COLA pause years	None	2017, 2019, 2025
COLA delays	Varies for Tier 1 & Tier 2 - delayed until January 1 at least	1 additional year delay for both Tiers
Retirement Age	50-60 for Tier 1 depending on years of service; 67 for Tier 2	No change for Tier 1; Reduced to 65 for Tier 2
Employee Contributions	8.5% of payroll	1/2% increases in 2015-2019 for total increase of 2.5%; and total of 11%*

Source: Public Act 98-0641

* Tier 1 members with an annual annuity of less than $22,000 will receive at least 1% AAI every year, including the skip years.

The following chart shows the impact of the benefit changes on the funding status of the Municipal Fund between December 31, 2013 and December 31, 2014.

Impact of Pension Benefit Changes in Public Act 98-0641 on the Municipal Fund Unfunded Actuarial Accrued Liability							
	(1) December 31, 2013	**(2) December 31, 2014 Results Before P.A. 98-0641**	**(3) December 31, 2014 Results After P.A. 98-0641**	**(3)-(1) $ Change**	**(3)-(1) % Change**	**(3)-(2) $ Change**	**(3)-(2) % Change**
Municipal	$8,742,285,563	$9,275,997,933	$7,285,291,571	-$1,456,993,992	-16.67%	-$1,990,706,362	-21.46%

Source: FY2014 Municipal Fund Actuarial Valuation, pp. iv-v.

If the benefit changes had not been made, the unfunded liability would have increased in FY2014 by $533.7 million over year-end 2013. Instead, the unfunded liability fell by nearly $1.5 billion by the end of FY2014 from year-end 2013. Thus, the total impact of the benefit changes passed for the Municipal fund was a decrease of nearly $2.0 billion or 21.5% in the unfunded liability in FY2014 from what it would have been without the changes.

The funded ratio also increased as a result of the benefit changes. The actuarial funded ratio as of December 31, 2013 was 36.9% and would have fallen to 35.2% in FY2014 if the benefit changes had not been made. Instead, the 2014 year-end results show an increase in the funded ratio after the benefit changes to 40.9%.[191] The entire reform package is intended to raise the funded ratio of the Municipal Pension Fund to 90% by 2055.

[191] Municipal Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation and Review as of December 31, 2014, p. iv. Similar analysis was not provided by the actuary for the Laborers' Fund in the actuarial valuation.

APPENDIX B

Calculation of the Actuarially Determined Contribution and Annual Required Contribution

The following tables show the similarities and differences in how the Actuarially Determined Contribution (ADC) and Annual Required Contribution (ARC) are/were calculated.

Calculation of the Fire Fund Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)		
	ADC (FY2015 and After)	**ARC (FY2014 and Earlier)**
Amortization Period	30-year open	30-year open
Amortization Method	Level Dollar	Level Dollar
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	8.00%

Source: Fire Pension Fund FY2015 and FY2013 Actuarial Valuations.

Calculation of the Police Fund Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)		
	ADC (FY2015 and After)	**ARC (FY2014 and Earlier)**
Amortization Period	30-year closed	30-year open
Amortization Method	Level Dollar	Level Dollar
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	7.50%

Source: Police Pension Fund FY2015 and FY2013 Actuarial Valuations.

Calculation of the Municipal Fund Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)		
	ADC (FY2015 and After)	**ARC (FY2014 and Earlier)**
Amortization Period	30-year open	30-year open
Amortization Method	Level Dollar	Level Dollar
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	7.50%

Source: Municipal Pension Fund FY2015 and FY2013 Actuarial Valuations.

Calculation of the Laborers' Fund Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)		
	ADC (FY2014 and After)	**ARC (FY2013 and Earlier)**
Amortization Period	30-year open	30-year open
Amortization Method	Level Dollar	Level Dollar
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	7.50%

Source: Laborers' Pension Fund FY2015 and FY2013 Actuarial Valuations.