THE CIVIC FEDERATION

FINANCIAL CHALLENGES FACING THE CHICAGO MAYOR AND CITY COUNCIL:

OPTIONS AND RECOMMENDATIONS

for more information, visit civicfed.org/ChicagoFinancialChallenges2023

JUNE 14, 2023

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INTRODUCTION

In 2023 Chicago voters elected Brandon Johnson as the City's new Mayor as well as a City Council with 13 new members. The City's new political leadership will immediately face five major fiscal challenges:

1. Recovery from the COVID-19 pandemic and the end of federal recovery funds;
2. Chicago's public safety crisis;
3. The City's chronically high liability burden;
4. Funding the City's enormous pension shortfall; and
5. The City's persistent structural deficit.

Addressing these urgent fiscal needs could crowd out spending for other government services. A solution will likely require spending cuts, new revenue sources or tax increases, financial assistance from the State of Illinois and/or new borrowing efforts. These fiscal challenges will be especially daunting because of reductions in revenue forecasts in Illinois and around the country and the possibility of an economic recession in the near future.

While these issues took many years to develop, they must be addressed in the next few years to stabilize the City's finances. It will not be an easy task and will require significant local political will and assistance from the Illinois General Assembly and Governor. This report lays out several revenue and financial management options that the Mayor and City Council could consider as they work to continue to stabilize the City's financial position.

Purpose and Structure of the Report

The purpose of this report is twofold:

- To present **information about various revenue options and other financial management options** that could result in spending reductions or operational efficiencies for City policymakers to consider in the coming months and years to address Chicago's fiscal challenges. These options are presented for informational purposes only, with balanced arguments and issues to be considered for each one. Some of these concepts have been discussed during the Chicago municipal election campaign by candidates and other stakeholders and advocacy groups. ***However, the Civic Federation is not endorsing or taking a position on the ideas in this report.***

- To offer the Civic Federation's **recommendations** for consideration by the Mayor and City Council aimed at addressing structural and process issues, budget and management issues and transparency issues. The Civic Federation has endorsed these recommendations in our public statements, media commentary and other reports, including our annual analyses of the City of Chicago budget.

It is important to note that many of the ideas presented in this report will require approval of legislation by the Illinois General Assembly and the Governor. This is appropriate as the State of Illinois created or contributed to many of the problems faced by the City of Chicago, such as pension funding shortfalls. In addition, many proposals, if accepted, might have to be implemented in stages due to the size of the City's fiscal challenges.

Chicago faces a number of social, economic and financial problems in addition to the five key fiscal issues identified above. These include:

- Public corruption;
- A lack of affordable housing;
- Increased costs of sheltering and caring for migrants;
- Uneven patterns of economic development;
- Education performance and quality; and
- Pressing financial issues facing the City's sister agencies including the Chicago Public Schools, City Colleges of Chicago, the Chicago Park District and Chicago Transit Authority.

While we acknowledge their importance and their impact on the City of Chicago's financial challenges, this report will not address solutions for these other critical problems.

Financial Management Options for the City of Chicago

The various financial management options for the City of Chicago discussed in this report are listed below along with an indication of whether each option would require authorization by the State of Illinois through legislation or if the City can implement them using its existing home rule authority. The Civic Federation takes no position on these options. They are presented in this report in order to advance public officials' and residents' discussions of Chicago's financial future.

SELECTED FINANCIAL MANAGEMENT OPTIONS FOR THE CITY OF CHICAGO		
	Authorization Method	
Financial Management Option	**State Statute**	**Home Rule**
Revenue Options		
City of Chicago Income Tax	X	
Commuter Tax	X	
Congestion Pricing*	X	X
Employer's Expense Tax (Head Tax)		X
Expanding Sales Tax to Services (with Local Share)	X	
Financial Transaction Tax	X	
Graduated Real Estate Transfer Tax**	X	
Legalizing Video Gaming	X	
Other Existing City Taxes		
Liquor Taxes		X
Motor Fuel Tax		X
Jet Fuel Tax***		
Property Tax		X
Rideshare Fees Linked to Congestion		X
Tax on Retirement Income (with Local Share)	X	
Other Financial Management Options		
Alternative Service Delivery		X
City Charter	X	
Consolidating City Pension Funds	X	
Pension Obligation Bonds		X
Chicago Public Bank	X	

*Certain types of congestion pricing (e.g., toll lanes) would require state authorization, while others (e.g., cordon area pricing) could be done via home rule.

**Could also be implemented via referendum.

***Increasing jet fuel taxes may require federal approval.

Civic Federation Recommendations

Below is a summary of major **recommendations** that the Civic Federation endorses. The recommendations are grouped into three categories: structural recommendations relating to the structure of City government; budgeting and management recommendations; and transparency recommendations.

CIVIC FEDERATION RECOMMENDATIONS
Structural Recommendations
Reform the Practice of Aldermanic Privilege
Reform the Aldermanic Menu Program
Reduce the Size of the City Council
Restructure the Offices of City Clerk and Treasurer
Budgeting and Management Recommendations
Evaluate the Financial Impact of Fixing Tier 2 Pension Issues
Develop a Long-Term Financial Plan for City Operations and Pension Funds
Address Financial Entanglements with Chicago Public Schools
Expand Budget and Authority of the City Council's Office on Financial Analysis
Prioritize Civilianization in the Chicago Police Department
Reevaluate Tax Increment Financing Districts
Conduct Performance Management Budgeting
Improve the City's Capital Improvement Plan
Conduct a Cost of Services Study
Annually Reassess the Garbage Collection Fee
Transparency Recommendations
Improve Budgetary Transparency
1. Include Finance General Costs in Department Budgets
2. Include Past Year Expenditures in Budget Documents
Increase Transparency Around Police Reform Efforts
Improve Transparency of the City Council Agenda Process
1. Include Detailed Descriptions of Agenda Items
2. Eliminate Direct Introduction of Agenda Items

CHICAGO'S TOP FINANCIAL CHALLENGES

The new Chicago Mayor and City Council members are facing major fiscal challenges. The Federation highlights the top five financial challenges below. While these issues took many years to develop, they must begin to be addressed in the next few years to stabilize the City's finances. It will not be an easy task and will require significant local political will and potentially assistance from the Illinois General Assembly and Governor.

RECOVERY FROM THE COVID-19 PANDEMIC AND THE END OF FEDERAL RECOVERY FUNDS

As the City of Chicago continues to recover from the impacts of the COVID-19 pandemic, ensuring the sustainability of revenues will be a major challenge, especially as the City uses up the final portion of American Rescue Plan Act revenue replacement funding this year. The COVID-19 pandemic significantly impacted the City of Chicago's economy and resulted in revenue losses, leading to a massive budget deficit at the end of FY2020 totaling nearly $800 million and a projected $1.2 billion budget deficit heading into FY2021. With the approval of the federal American Rescue Plan Act (ARP) in 2021, the City was able to close four years of budget gaps in FY2020, FY2021, FY2022 and FY2023 using the federal COVID-19 relief funding.

The City of Chicago received a total of $1.9 billion from the federal government in ARP funds, of which $1.3 billion, or approximately 70%, has been used to replace lost revenue and close budget gaps. The final $152.4 million will be used as revenue replacement in FY2023. The remaining portions of ARP funds, or $567 million, were appropriated to support social services and infrastructure investments as part of the Chicago Recovery Plan.[1]

The Civic Federation supported the federal government issuing COVID-19 relief funding to local governments, as well as the City of Chicago's use of this one-time funding to replace revenue lost during a once-in-a-century crisis. Federal funds also freed up resources for the City to make supplemental pension payments and build its depleted reserve fund. However, the Federation has some concerns about budget sustainability now that these funds have run out, especially amid inflationary pressures and the potential for a recession.[2] Recent State of Illinois data showed large revenue declines from the prior year,[3] and the Federal Reserve as well as many economists are predicting a recession in the coming fiscal year.[4] Several sectors of the economy in Chicago still have not fully recovered from the pandemic, which means there is uncertainty around how revenues will perform in coming years. Going forward, the City will need to ensure that revenues are keeping pace with rising expenditures, or take steps to reduce spending and avoid needing to use one-time sources of revenue to balance budgets.

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[1] The City also plans to issue a total of $660 million in bonds to support its investments in violence reduction and economic recovery. The first issuance of recovery bonds was completed in December 2022.

[2] Economists surveyed by the *Wall Street Journal* put the probability of a recession in the next 12 months at 61%, while 93% of CEOs in one survey believe that the United States will enter a recession in the next 12-18 months. See Gabriel T. Rubin and Anthony DeBarros, "Economists Turn More Pessimistic on Inflation," *Wall Street Journal*, April 15, 2023. And, for example, Phillip Braun's "A Recession Is Coming – Here's How We Know", *Forbes*, May 3, 2023.

[3] Commission on Government Forecasting and Accountability, "Monthly Briefing for the Month Ended: April 2023," May 2023.

[4] Commission on Government Forecasting and Accountability, "Monthly Briefing for the Month Ended: April 2023," May 2023.

CHICAGO'S PUBLIC SAFETY CRISIS

Mayor Johnson has entered office at a time of critical need for improving community safety and making significant reforms within the Chicago Police Department. Three years after the height of the pandemic, the City of Chicago is still experiencing high violent crime levels well above pre-pandemic levels,[5] and the Chicago Police Department continues to operate in crisis mode. At the same time, the Chicago Police Department has been slow to fully embrace and implement the federal Chicago Police Department Consent Decree.

The federally-imposed Consent Decree overseeing the Chicago Police Department should be a strong road map to guide the department forward. However, progress toward implementing the policies and reforms spelled out in the Consent Decree—and importantly, communication of that progress to the public—has been insufficient. In addition to slow progress and a lack of clear communication from the City about how progress is being made, we have little sense of how much the full implementation of the Consent Decree will cost the City and how it is impacting budget decisions.

The Civic Federation believes that with a budget of nearly $2 billion and some of the highest per-capita staffing levels in the country, the Chicago Police Department should be doing much more to improve efficiency using the resources the Department has. It is critical to the City's long-term financial stability that the Police Department operate as effectively and efficiently as possible. However, understanding the extent to which the Department is using its resources effectively will require much greater transparency around how personnel are currently allocated and how the Department is performing. Importantly, the public needs to understand in more detail how progress is being made on complying with Consent Decree requirements such as training, unity of command and supervisor ratios.

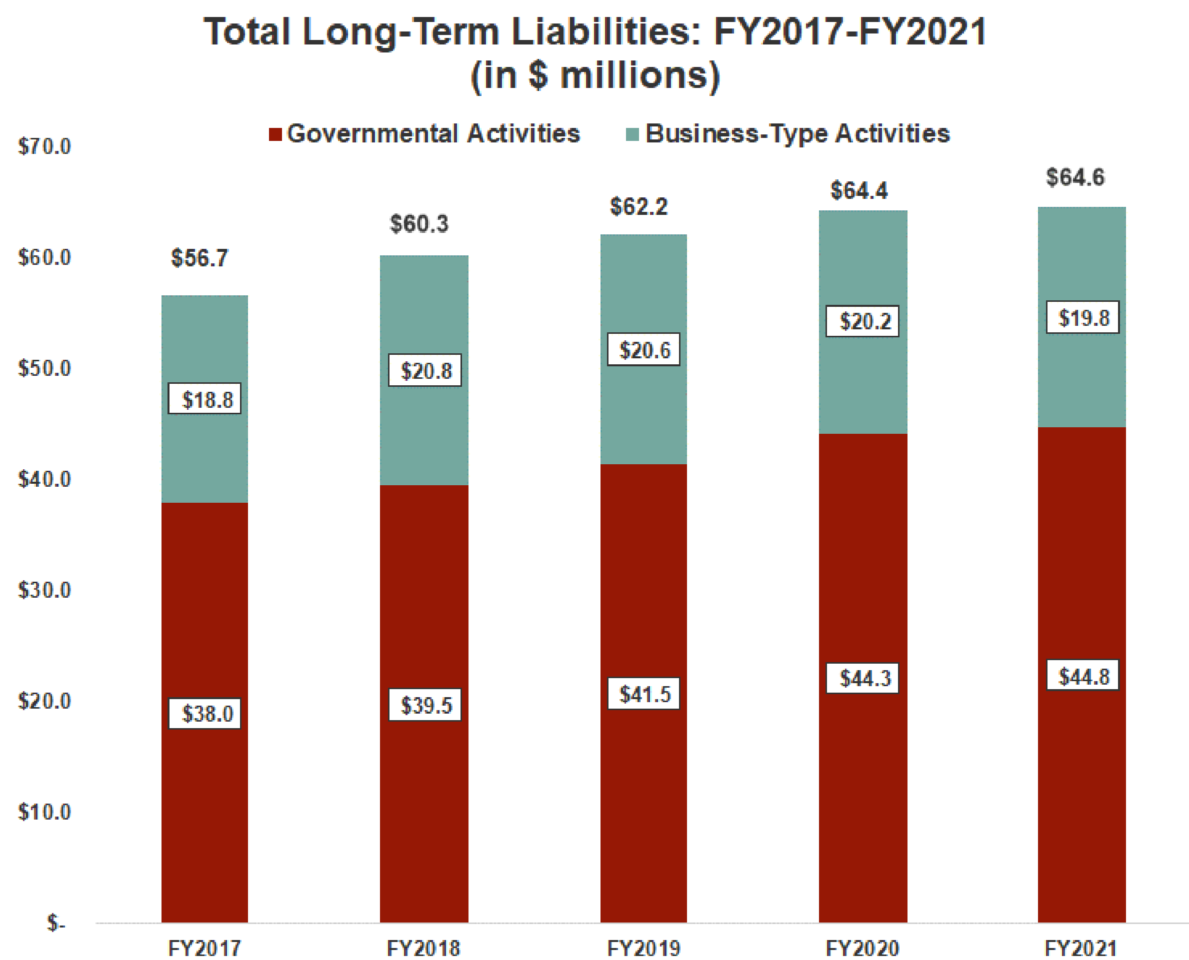
The new administration will need to focus on transforming the Department into a modern, constitutional policing department with a data-driven strategy to reduce violence. The Department must embrace the modernization of its data collection systems, use of data in decision-making, collaboration and data-sharing with other city and county stakeholders, as well as welcoming evaluation from outside experts and partnerships with community stakeholders. We hope the City of Chicago going forward will better communicate how Consent Decree requirements are informing its public safety and violence reduction strategy. The Civic Federation encourages the City budget office to incorporate more explanation of how resources are being directed toward public safety initiatives across all departments and how progress is being measured.

HIGH LIABILITY BURDEN

The City of Chicago has a relatively high liability burden. The city's liabilities include long-term liabilities owed for borrowed funds (bonds) as well as obligations over time owed for pensions, employee health care and lawsuits.

[5] See the Chicago Police Department's CompStat crime reports for 2022 Year-End and the most recent citywide crime statistics.

Between FY2017 and FY2021, the last year for which audited data are available, these obligations rose by nearly $7.9 billion or 13.9%, increasing from $56.7 billion to $64.6 billion. Much of the increase in liabilities can be attributed to an increase in net pension liabilities.



Source: City of Chicago FY2017-FY2021 Annual Comprehensive Financial Reports. Note 10: Long Term Obligations.

Debt service is the amount of payment owed annually for borrowed funds; it includes payments for the principal amount of the debt plus interest incurred. Debt service appropriations comprise 20% of total spending in the FY2023 budget, which is a very high ratio for a government to be spending on annual debt payments. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[6] *Thus, Chicago's debt service ratio is high, reflecting the City's large debt burden.*

[6] 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.

FUNDING THE CITY'S ENORMOUS PENSION SHORTFALL

The City of Chicago's four pension funds are severely underfunded. A combination of statutory underfunding, benefit enhancements, investment losses, optimistic assumptions and other long-term problems have all contributed to their abysmal financial condition. Benefits for new employees were reduced in 2011 along with most other public pension plans in the State of Illinois, but later attempts to reduce benefits for current employees in order to shore up the funds' financial condition were struck down by the Illinois Supreme Court.[7] City and State leaders subsequently turned to changing statutory funding laws in an attempt to prevent the funds from becoming insolvent.

In 2016 the City of Chicago's four pension funds began transitioning per State law to 40-year funding plans. The plans started with five-year ramps of growing annual contributions set by state statute before transitioning to a 35-year schedule of actuarially calculated contributions that are intended to increase their funded ratios to 90%. The Police and Fire funds started their ramps in FY2015 and transitioned to actuarially-calculated funding in FY2020, and the Municipal and Laborers' funds started their ramps in FY2017 and transitioned to actuarially-based funding in FY2022. Since all four funds are now funded on an actuarially-calculated basis, annual contributions from the City will adjust according to the financial needs of the funds, but the length of the funding schedule and its backloaded nature mean that the City will not make contributions sufficient to reduce the unfunded liability on the largest funds until 2029 for the Police Fund and 2035 for the Municipal Fund.[8]

The FY2023 total required contribution to the City's four pension funds is nearly $2.7 billion. The two largest funds, the Municipal and Police Funds, receive the largest portion of the annual funding at 77% or nearly $2.1 billion. In the FY2023 budget, the City made supplemental contributions to the pension funds beyond the requirements in its statutory funding formula of $242 million.

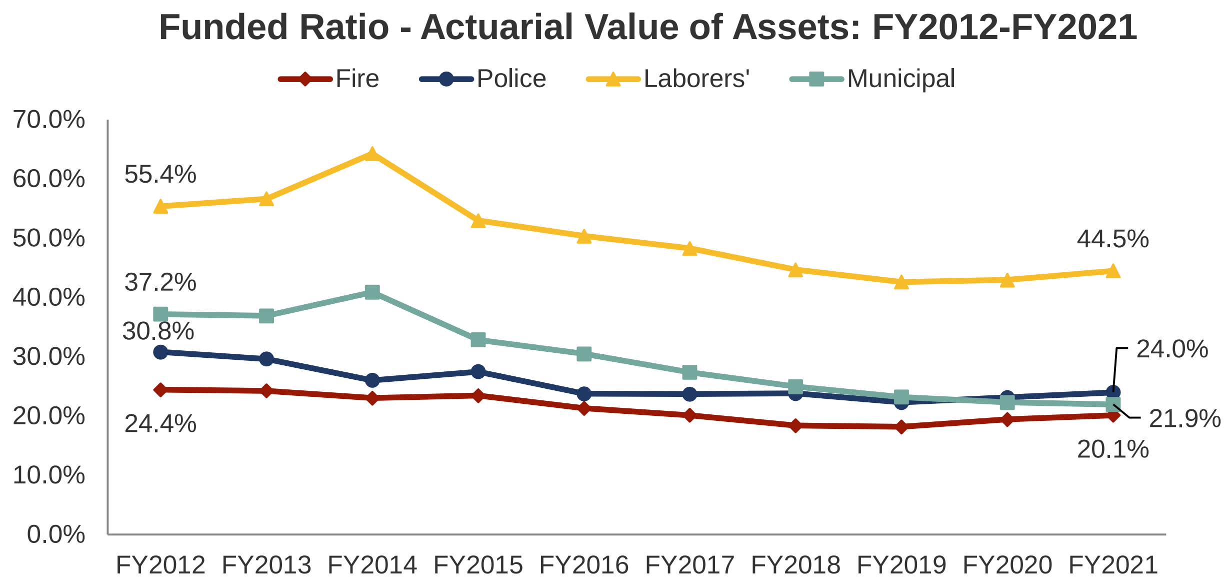
While the significant increases in the amount of money the City must contribute to the four pension funds are projected to level off in coming years, the cost of pensions will continue to increase over time based on the back-loaded nature of the funding schedule. To fund ongoing annual increases, the City will need additional stable sources of funding. Unfortunately, the potential revenue from a Chicago casino will **not** be such a stable source and the City must plan for this. 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.

Status of City of Chicago Pension Funds

The City of Chicago's four pension funds combined have approximately $33.3 billion in unfunded pension liabilities. The actuarial value funded ratios for three of the four City pension funds increased in FY2021, the most recent comprehensive data available. The Fire Fund increased to 20.1%, the Police Fund increased to 24.0% and the Laborers' Fund rose to 44.5%, but the Municipal Fund decreased to 21.9%. Low and/or falling funded ratios are cause for

[7] Civic Federation, "Chicago Pension Reforms Struck Down by Illinois Supreme Court," March 31, 2016.
[8] See Fund Actuarial Valuations, 50-year funding projections. Backloading means that contributions are artificially low in the early years of the funding schedule and grow significantly in the out years.

serious concern as they raise 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: FY2012-FY2021 Fire, Police, Laborers' & Municipal Employees Pension Fund Annual Financial Reports.

Structural Deficit

A structurally balanced budget is one in which recurring revenues equal or exceed recurring expenditures. This provides financial stability for a government in the long-term.[9] A budget that is not structurally balanced is one which is balanced through the use of one-time revenues such as fund balance, asset lease proceeds or borrowing. Using non-recurring, one-time revenues to repeatedly fund budgets masks serious systemic financial problems and is not a sustainable practice.

The City of Chicago has struggled with a structural deficit for many years, although the City has made considerable progress on reducing its budget deficit in recent years, especially with help from federal American Rescue Plan Act funding and recovery of some revenue sources since the COVID-19 pandemic started. In its most recent Mid-Year Budget Forecast released in April 2023, the City used approximately $152 million in federal funds for revenue recovery in FY2023. The City also projected a year-end FY2023 surplus of $142.8 million due to higher-than-expected State income tax and Personal Property Replacement Tax (PPRT) revenues in FY2022.[10] However, despite these improvements and projected FY2022 and FY2023 surpluses, the City's chronic structural budget vulnerabilities persist. The City projects that it will have budget deficits in each of the next three years, with anticipated budget gaps of $84.5 million in FY2024, $123.8 million in FY2025, and $144.5 million in FY2026.[11] These deficits account for the City's plans to make annual advance pension payments and a $5 million annual contribution

[9] Government Finance Officers Association, "Achieving a Structurally Balanced Budget," Best Practice, February 2012.
[10] City of Chicago Mid-Year Budget Forecast, April 2023, p. 23 and 26.
[11] City of Chicago Mid-Year Budget Forecast, April 2023, p. 24.

to the Rainy Day Fund, and they rely on other revenue sources such as an increase to the property tax that may or may not be implemented in future years.

The continued imbalance between operating expenditures and recurring revenue sources is projected to continue to grow absent action to reduce expenditures or increase revenues. The practice of using significant one-time revenue sources, especially federal relief funds, operating reserves and TIF surplus, exacerbates the ongoing structural deficit and leaves the City particularly vulnerable in the event of unexpected costs and the anticipated economic recession. Additionally, there are several emerging issues that will increase costs to the City and need to be incorporated into projections and financial plans going forward, including: legislative proposals to expand Tier 2 benefits for Chicago firefighters;[12] increased spending on healthcare, housing and supplies for the influx of undocumented immigrants; and collective bargaining agreement negotiations between City employers and unions.

REVENUE OPTIONS

There are a number of revenue options that have been suggested by various observers during the recent 2023 campaign and over time. The Civic Federation reviews some of those proposals here.

Please note that the Civic Federation is not endorsing or taking a position on any of these ideas. The Federation does not support tax increases in the abstract, but acknowledges that tax increases or new sources of revenue are sometimes necessary to sustain government operations. The Federation believes that any new taxes or increases to existing taxes need to be tied to a long-term financial plan that balances the City's budget and stabilizes its finances over the long-term.

For more information on the myriad of taxes and fees already imposed by the City of Chicago, see the Civic Federation's annual report on Selected Consumer Taxes in the City of Chicago.[13]

CITY OF CHICAGO INCOME TAX

Several advocacy groups have proposed instituting a City of Chicago income tax of 3.5% on household incomes over $100,000. They estimate this could generate as much as $2.1 billion annually.[14] This would, however, require authority to be provided by the Illinois General Assembly.

Local income taxes may be imposed as a percentage of salaries or wages, a percentage of state or federal income taxes or as a flat charge per week. The tax may be paid by individuals or employers. Some jurisdictions permit exemptions for low-income taxpayers or military personnel.[15] The income tax base can include:

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[12] The Civic Federation, "Before Enhancing Tier 2 Benefits, Evaluate the Financial Impact of Illinois Pension Proposals", April 28, 2023.
[13] Civic Federation, Consumer Taxes in Chicago: A Compilation of Selected Taxes in Place in the City of Chicago as of January 1, 2023, March 9, 2023.
[14] Saqib Bhatti and Gabriela Noa Betancourt. Action Center on Trace and the Economy and People's Unity Platform. First, We Get the Money: $12 Billion to Fund a Just Chicago. May 2023, p. 7.
[15] Joseph Bishop-Henchman and Jason Sapia. Tax Foundation. "Local Income Taxes: City-and-County Level Income and Wage Taxes Continue to Wane," August 31, 2011.

- Earned income from wages, salaries, tips and other forms of taxable employee pay;[16]
- Proprietary income from privately owned businesses;
- Corporate income; and/or
- Personal income, which includes compensation from salaries, ages and bonuses; dividends and distributions from investments; rental income; and business profit sharing.[17]

The income tax base can be narrow or broad. The narrowest base for local income taxes includes earned and proprietary income only, as is the case in Pennsylvania. The broadest tax base includes personal, proprietary and corporate income, as in New York City.[18]

The Illinois Constitution provides that home rule units of governments such as the City of Chicago may only impose a local income tax if that authority is granted by the General Assembly, and it has not done so to date.[19] The City of Chicago Inspector General's Office estimated in 2011 that a 1% municipal income tax could raise approximately $500 million.[20]

According to the Tax Foundation, approximately 4,964 local government jurisdictions in 17 states imposed local option income taxes in 2019.[21] They are primarily municipalities and counties. Nearly 60% of the jurisdictions are in Pennsylvania.

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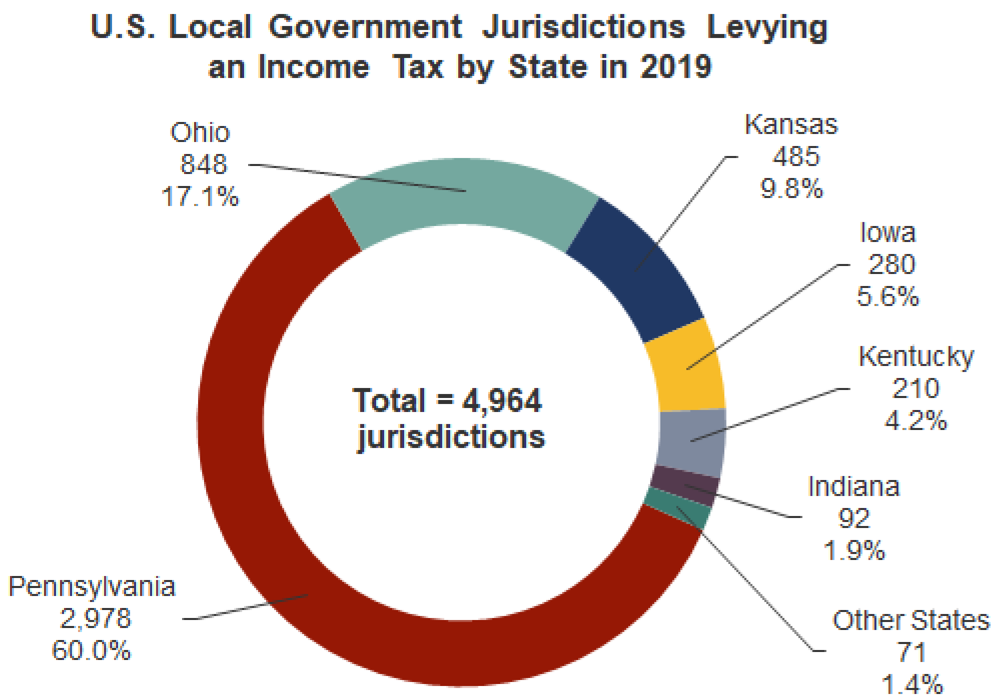
[16] Internal Revenue Service. "What is Earned Income?"
[17] Investopedia. "Personal Income."
[18] Robert L. Bland. *A Revenue Guide for Local Government*, Washington, D.C., ICMA, 1989, p. 93.
[19] Illinois Constitution. Article VII Local Government, Section 6 (e): Powers of Home Rule Units.
[20] This figure was calculated by assuming that a 1% city income tax would be imposed on Chicago's share of the adjusted gross income used by the state to calculate state income taxes in in 2009. Office of the Inspector General, City of Chicago. "Report of the Inspector General's Office, Budget Options for the City of Chicago," September 2011, p. 18.
[21] The states permitting local option income taxes and the number of jurisdictions in each authorized to levy income taxes are Alabama (4), California (1), Colorado (5), Delaware (1), Indiana (92), Iowa (280), Kansas (485), Kentucky (210), Maryland (24), Michigan (23), Missouri (2), New Jersey (1), New York (4), Ohio (848), Oregon (2), Pennsylvania (2,978) and West Virginia (4). Jared Walczak. Tax Foundation. "Local Income Taxes in 2019," June 30, 2019.



Source: Jared Walczak. Tax Foundation. Local Income Taxes in 2019 at https://taxfoundation.org/publications/local-income-taxes/.

Local income tax rates vary widely. In most jurisdictions, the local income tax is levied on residents as well as residents who work in the taxing jurisdiction. The non-resident tax rate is typically lower than the rate imposed on residents. The exhibit below shows a sample of local income tax rates for select jurisdictions. Most jurisdictions impose a flat rate income tax. New York City, however, has implemented a graduated rate levy.

Select Local Income Tax Rates in 2019

City	State	Resident Tax Rate	Non-Resident Tax Rate
Baltimore City	Maryland	3.20%	1.75%
Birmingham	Alabama	1.00%	1.00%
Columbus	Ohio	2.50%	2.50%
Detroit	Michigan	2.40%	1.20%
Kansas City	Missouri	1.00%	1.00%
Louisville Metro	Kentucky	1.45%	None
New York City	New York	3.078% to 3.876%	None
Newark	New Jersey	1.00%	1.00%
Philadelphia	Pennsylvania	3.8809%	3.4567%
Wilmington	Delaware	1.25%	1.25%

Source: Jared Walczak. Tax Foundation. "Local Income Taxes in 2019," at https://taxfoundation.org/publications/local-income-taxes/.

Pros and Cons of a Local Income Tax

There are several arguments in favor of a local option income tax:

- They can replace or reduce the need for increasing other more regressive taxes such as property or sales taxes;
- Income taxes are an elastic revenue source that yields greater amounts of revenue as the economy grows;
- The use of income taxes contributes to revenue diversification, thereby lessening reliance on other revenue sources such as property taxes;
- Income taxes can generate significant amounts of revenue; and
- If imposed on nonresidents who work in a jurisdiction, local income tax revenue can be used to help pay for municipal services and infrastructure used by those nonresidents.

The arguments against local income taxes include:

- A local income tax may be a disincentive to live, work or do business in a city imposing the tax. Mitigating this impact might involve extending the tax to nonresidents or imposing a county or regional income tax rather than a municipal tax;[22]
- It may be easy to avoid a local income tax that is only imposed on residents by moving out of the jurisdiction;
- A local income tax base will be shared with federal and state income taxes, which may lead to a high composite tax rate;
- The 2017 federal tax reform act limits deduction of local taxes, increasing the relative burden on taxpayers;
- Because income taxes are elastic, there may be significant fluctuations in revenue. In economic downturns, income tax revenues may fall precipitously, forcing governments to find alternative funding sources;
- A local income tax can export the tax burden to nonresidents who do not fully utilize city services; and
- A local income tax applied to corporate income may negatively impact economic development if it is perceived to create an unfavorable business climate. [23]

Considerations for Creating a Chicago Municipal Income Tax

Implementing a Chicago municipal income tax would require the passage of legislation by the Illinois General Assembly or alternatively a constitutional amendment authorizing local option income taxes. It is reasonable to assume that the municipal tax would piggyback on the structure of the State income tax. The following issues would need to be addressed:

- What would constitute the municipal income tax base?
- Would the tax be applied only to residents or to nonresidents who work or do business in the City as well? If so, would the resident and nonresident tax rates be the same or different?
- Would the municipal income tax be administered and collected by the State of Illinois or by local authorities?

[22] Citizens Research Council. "Diversifying Local-Source Revenue Options in Michigan." February 2018, Report 399, p. 10.
[23] Robert L. Bland. *A Revenue Guide for Local Government*, Washington, D.C., ICMA, 1989, p. 94.

- What exemptions would be permitted?
- If the municipal income tax base includes corporate income, how would the basis for that tax be established?

Commuter Tax

There have often been proposals calling for the establishment of a commuter tax as a way to address the City's unfunded pension liabilities and other financial challenges. A commuter tax is a tax imposed on the wages of nonresidents who work in one municipality but live elsewhere. According to the U.S. Census Bureau, in 2019 there were a total of 430,718 Chicago residents who worked outside City boundaries and 642,588 non-Chicago residents working within City boundaries.[24]

A commuter tax could take the form of a municipal income tax, a payroll expense tax or a surcharge on commuter railroad or toll road fees. The City of Chicago does not currently have a commuter tax and would need to seek a change in State statute to allow for such a tax to be imposed.

The Metropolitan Transportation Authority of New York imposes a payroll expense tax on certain employers and self-employed individuals who use MTA services. The tax applies to employers in the City of New York as well as suburban Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess and Westchester Counties. The rates applied are:

- 0.11% for payroll expenses over $312,500 but not over $375,000;
- 0.23% for payroll expenses over $375,000 but not over $437,500; and
- 0.34% for payroll expenses over $437,500.[25]

Pros and Cons of a Commuter Tax

Proponents of a commuter tax argue that an income tax on commuters is a way to capture revenue from non-residents who benefit from City services, such as police and fire protection and city infrastructure, to help pay for the cost of those services.

Opponents of a commuter tax argue that:

- A commuter tax provides a strong incentive for businesses to locate in the suburbs;
- The creation of commuter tax on non-residents of Chicago could cause neighboring municipalities to impose their own commuter taxes, which could disproportionately impact low income Chicago residents who are employed in neighboring municipalities;
- Other cities that have imposed a commuter tax on income, such as Philadelphia, Cleveland and Detroit, are considered to be economically stagnant;
- Suburban commuters already contribute to the local economy by paying sales and restaurant taxes on goods purchased and on parking taxes if they commute by motor vehicle;
- Employers and office landlords already pay property taxes for the office space they occupy; and
- Such a tax may violate the uniformity clause of the Illinois Constitution.

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[24] U.S. Census Bureau, OnTheMap Application (last accessed January 25, 2023).
[25] New York State Department of Taxation and Finance..

CONGESTION PRICING

Traffic congestion is an ongoing problem in Chicago. A report found that Chicago experienced the worst congestion among cities in the U.S. in 2022 in terms of average hours spent in commuting traffic.[26] And although public transit usage has increased since the beginning of the pandemic, public transit ridership is still well below pre-pandemic levels and roads are more congested. Truck traffic in particular is 20% higher than prior to March 2020.[27]

There are several approaches to reducing congestion through congestion-related fees. According to the Federal Highway Administration, there are four types of congestion pricing strategies:[28]

1. **Variably priced lanes**: variable toll rates on separated lanes within a highway, such as Express Toll Lanes or High Occupancy Toll lanes;
2. **Variable tolls on entire roadways**: tolls placed on both toll roads and bridges, as well as on existing toll-free facilities during rush hours;
3. **Cordon charges**: either variable or fixed charges to drive within or into a congested area within a city; and
4. **Area-wide charges**: per-mile charges on all roads within an area that may vary by level of congestion.

Only cordon or area charges could be implemented by the City of Chicago on its own. The other types of congestion pricing on highways or expressways would require regional and State cooperation.

The Chicago Metropolitan Agency for Planning has recommended that the northeastern Illinois region implement congestion toll or lane pricing on expressways surrounding Chicago, including a toll lane on the I-55 Stevenson Expressway.[29] Implementing variably-priced toll lanes on expressways requires cooperation of the Illinois Department of Transportation and Illinois State Toll Highway Authority, as well as input from State officials.[30] The Illinois General Assembly passed a resolution in support of the I-55 managed lane project during the spring 2023 legislative session.[31]

Plans for the redesign of North DuSable Lake Shore Drive are considering the potential addition of toll lanes, in addition to bus-only lanes.[32] The project is being led by the Illinois Department of Transportation in cooperation with the Chicago Department of Transportation, and plans are still in progress.

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[26] David Schaper, "Traffic congestion got much worse in 2022 but is still below pre-pandemic levels," *NPR*, January 10, 2023.
[27] Chicago Metropolitan Agency for Planning, "Traffic and transit ridership continues to shift in 2022," December 20, 2022.
[28] U.S. Department of Transportation Federal Highway Administration, *Congestion Pricing: A Primer*, Chapter II: "What is Congestion Pricing?" December 2006.
[29] See Chicago Metropolitan Agency for Planning, "Congestion Pricing."
[30] Elliot Ramos, "Transportation group has plan to solve Chicago's gridlock – but it'll cost you," *WBEZ Chicago*, October 15, 2012.
[31] House Joint Resolution 23.
[32] Joe Ward, "DuSable Lake Shore Drive Could Get Bus-Only Lanes, Tolls And More Lakefront Park Space In Proposed Overhaul," *Block Club Chicago*, March 25, 2022. For details on the proposed plans, see also these documents..

Cordon area charges in highly congested areas are a potential option the City could implement alone on its home rule authority. The City of Chicago has already implemented congestion pricing for ridesharing fees, discussed on page 33 of this report.

While cordon area pricing is not currently used in any U.S. cities, it has been implemented in several European cities, including London and Stockholm. London charges a fee of £15 per day for vehicles to enter or travel within the congestion charge zone between the hours of 7 a.m. and 6 p.m. Monday through Friday and between 12 p.m. and 6 p.m. on weekends. The congestion charge, coupled with improvements in public transit financed with revenues from the charging system, led to a 15% reduction in traffic and a 30% reduction in travel delays in central London.[33] Stockholm's congestion charge is a fee of between $1-$3.35 for entry into or exits out of the cordon area around the inner city. The rates vary based on the time of day, with higher rates for higher volume travel times.[34] Since implementation of the cordon charge, traffic across the cordon area has been reduced by approximately 20%.[35]

New York City has proposed charging all drivers for driving in its most congested core area consisting of the lower part of Manhattan, making New York the first U.S. City to move forward with a congestion pricing proposal. The proposed charges range from $9 to $23 during peak hours, but the final charges have not been confirmed.[36] The plan could reduce car traffic by 20% and commercial truck traffic by 21% to 81%,[37] as well as result in reduced vehicle emissions and generate needed capital funding.[38] The proposal is part of a $15 billion plan to improve public transit systems. Plans have been tentatively approved by the Federal Highway Administration, but are not yet final. Based on the current status of the initiative, the congestion pricing could begin as soon as spring 2024.[39]

Other U.S. cities including San Francisco and Los Angeles have considered cordon congestion charges, although the lasting changes in commuting patterns since the COVID-19 pandemic have slowed plans. San Francisco began working on a feasibility study, but the study has been put on hold.[40] The Southern California Association of Governments (SCAG), the metropolitan planning organization for the Los Angeles region, conducted a feasibility study in 2019 that looked at various forms of congestion pricing.[41] The Los Angeles County Metropolitan Transportation Authority began a traffic reduction study in 2020, and anticipates submitting a pilot program proposal for approval in 2023, with design and implementation of the pilot program

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[33] U.S. Department of Transportation Federal Highway Administration, *Congestion Pricing: A Primer*, Chapter V: Examples from Abroad, December 2006.
[34] Centre for Transport Studies, Stockholm, *The Stockholm Congestion Charges: An Overview*, CTS Working Paper 2014:7, p. 7.
[35] Centre for Transport Studies, Stockholm, *The Stockholm Congestion Charges: An Overview*, CTS Working Paper 2014:7, pp. 8-9.
[36] Metropolitan Transportation Authority, Central Business District Tolling Program Environmental Assessment, Executive Summary, August 2022.
[37] Stephen Nessen, "MTA releases congestion pricing details, with fees that could be as high as $23 for drivers," *Gothamist*, August 10, 2022.
[38] Ana Ley, "Why Drivers Could Soon Pay $23 to Reach Manhattan," *New York Times*, August 18, 2022.
[39] Ana Ley, "N.Y. Congestion Pricing Plan Moves a Step Closer to Reality," *New York Times*, May 5, 2023.
[40] For more details, see the San Francisco County Transportation Authority's Downtown Congestion Pricing website.
[41] The Feasibility Study can be found here.. A presentation on Los Angeles' 28 by 2028 project with discussion of congestion pricing as a revenue source can be found here.

anticipated to launch in 2026.[42] The original idea has reportedly been scaled back to only include tollway congestion pricing.[43]

Pros and Cons of Cordon Area Congestion Fees

Proponents of cordon area congestion fees argue that:

- Congestion fees have been proven to reduce traffic, improve travel times and improve air quality;
- Analysis of a congestion charge implemented in London shows no change in retail activity due to the congestion charge, apart from larger external economic factors and consumer trends;[44]
- Congestion pricing could result in more people turning to public transit rather than vehicle usage for trips into the central area, which could benefit the CTA, Metra and Pace with increased ridership and revenue; and
- The City of Chicago could benefit from revenue from the congestion charge that could then be used to maintain roads and improve public transit systems. A 2012 City of Chicago Inspector General report estimated the net revenue from congestion pricing would potentially be $210 million after accounting for annual costs.[45]

Opponents of congestion pricing argue that:

- A congestion fee is unfair to low-income residents traveling downtown and to residents who live in the central area;
- Business and retail owners often argue that congestion pricing would discourage shoppers from visiting areas where higher fees are in place;
- There could be unintended consequences of a congestion fee, such as displacing traffic to other neighborhoods as drivers attempt to get around the fees;[46] and
- Implementation would require significant capital start-up costs for technology including sensors or cameras on the roads and in-car transponders to track vehicle movement in the central area, as well as annual operating costs. According to a City of Chicago Inspector General report, the operating costs for running a congestion pricing system range from 20% of gross revenue in Singapore to 35% of gross revenue based on a New York City proposal.[47]

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[42] Steve Hymon, "Metro to take additional time on Traffic Reduction Study to analyze mobility data and commuting patterns," *The Source*, February 18, 2022.
[43] The Times Editorial Board, "Editorial: New York City is moving forward with congestion pricing. Los Angeles should be next," *Los Angeles Times*, May 19, 2023.
[44] Transport for London, *Central London Congestion Charge Impacts Monitoring, Fifth Annual Report*, July 2007, p. 85.
[45] This is assuming the rate charged would be $5 per day and assuming a 20% reduction in vehicle trips to the central area after implementation of the charge. City of Chicago Office of the Inspector General, *Savings and Revenue Options 2012*, September 2012, p. 76.
[46] This is a concern with the New York City proposal, as residents argue that truck traffic and pollution will increase in the Bronx. In response, the Metropolitan Transportation Authority agreed to direct funding to pollution and air quality investments in the Bronx. Ana Ley, "MTA Plans to Use Congestion Pricing Funds to Address Bronx Pollution," *New York Times*, March 28, 2023.
[47] City of Chicago Office of the Inspector General, *Savings and Revenue Options 2012*, September 2012, p. 75.

Considerations for Implementing a Cordon Area Congestion Fee

Just because cordon congestion charges are not common in the U.S. doesn't mean that they should not be tried, according to some policy experts.[48] Given the changing mobility patterns that COVID-19 has caused, the key is thinking creatively about how such a tax should be structured and implemented based on current work and commuting patterns. Data and surveys are needed to understand the current mobility needs of residents and workers in Chicago and the region.

There are a number of factors the City of Chicago would need to consider if it were to implement a central area congestion fee. Charging a fee for driving in congested areas alone will not result in a significant decline in congestion unless other transit options are available that are both convenient and reliable. These alternative options must be priced in such a way that makes them competitive with driving.

The revenues generated from a cordon charge should be prioritized to improve the public transit system. Because the purpose of a congestion fee is to reduce the number of drivers and encourage the use of alternate transportation modes, the revenue from the fee should be used to improve the daily operations of the Chicago Transit Authority, including frequency and reliability of rail and bus services. As more people switch to public transit to avoid paying the congestion charge, the City of Chicago would need to consider how well equipped the regional transit agencies (CTA, Metra and Pace) are to handle increased volume and make the necessary investments to absorb more riders and improve travel times.

Other considerations the City would need to consider include:

- Where the cordon area should be located and how the boundaries would be defined;
- What the charges and pricing structure should be;
- How much a cordon charge program would cost to start up and operate annually;
- How to handle exemptions or discounts for low-income residents and visitors, as well as residents who live within the cordon area.

For more detail about each of these considerations, see the Civic Federation's blog post on this topic.[49]

EMPLOYER'S EXPENSE TAX (HEAD TAX)

An employer's expense tax or "head" tax is imposed on businesses at a flat rate based on the number of employees at that firm. Typically larger firms are targeted with this tax.[50] Head taxes in the U.S. are relatively rare.

Denver imposes an occupational privilege tax on both employees and employers. The tax applies to businesses operating in the City and individuals who receive compensation of at least $500 per month. The employee rate is $5.75 per month and the employer rate is $4.00 per month per taxable employee. The tax applies not only to residents or business located in the City but also to any employee working in the City and any owner, partner, or manager engaged

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[48] Comments by Joshua Schank, Managing Principal at InfraStrategies LLC, in a keynote address at a Civic Federation policy conference: Public Transit in a Post-COVID World, April 13, 2023.
[49] Civic Federation, "Exploring a Downtown Congestion Fee for Chicago," February 22, 2019.
[50] Howard Glockman, ""From Head Taxes To Parcel Taxes, Cities And States Are Looking For New Ways To Raise Revenue," *Forbes*, June 14, 2018.

in business in Denver.[51] Pittsburgh currently imposes a 0.55% tax on the amount of total payroll expense generated by an employer in the city; the tax is levied on employers.[52]

Seattle had a head tax from 2006 to 2009 before eliminating it.[53] The city approved a new head tax in May 2018 that would have levied a tax of approximately 14 cents per employee per hour worked within the city. The measure was projected to raise roughly $45 million over 5 years to be used to build affordable housing and fight homelessness. However, the law was repealed after one month due to strong opposition from the business community, including large employers such as Amazon and Starbucks.[54]

The City of Chicago imposed a head tax from 1973 to 2014 through its home rule authority.[55] Mayor Rahm Emanuel and the City Council phased out the tax between 2012 and 2014 in response to criticism from business leaders. The tax was imposed on businesses with more than 50 employees that performed 50% or more of their work service per calendar quarter in the City. Employees had to earn more than $4,300 in a calendar quarter to be considered taxable. The tax was imposed at a rate of $4 per employee. Exemptions from the tax were provided for:

- Domestic service in a private home;
- Newspaper delivery when the individual is under the age of 18 years;
- Employees who are immediate family (father, mother, spouse, son or daughter);
- Insurance Company Personnel;
- Not-for-Profit, Educational and Charitable Organizations;
- Agricultural Labor;
- Independent Contractors; and
- Business partnerships.

Mayor Brandon Johnson proposed reinstating a $4 head tax per employee per month on companies performing at least half of their work in Chicago during his electoral campaign.[56] Some advocacy groups have proposed instituting a $33-per-head tax to generate up to $106 million per year.[57]

Pros and Cons of Head Taxes

Supporters of head taxes argue that businesses, especially large employers, generate demands for municipal services, such as public safety, schools, transportation, infrastructure and refuse collection. Large-scale business activity can trigger increases in housing costs, making housing less affordable for longtime or low-income residents. Finally, businesses often receive generous tax incentives from the public treasury in return for locating in a community and providing long-term economic benefits. Thus, it is reasonable to ask that companies assist in defraying increased costs and recouping lost revenues accruing from incentives. In any event, taxes are rarely the primary factor in business locational decision making.

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[51] City and County of Denver Department of Finance Treasury Division, General Tax Information Booklet. pp. 5-6.
[52] Pittsburgh City Code, Title II, Article VII, Chapter 258.
[53] Howard Glockman, ""From Head Taxes To Parcel Taxes, Cities And States Are Looking For New Ways To Raise Revenue," *Forbes*, June 14, 2018.
[54] Eric M. Johnson, "Seattle City Council repeals 'head tax' weeks after enactment," *Reuters*, June 12, 2018.
[55] Hal Dardick, "City council votes to eliminate 'head tax," *Chicago Tribune*, November 2, 2011.
[56] Fran Spielman, "Mayoral candidate Brandon Johnson unveils tax-the-rich plan to bankroll social services," *Chicago Sun-Times*, January 24, 2023.
[57] Saqib Bhatti and Gabriela Noa Betancourt. Action Center on Trace and the Economy and People's Unity Platform. First, We Get the Money: $12 Billion to Fund a Just Chicago. May 2023, p. 6.

Opponents of head taxes argue that they are a disincentive for employers to hire workers because they are a tax on employment. The impact is particularly burdensome for medium-sized businesses. If businesses decide to halt expansion plans or move to different jurisdictions to avoid paying the tax, then the taxing municipality is left with fewer jobs and economic growth than it would have had otherwise.[58] Amazon cited the proposed Seattle head tax as a reason to pause its headquarters construction plans.[59] Also, because head taxes can be a larger share of the cost of lower paid workers, they might have a negative impact on decisions to hire these workers.[60]

Expanding the State Sales Tax to Services with Local Share

One of the basic principles of government finance is that to be stable and efficient, a tax should generally have as broad a base and as low a rate as possible. Unfortunately, Illinois' sales tax base is much narrower than other states, leading to greater volatility and higher rates.[61]

Illinois' sales tax base is narrow because the State excludes most services from being subject to the sales tax. Out of the 168 total services taxed by American states, Illinois currently taxes only 17.[62] Most of these are related to the delivery of utility services, such as gas, electricity and telecommunications. Other services are subject to the Retailers Occupation Tax on prepaid phone cards, photograph processing and canned (as opposed to custom-designed) software; a 5% tax on hotel operations and automobile renting; and a $30 annual fee on coin-operated amusement devices.

The composite sales tax rate in the City of Chicago is one of the highest of any major municipality in the United States at 10.25%. Chicago is tied for the highest sales tax rate nationwide with Seattle and several cities in California including Santa Monica, Long Beach and Oakland.[63] The statewide sales tax rate is 6.25%, of which 5% goes to the State, 1.0% is distributed to municipalities and 0.25% is distributed to counties (Cook County's portion is directed to the Regional Transportation Authority). Another 4% is imposed by local taxing authorities, including a 1.75% tax imposed by Cook County and a 1.25% tax imposed by the City of Chicago through each of their authority as home rule governments. In Chicago, another 1% goes to the Regional Transportation Authority. Of the 10.25% composite tax in Chicago, the City receives 2.25 percentage points of this total.

Taxing services would bring the sales tax more in line with the modern economy. By generating more revenue through a wider base, the tax could also be used to offset a portion of the sales tax on goods and allow for the overall tax rate to be lowered.[64]

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[58] Jared Bernstein, "Why the Seattle 'head tax' is relevant to the nation," *Washington Post*, May 16, 2018.
[59] Brier Dudley, "Amazon shows risk of Seattle City Hall head tax," *Seattle Times*, May 20, 2018.
[60] Jared Bernstein, "Why the Seattle 'head tax' is relevant to the nation," *Washington Post*, May 16, 2018.
[61] Illinois General Assembly, Commission on Government Forecasting and Accountability, Illinois Revenue Volatility Study, Public Act 98-0682, Updated February 17, 2015, p. 66.
[62] Illinois General Assembly, Commission on Government Forecasting and Accountability, Service Taxes 2017 Update, January 2017, pp. 2-3.
[63] Civic Federation research on sales tax rates, Consumer Taxes in the City of Chicago: A Compilation of Selected Taxes in Place in the City of Chicago as of January 1, 2023, March 9, 2023, pp. 10-11.
[64] Illinois General Assembly, Commission on Government Forecasting and Accountability, Three-Year Budget Forecast FY2024-FY2026, p. 10.

The City of Chicago could work with the State of Illinois to extend the sales tax to apply to the same services taxed by other states, but currently exempted by Illinois. The State of Wisconsin, for example, taxes fourteen services not taxed in Illinois including entertainment; cable and internet; landscaping; parking and towing; repair of personal property; and contracts for the future performance of services.[65] A COGFA analysis estimated that a sales tax on these services could generate about $588 million per fiscal year at the State's 5.0% rate.[66]

Pros and Cons of Expanding the State Sales Tax to Services

Proponents of expanding the sales tax to services would argue that:

- Expanding the base by taxing services could increase revenue and allow the State and local governments to lower their sales tax rates;
- Consumer spending habits have changed: the sale of goods has declined relative to services as a proportion of total consumer spending.[67] Expanding the sales tax to services would modernize the sales tax, bringing it in line with faster growing segments of the economy based on changes to consumer spending habits in recent decades; and
- Expanding the sales tax to cover consumer services[68] could help lead to long-term stabilization of the finances of the State of Illinois and local governments that receive a portion of the sales tax including the City of Chicago.

Opponents would argue that:

- Implementation of the tax expansion would be administratively complicated:
    - A broad-based service sales tax exempting business-to-business services could take at least 18 to 24 months to implement fully;[69]
    - Even after legislative action is taken to authorize taxing services, the complexity of collecting the tax may require new rules for sourcing and other administrative guidelines;
    - Some of the new procedures may require review and approval by the legislature's Joint Committee on Administrative Rules;
    - Other delays due to technology acquisition for businesses that do not currently collect sales taxes and connectivity with the Illinois Department of Revenue's existing systems should also be assumed. Finally, there is a one-month lag between collecting sales taxes and remission to the State.
- Expanding the sales tax to services could be overly burdensome to consumers in a State where some types of taxes in Illinois are among the highest in the nation, such as the property tax;
- It could also be burdensome to the small businesses that would need to comply; and
- There are concerns about the legality of taxing some but not all services because this approach could violate the taxation uniformity clause of the Illinois Constitution.[70] At least

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[65] Illinois General Assembly, Commission on Government Forecasting and Accountability, Service Taxes 2017 Update, January 2017, p. 19.
[66] Illinois General Assembly, Commission on Government Forecasting and Accountability, Service Taxes 2017 Update, January 2017, p. 19.
[67] Tax Foundation, Sales Tax Base Broadening: Right-Sizing a State's Sales Tax, October 24, 2017.
[68] It should be noted that experts generally advise against assessing sales taxes on business-to-business transactions, because the taxes "pyramid" into much higher rates as services are delivered through the supply chain. This pyramiding can lead to higher costs and inflated prices, and arbitrary tax discrepancies depending on which services are vertically integrated within a firm as well as other distortions. Tax Foundation, Sales Tax Base Broadening: Right-Sizing a State's Sales Tax, October 24, 2017.
[69] Communication between the Civic Federation and Illinois Department of Revenue, December 9, 2016.
[70] Illinois Constitution, Art. IX, Sec. 2.

one Illinois Supreme Court case suggests that the uniformity clause prohibits adding individual services to the current sales tax laws incrementally.[71]

FINANCIAL TRANSACTION TAX

Financial transaction taxes are levies imposed on the purchase and/or sale of securities. The tax may be assessed on the buyer, the seller or both. It may be imposed *ad valorem* as a percentage of the value of the security or as a flat fee. Financial taxes on derivatives, including futures options, can be imposed on the value of the security or on the market value of the derivative. In some cases, the tax is levied on an asset's resale value rather than the original value.[72]

Many Chicago political and opinion leaders have proposed implementing a financial transaction tax on contracts traded at Chicago's futures and options exchanges operated by the Chicago Mercantile Exchange (CME) and Cboe Global Markets. It is commonly referred to as a "LaSalle Street" tax. Imposing such a tax would require state legislation. Current State law prohibits local governments, including home rule governments such as Chicago, from levying taxes on stock, commodity or options transactions.[73]

Chicago has the world's largest futures exchange. In 2022 the CME reported a net income of $2.6 billion while the Cboe's net income was $241.2 million.[74]

The U.S. federal government imposed a federal financial transaction tax between 1914 to 1966 on the value of stock sales and transfers. Currently, the Securities and Exchange Commission is partially financed with fees on the sale of securities and futures transactions. The European Union and many other nations, including the United Kingdom, France, India, Italy and South Korea levy taxes or fees on financial transactions.[75]

In 1973 Mayor Richard J. Daley and the City Council approved a financial transaction tax, but backed down due to strong opposition from the exchanges.[76] Several legislative efforts have resurfaced in recent years to impose the tax.

In 2013 Illinois State Representative Mary Flowers proposed a financial transaction tax at the rate of 0.01% of the value of transactions.[77] In 2017 Illinois State Senator Omar Aquino introduced a bill that would have imposed a levy of $1 on agricultural commodity contracts and $2 on all other contracts.[78] In 2019 Representative Flowers proposed a new bill that proposed a tax at a rate of $1 per transaction for all transactions for which the underlying asset was an

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[71] Fiorito v. Jones, 39 Ill.2d 531, 236, N.E. 2d 698 (Ill. 1968).
[72] Leonard E. Burman, et al. "Financial Transaction Taxes in Theory and Practice," *National Tax Journal*, March 26, 2016, 69 (1), pp. 173-174.
[73] 35 ILCS 820/1 Stock, Commodity, or Options Transaction Tax Exemption Act.
[74] The net income figures reflect the one-year period between September 2021 and 2022. The Chicago Mercantile Exchange's net income is per Macrotrends, CME Group Net Income 2010-2022,
and CBOE's net income is from YCharts, Chicago Board Options Exchange Global Markets Net Income for September 30, 2002. at:
[75] Leonard E. Burman, et al. "Financial Transaction Taxes in Theory and Practice," *National Tax Journal*, March 26, 2016 , 69 (1), pp. 174-176.
[76] Lynne Marek. "Surprise: LaSalle Street balks at LaSalle Street tax," *Crain's Chicago Business*, March 2, 2018.
[77] House Bill 1554. Creates the Financial Transaction Tax. Rep. Mary Flowers. 98th General Assembly 2013 and 2014.
[78] Senate Bill 1970. Creates the Financial Transaction Tax Act. Sponsored by Senator Omar Aquino. 100th General Assembly 2017 and 2018.

agricultural product, a financial instruments contract, or an options contract.[79] None of these efforts were successful. Recently, Governor Pritzker ruled out support for the financial transaction tax.[80]

This proposal has been estimated as potentially generating $10 to $12 billion per year in revenue.[81] The Chicago Teachers Union has proposed using revenue from a transaction tax as a way to finance underfunded employee pensions.[82]

Pros and Cons of Financial Transaction Taxes

Proponents of a financial transaction tax argue that it is reasonable because:[83]

- The tax would be relatively low. Average contracts are more than $225,000, so a $1 or $2 tax per contract would amount to less than 2/1000 of 1% of a contract's value. The proponents assert that the proposed tax would not be large enough to have a significant impact on trading activity.
- Most trading that would be taxed is done by large banks, hedge funds and other affluent financial institutions or individuals. These wealthy firms and individuals can readily afford to pay the tax. This is particularly true as they were big beneficiaries of the recent federal corporate tax cuts.
- Many nations tax financial transactions and it has not diminished or harmed economic activity in these markets.

Opponents of the "LaSalle Street" tax argue that:[84]

- Imposing a transaction tax on derivatives or transactions will drive customers to other jurisdictions that do not impose the tax.
- Most trading is done electronically today, so the exchanges can easily leave Illinois. The CME estimates a move would put at risk the 100,000 jobs in the industry and the $50 million paid annually in state taxes by traders.
- Farmers and energy companies use financial markets to hedge their risks and stabilize prices. If costs increase due to new transaction taxes, they will pass along these higher costs for food and fuel to consumers.
- Most transaction taxes in other jurisdictions are imposed on equities, not derivatives. Nations that have attempted to tax derivatives such as Sweden and Canada lost money and their financial markets as a result of imposing the tax.
- Having states or local jurisdictions impose transactions rather than the national government would create a variety of different tax rate regimes and policy incentives.

[79] House Bill 0023, Financial Transaction Tax Act.
[80] Rich Miller, "Financial Transaction Tax for Chicago? Forget It," *Chicago Sun-Times*, May 19, 2023.
[81] See Fair Economy Illinois's "Tax LaSalle Street to Meet Human Needs," and the *Chicago Sun-Times* Editorial Board's "The LaSalle Street Tax Fairy Tale," June 24, 2016.
[82] Becky Schlikerman, "CTU chief says transaction tax would save pensions, make traders 'heroes,'" *Chicago Sun-Times*, May 6, 2014.
[83] Fair Economy Illinois, "Tax LaSalle Street to Meet Human Needs."
[84] CME Group. "Financial Transaction Tax: Myth vs. Facts," August 8, 2016.

Considerations for Implementing a Financial Transactions Tax

Creating a financial transaction tax would require State legislation to implement the tax as current state law prohibits such a tax. Chicago would have to be granted specific authorization to impose the tax. The law would need to specify what types of transactions would be taxed and whether the tax would be based on a percentage of value or as a flat rate.

REAL ESTATE TRANSFER TAX

In recent years, several proposals have been made calling for implementing a graduated, or progressive, real estate transfer tax (RETT) that would impose a higher rate on more expensive residential and commercial properties to pay for affordable housing, the removal of lead pipes in homes, police and fire pensions or homeless programs. Bring Chicago Home, a grassroots coalition dedicated to securing an earmarked revenue stream to combat homelessness, has launched a campaign to put a referendum on the City of Chicago ballot asking voters to approve an increase in the Chicago real estate transfer tax for high-end properties selling for over $1 million.[85] However, that effort has not succeeded to date.

Changes to the current tax must be approved by voters in a referendum or through a change in state law.[86] Efforts in 2019 by Chicago Mayor Lori Lightfoot to secure legislative approval of a graduated transfer tax were not successful.[87] For more information on recent efforts, please see the Civic Federation's recent blog on the subject.[88]

What is a Real Estate Transfer Tax?

A real estate transfer tax is imposed upon the privilege of transferring title to, or beneficial interest in, real property. State and local governments in 36 states including the District of Columbia impose some form of a real estate transfer tax.[89] Major cities in the U.S. that have some form of a graduated real estate transfer tax include San Francisco, Baltimore and New York City.

In Chicago, the RETT is currently imposed by the State of Illinois, Cook County and the City of Chicago. The City imposes the tax as both a municipal and home rule real estate transfer tax.[90] The composite rate of the RETT is $6 per $500 in property value transferred, or a rate of 1.2%. The State of Illinois charges $0.50 per $500 in value, or 0.10%. The County charges a rate of $0.25 per $500 in value (0.05%). State and Cook County real estate transfer taxes are paid by the seller.

The City of Chicago imposes the tax at a rate of $3.75 per $500 in value (0.75%) plus a supplemental amount of $1.50 per $500 in value (0.3%) for a total City rate of $5.25 per $500 in value or 1.05%. The buyer is responsible for paying the $3.75 portion and the seller is responsible for paying the $1.50 portion of the City tax. The $3.75 per $500 in value portion of the tax is deposited in the City's Corporate Fund. The $1.50 per $500 in value portion is

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85 Bring Chicago Home.
86 Public Act 095-0708.
87 Fran Spielman. "Top mayoral aides acknowledge graduated real estate transfer tax is dead, come clean about Plan B," *Chicago Sun-Times*, November 12, 2019.
88 Civic Federation, "Chicago Referendum Campaign Launched to Increase Real Estate Transfer Tax on Multimillion Dollar Properties," June 10, 2022.
89 Bankrate. What are Real Estate Transfer Taxes.
90 See 35 ILCS 200/31-10); 55 ILCS 5/5-1031; 65 ILCS 5/8-3-19(i); Code of Ordinances of Cook County, Illinois, Chapter 74, Article III; and City of Chicago Municipal Code, Chapter 3-33.

transferred to the Chicago Transit Authority. The tax was expected to generate approximately $221.3 million in revenue in FY2023.[91] There are various exemptions to the real estate transfer tax. For example, the City of Chicago exempts sales under $500, bankruptcies and Enterprise Zone transfers from the tax.

Chicago Composite Real Estate Transfer Tax Rate

	Tax Rate	**Amount per $500**	
State of Illinois	0.10%	$	0.50
Cook County	0.05%	$	0.25
Chicago (Total)	1.05%	$	5.25
City of Chicago	*0.75%*	*$*	*3.75*
Chicago Transit Authority	*0.30%*	*$*	*1.50*
Total	**1.20%**	**$**	**6.00**

Pros and Cons of a Graduated Real Estate Transfer Tax

Proponents of a graduated real estate transfer tax argue that it would:

- Place less of a burden on home buyers in more modest income neighborhoods and charge more tax to wealthier homebuyers who can afford it;
- Help fund a variety of government services; and
- Take advantage of growing property values in more prosperous areas.

Opponents of a graduated real estate transfer tax argue that it would:

- Further burden the economically struggling downtown area of Chicago by increasing transaction costs for commercial properties;
- Discourage home sales and therefore potentially reduce the number of real estate transactions;
- Increase the closing costs of home sales;
- Make housing unaffordable;
- Not be a reliable source of revenue, particularly during an economic downturn;
- Be avoidable by lowering the price of a home;
- Lead buyers to decide to purchase in areas with lower rates and contribute to urban sprawl; and
- Be arbitrary if they are in excess of the costs associated with transferring title.

[91] City of Chicago FY2023 Budget Overview, p. 38.

Gaming Taxes

Illinois currently authorizes the following types of gaming:

- A state lottery;
- Riverboat and land-based casino gaming;
- Video gaming;
- Sports wagering, or sports betting; and
- Horse racing.

In Chicago specifically, State law authorizes 15 riverboat casino licenses as well as a land-based Chicago casino.[92] Municipalities may prohibit video gaming by ordinance, as can counties for their unincorporated areas. Chicago currently prohibits video gaming.[93]

Chicago Sports Betting Tax

In December 2021, the City Council lifted its ban on sports betting and authorized the imposition of a 2% gross revenues tax. This action allows for sportsbooks to operate in and around Soldier Field, Wrigley Field, Guaranteed Rate Field, the United Center and Wintrust Arena. The new tax is expected to generate between $400,000 and $500,000 annually based on estimated sport betting revenues of $25 million.[94]

Chicago Casino

In 2019 the State of Illinois authorized an expansion of gambling to pay for "vertical" non-transportation construction projects such as facilities as part of the Rebuild Illinois capital plan. After approval of the legislation, the City of Chicago expressed concern that the tax burden it imposed on a city casino was too high to attract investors and would jeopardize the gaming funding stream for non-transportation projects as well as the City treasury.[95]

In response to the City's concerns, the General Assembly approved and the Governor signed Public Act 101-0648 in 2020, which replaced the originally enacted 33.3% city tax on post-payout revenue with a graduated tax structure on slot machines and table games ranging from 10.5% on revenue up to $25 million to 34.7% of revenue greater than $1 billion.[96] In contrast, other municipalities only receive a 5% share of revenues.[97] It also increased the timetable for reconciliation fee payments for all Illinois casinos from two to six years and gave applicants a longer period of time to pay for a license if the Illinois Gaming Board approves.[98]

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[92] Illinois Legislative Research Unit. Illinois Tax Handbook for Legislators, April 2022, p. 111.
[93] Illinois Gaming Board. Chicago City Ordinance: Title 8, Ch. 8-12. See https://www.igb.illinois.gov/VideoProhibit.aspx.
[94] Fran Spielman, "City Council lifts Chicago ban on sports betting – and imposes a 2% tax," *Chicago Sun-Times,* December 15, 2021.
[95] Dan Petrella, Jamie Munks and John Byrne, "Chicago casino's future may depend on who's willing to take less cash," *Chicago Tribune*, August 19, 2019.
[96] See Public Act 101-0648 (230 ILCS 10/7)and Dan Petrella, John Byrne And Jamie Munks, "Chicago Mayor Lori Lightfoot spent months working both sides of the aisle in Springfield to secure casino votes," *Chicago Tribune*, May 29, 2020.
[97]Dan Petrella, "Gov. J.B. Pritzker signs bill intended to boost prospect of long-discussed Chicago casino," *Chicago Tribune*, June 30, 2020.
[98] Tina Sfondeles and Neal Earley, "Chicago casino, budget get green light, in waning hours of special session," *Chicago Sun Times*, May 24, 2020.

The impetus for the city's push for a casino was the need to identify a multimillion-dollar recurring revenue source to pay for statutorily required increases in pension funding for the Police and Firefighter Pension Funds.

The City has selected Bally's Corporation to build and operate a city casino. Final approval of the casino is pending review by the Illinois Gaming Board. While the permanent casino is under construction, it is anticipated that Bally's will operate a temporary casino on the site of the Medinah Temple in the River North neighborhood. Chicago's FY2023 budget includes an upfront payment of $40 million from Bally's, which is anticipated to be used to help fund the Policemen's Annuity and Benefit Fund and the Firemen's Annuity and Benefit Fund.[99] Once the permanent casino is operational, the City estimates it will generate $200 million per year in tax and fee revenues. These revenues will be dedicated to the City's police and fire pension funds per state law.[100]

Gaming Expansion Possibility for Chicago: Legalizing Video Gaming

One of the ways the City of Chicago could expand gaming to generate addition additional revenues would be to lift its current ban on video gaming. This would require state legislation, City Council authorization and possibly a referendum. The City would then receive its share of video gaming tax proceeds from the State's Local Government Distributive Fund (one-sixth of video gaming tax proceeds), and the City as a home rule government could also collect an annual fee on video gaming terminals.[101]

OTHER EXISTING CITY TAXES

Other options often raised as potential sources for increased revenue involve increasing taxes that are already in place, such as the taxes on alcohol, motor fuel and jet fuel discussed below. Some of these taxes, such as the liquor tax and motor fuel tax, can be raised using the City's home rule authority without requiring the approval of any other government or oversight bodies. For some sources, such as recreational cannabis, the City's local option tax is already imposed at the highest level allowed by State law.

Liquor Tax

Alcohol taxes are applied to the manufacture or distribution of alcoholic beverages in Illinois and are passed on to consumers. The tax is charged by the gallon. Liquor is taxed at all levels of government – federal, state and local – and there are different rates for liquor, wine and distilled liquor. Alcohol sales are also subject to the sales tax on general merchandise.

The composite rates per gallon of alcohol charged in Chicago, including federal, state, Cook County and City of Chicago taxes, are the following: $1.19 per gallon of beer; $3.06 per gallon of wine with 14% or less in alcohol; and $27.23 per gallon of distilled liquor with over 20.0% alcohol (assuming the liquor is 100-proof).

The City of Chicago's portion of the alcohol tax rates per gallon are:

- $0.29 for beer and cider;

[99] City of Chicago 2023 Budget Overview, p. 54.
[100] Becky Vevea and Mariah Woelfel, "Chicago's first casino is being billed as a pension solution. But it won't be enough," *WBEZ Chicago*, May 25, 2022 .
[101] Illinois Legislative Research Unit. Illinois Tax Handbook for Legislators, February 2018, p. 129.

- $0.36 for wine or other alcoholic beverages containing up to 14% alcohol by volume;
- $0.89 for wine or other alcoholic beverages containing more than 14% and up to 20% alcohol by volume; and
- $2.68 for liquor containing more than 20% alcohol by volume.

The last imposed rate increase for the City liquor tax was in 2007. The City can raise the liquor tax using its own home rule authority, which would increase the total composite rate. However, City officials would need to consider how Chicago's liquor taxes would then compare with other jurisdictions.

Motor Fuel Tax

A tax on motor fuel is included in the retail price of diesel, gasoline and special fuel. It is also subject to the sales tax on general merchandise. The composite tax for gasoline in Chicago is $0.73 per gallon and $0.86 per gallon of diesel. This includes rates imposed by the federal government, State of Illinois, Cook County and the City of Chicago. The City of Chicago's home rule tax on motor fuel, called the vehicle fuel tax, is $0.08 per gallon for all vehicle fuel other than aviation fuel. The City increased its vehicle fuel tax by $0.03 cents per gallon, from $0.05 to $0.08 per gallon, as part of the budget approval process in FY2021.

Chicago's portion of the motor fuel tax could be increased through the City's home rule authority. However, the City would need to consider whether this would bring Chicago out of line with surrounding suburbs and neighboring states, and thereby encourage people to purchase gas outside of the City. The State of Illinois recently doubled the gas tax from 19 cents per gallon to 38 cents per gallon in 2019, and it is set to continue to increase annually based on inflation. Additional increases to this tax could be viewed as overly burdensome.

Jet Fuel Tax

One of the revenue ideas that arose during the mayoral election is an increase to the tax on jet fuel used at Chicago's airports. The City currently taxes jet fuel at a rate of 5 cents per gallon.[102] However, airport bond agreements typically require that those funds be used to support projects at the airports themselves. The Mayor estimated that an increase to the tax could bring in $98 million in annual revenue.[103] Other groups have called for a 9-cent increase to the tax for a total of 14 cents per gallon, which they estimated would generate $96 million in annual revenue.[104]

There are questions about the City's ability to raise this tax on its own without authority from the federal government. Aviation fuel is subject to the revenue use requirements of 49 U.S.C. § 47107(b) and 49 U.S.C. § 47133 and would be required to be spent only on airport-related expenses.[105]

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[102] Chicago Municipal Code 3-52-020.
[103] Greg Hinz, "Brandon Johnson reveals bevy of new taxes in pitch for Mayor," *Crain's Chicago Business,* January 23, 2023.
[104] Saquib Bhatti and Gabriela Noa Betancourt, *First We Get the Money: $12 Billion to Fund a Just Chicago,* May 2023, p. 6.
[105] City of Chicago Vehicle Fuel Tax description.

PROPERTY TAX

Property taxes represent a significant source of revenue for the City of Chicago and can be raised through the City's own home rule authority. The property tax is a reliable revenue source to most governments as it does not fluctuate significantly with economic cycles like other sources such as income and sales taxes do. However, it tends to be unpopular with the general public because it is a very visible tax paid only twice a year in two portions and is not directly linked to a taxpayer's ability to pay.[106]

Historically, property tax increases were generally avoided in Chicago before Mayor Emanuel and the City Council instituted significant property tax increases in 2015 to address the pension funding crisis facing the City's four pension funds. Those property tax increases took place over a period of four years. After Mayor Lightfoot came into office, her administration instituted a practice of raising the property tax levy used to pay for pension contributions annually by the rate of inflation.[107] This became untenable when the inflation rate increased significantly in 2022. Rather than increasing the levy by the maximum 5% allowed based on this policy, the City instead increased the levy for FY2023 by 2.5%.

Mayor Johnson promised throughout his campaign to avoid increasing property taxes. The Johnson administration will need to consider the property tax in the context of the City's overall revenue needs, weighed by the impact that property tax increases have on individual property owners, and on the City's overall competitiveness compared to other parts of the region.

Considerations for Raising Property Taxes

The property tax should not be ruled out as a stable source of revenue. It is the City's largest revenue source, estimated to generate $1.7 billion in FY2023, representing approximately 20% of the total resources supporting the City's Corporate Fund, library, debt service and pension funds.[108] However, property tax increases should not be automatic, and should be reviewed by the City Council each year.

Key questions city leaders need to answer when it comes to the property tax are: how much capacity do property tax payers have to pay more and would an increase make the City's property tax rate uncompetitive compared to surrounding communities?

Compared to suburban communities, the City of Chicago composite tax rate, which means the combined rate for all of the taxing bodies that overlap City borders, is relatively low due to the large commercial and industrial property base.[109]

When thinking about the City's property tax levy, it is important to put it in context of the entire tax burden that residents and business must pay. Property tax bills for property owners within the City of Chicago are divided between the City, the school district, and several other

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[106] For more information about the property tax and how it conforms to principles of taxation, see the Civic Federation, "The Cook County Property Tax System and Fundamental Principles of Taxation," November 22, 2010.
[107] This policy was instituted as part of the FY2021 City of Chicago budget, and codified in Municipal Code Chapter 3-92-075, which states: "Beginning with the budget for fiscal year 2021, therefore, the City will include in each year's budget an increase in the property tax levy equal to the lesser of the most recently reported annual increase in the Consumer Price Index (CPI) or five percent, unless and until the Pension Code requirements set forth above have been met."
[108] City of Chicago FY2024 Mid-Year Budget Forecast, April 2023, p. 32.
[109] Office of the Cook County Clerk, 2021 Tax Rate Report, "2021 Property Tax Frequently Asked Questions," p. 4.

government taxing bodies, or overlapping taxing districts, including Cook County, the Cook County Forest Preserve District, the Metropolitan Water Reclamation District and the Chicago Park District. It is important for the City to not overburden the tax capacity of residents and business owners, and to think about how property tax increases impact the business climate given the continuing downtown recovery from the COVID-19 pandemic, with high vacancy rates and foreclosures.

Another important factor is whether raising property taxes would make property tax rates uncompetitive relative to other communities in the region. Despite the City of Chicago's increases in property taxes over the past decade, Chicago's effective residential property tax rate is still lower than most surrounding suburbs in Cook County and the collar counties, at 1.77% as of 2019.[110] Chicago also had lower commercial effective tax rates at 3.61% than any of the other selected communities in Cook County. As long as the tax base continues growing and other Chicago-based governments do not implement outsized tax increases of their own, moderate increases to the City's levy could be manageable, and are not likely to make effective tax rates in Chicago uncompetitive with surrounding jurisdictions.

From a comparative perspective, the City of Chicago appears to have the capacity to increase property taxes on residential properties and not lose its competitive edge in effective tax rates. It has less room for increases to effective tax rates for commercial properties.

Finally, it is important to consider the impact on property tax owners. As an *ad valorem* tax, the property tax is based on property value and not directly related to income. If a homeowner's income grows at a slower rate than their property tax bill or they experience economic hardship, they may need to sell their home and move to a lower value residence or a different jurisdiction with lower tax levels. There are homeowner's and senior citizens' property tax exemptions in Cook County enabled by State statute starting in 2017 in an attempt to offset some of the impact of increasing property taxes by reducing the taxable value of residences.[111] But since the Cook County property tax system is a zero-sum game, any reduction in tax liability to residences means other types of property, including apartments and commercial and industrial property have to make up the difference.

Rideshare Fees Linked to Congestion

The City of Chicago currently has a ground transportation tax that applies to both taxicabs and transportation network providers, which are rideshare services such as Uber and Lyft. Those charges are passed on to customers in their ride fee. The City charges licensed taxicabs a monthly fee of $98.00 per vehicle per month plus $22.00 per month for the Wheelchair Accessible Vehicle Fund.

Rideshare taxes have been in place in Chicago since 2015, and several changes to the rideshare tax structure have taken place since then, including the addition of congestion-based fees. As of January 6, 2020, transportation network providers are currently charged a per-ride rate of $1.13 per single ride and $0.53 per shared ride citywide regardless of the pick-up or

[110] Civic Federation, "Estimated Effective Property Tax Rates 2010-2019: Selected Municipalities in Northeastern Illinois," March 1, 2023.
[111] See Civic Federation, "New State Law Increases Cook County Property Tax Homestead Exemptions," September 28, 2017.

drop-off location. Rides that begin or end within a designated downtown zone[112] between 6 a.m. and 10 p.m. on weekdays are charged an additional surcharge of $1.75 for single rides and $0.60 for shared rides. For rides that include a pick-up or drop-off at O'Hare Airport, Midway Airport, McCormick Place or Navy Pier, there is an additional $5.00 charge. Each ride is also charged a $0.10 fee for each ride performed by a non-handicap accessible vehicle and an administrative fee of $0.02. The total surcharge for a typical single ride trip outside of the downtown zone is $1.25 and for a typical single ride trip including the downtown zone is $3.00.[113]

Part of the tax on transportation network providers was initially shared with the Chicago Transit Authority. The City pledged to share a portion of the revenue from a $0.20 increase in the ground transportation tax, which was added incrementally in 2018 and 2019, with the Chicago Transit Authority—up to $16 million annually. The Chicago Transit Authority received $16 million each year in 2018 through 2020, but as of January 2021, the City suspended the transfer of the ground transportation tax revenue to the Chicago Transit Authority indefinitely.[114]

In terms of how Chicago's rideshare surcharge compares to other cities, many jurisdictions appear to tax based on percentages of the cost of rides rather than flat fees. Other places that charge flat fees for ridesharing include Baltimore, which charges $0.25 per ride as of March 2020,[115] and Massachusetts, which has a $0.20 fee per ride. South Carolina imposes a 1% tax on all ride sharing revenue. Rhode Island's sales tax applies to ride sharing services, and so these rides are taxed at the 7% state rate. Pennsylvania charges a 1.4% tax on all rides originating in Philadelphia, and extends regulatory authority to local jurisdictions throughout the state. Rides in New York City are taxed at the same 8.75% rate as traditional taxis and car services.[116]

While rideshare fees linked to congestion areas have already been tapped in Chicago, this is a source that could be changed or increased through the City of Chicago's own authority.

Considerations for Implementing a Congestion-Based Rideshare Charge

There are several factors that should be considered when thinking about making changes to Chicago's existing rideshare taxes. If the City were to reevaluate the surcharge on transportation network providers tied to congestion, it would be important to think about what the City's main goal is and what problem the City is trying to solve. It would also be important to understand the issue based on current mobility patterns post-COVID-19.

Studies have shown that transportation network providers increase congestion and add mileage to the streets,[117] while decreasing public transit usage.[118] If the goal is to reduce congestion and

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[112] The designated downtown includes the Loop, the near north side (as far north as North Avenue), the West Loop, and the South Loop (as far south as Roosevelt Road). It does not include Navy Pier.
[113] More information about the City's congestion pricing is available on the City's website.
[114] Communication with Chicago Transit Authority budget office on February 6, 2023.
[115] Maryland Transportation Network Service Rate Chart as of March 23, 2020.
[116] AccurateTax, Exploring the Taxability of Uber and Lyft, last updated December 8, 2022.
[117] One study found that private rideshare rides added 2.8 new vehicle miles on the road for each mile of personal driving removed. Schaller Consulting, *The New Automobility: Lyft, Uber and the Future of American Cities*, July 25, 2018.
[118] A study found that in seven major metropolitan areas including Chicago, ridesharing led to an average reduction in bus ridership of 6% and an average reduction in light rail usage of 3%. Regina Clewclow and Gouri Shankar Mishra, University of California-Davis Institute of Transportation Studies, *Disruptive Transportation: The Adoption, Utilization and Impacts of Ride-Hailing in the United States*, October 2017. These conclusions are also supported by research

increase public transit usage, then the congestion-related surcharge on transportation network providers should be structured in such a way that accomplishes this by impacting consumer behavior. Should the tax be targeted to areas with CTA train stops, regardless of whether those fall within the downtown congestion zone?

If the City's goal is to raise more revenue to fund public transportation, then the City should consider:

- Does the current tax structure generate enough revenue to meaningfully contribute to the CTA's operations?
- How can the City prioritize improving the reliability and frequency of both bus and rail public transit with the revenue raised from the surcharge?
- Should the total net revenue collected from the surcharge be transferred to the CTA or only a portion?
- Is the flat fee structure the best way to structure this tax, or should it be based on time and distance traveled?

Exemptions must also be considered. For example, should exemptions be provided for transportation network provider rides that begin or end in areas designated as transit deserts? What kinds of vehicles should be exempt from the surcharge? Should the locations that already carry a substantial surcharge (Midway and O'Hare airports, McCormick Place and Navy Pier each have a $5.00 surcharge) be exempt from a congestion-based surcharge?

TAXING RETIREMENT INCOME

Unlike the federal government, the State of Illinois exempts all retirement income from the individual income tax. The retirement income exemption has been in place since just a few years after Illinois first implemented an income tax in 1969. Of the 41 states that impose an income tax, Illinois is one of the few that does not tax retirement income. It is one of three states that exclude all pension income and one of 27 states that exclude all federally taxable Social Security income.[119] The Illinois Comptroller reports that the exclusion of federally taxable retirement income resulted in Illinois losing out on nearly $2.9 billion in individual income tax revenues in FY2021.[120] This figure has increased from $2 billion ten years prior in FY2012.[121] This exclusion is the largest of all of the State's tax breaks and the cost is expected to continue to increase rapidly over time as the population ages.

The Civic Federation has in the past supported eliminating or reducing the exemption of retirement income from the State income tax as part of a comprehensive plan to balance the State budget when the State was struggling to recover from its financial crisis.[122] Including this high-growth component in the income tax base would provide for a more sustainable revenue

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by the Chicago Metropolitan Agency for Planning. See CMAP's policy brief: "Changes in mobility were underway even before COVID-19."

[119] Excludes the District of Columbia. National Conference of State Legislatures, *State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2014*, April 3, 2015. At the federal level, between 15% and 100% of Social Security benefits are excluded from taxation. Generally, Social Security benefits are not taxable if they represent a taxpayer's only income. If base income is up to $25,000 for an individual or $32,000 for joint filers, then no tax is owed. Base income is the sum of half of Social Security benefits plus all other income. Internal Revenue Service, Publication 915, "Social Security and Equivalent Railroad Retirement Benefits, 2018," January 9, 2019, pp. 2-4.

[120] Illinois Comptroller, Tax Expenditure Report FY2021, p. 4.

[121] Illinois Comptroller, Tax Expenditure Report FY2012, p. 5.

[122] See for example Civic Federation, "State of Illinois FY2020 Roadmap," February 13, 2019.

source for the State. It would also provide a higher local share to local governments around the State via the Local Government Distributive Fund. If the State were to tax retirement income on adjusted gross incomes above $100,000, this could potentially generate $1.8 billion annually for the State of Illinois.[123]

Pros and Cons of Eliminating the Income Tax Exemption for Retirement Income

Proponents of eliminating the retirement income tax exemption argue:

- It would provide fairness between senior citizens who cannot retire and are taxed on their income, as opposed to wealthier seniors who have been able to retire and whose retirement income is not taxed;
- Exemptions for the lowest income seniors could remain in place, offsetting concerns about affordability;
- Including retirement income would broaden the income tax base, providing greater equity among taxpayers and ensuring greater long-term sustainability of the State's resources by accessing a growing portion of the economy;
- All Illinoisans who are currently working have had their income taxes raised to balance the State's budget so it cannot be argued that retirees are singled out to help local and state budgets; and
- There is no evidence that the lack of income taxes on retirement keeps people in the state.

Opponents of eliminating the income tax exemption for retirement income argue:

- The rationale for exempting retirement income was that many retirees have a fixed income, cannot afford to pay additional taxes and would therefore have to forego other necessities such as medicine and groceries;
- Retirees have planned for retirement with the exemption in mind and cannot adjust their plans to accommodate being taxed on that income;
- AARP Illinois has argued that retirees should not be singled out to balance the State's budget and noted that retirees pay other taxes, including property and sales taxes;[124] and
- Not taxing retirement income is an incentive that helps keep retirees in the state. Opponents argue that if Illinois were to tax retirement income, this would drive retirees out of Illinois.

Considerations for Eliminating the Exemption of Retirement Income from Taxation

If the State of Illinois decided to eliminate or reduce the exemption for retirement income, it would only need to pass a law repealing all or some of the exemption. In order for the City of Chicago to receive a significant portion of the new revenue, that law would have to direct a portion of the revenue to be diverted to the Local Government Distributive Fund. Additionally, a public information campaign would likely be necessary to inform people who receive retirement income that they will need to file a state income tax form. Retirees who do not have federally taxable income would not be taxed by the state either.

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[123] Civic Committee of the Commercial Club of Chicago, "Securing Illinois' Future: Stabilizing State Finances to Promote Long-Term Growth," February 2023.
[124] AARP Illinois, "We Oppose Taxation of Retirement Income!," December 3, 2015.

Lawmakers would need to answer the following questions:

- What kinds of protections need to be in place for low-income retirees? Should some kind of additional exemption be provided to those seniors?
- How much of the new revenue should be distributed to local governments?

FINANCIAL MANAGEMENT OPTIONS

The following are several financial management options available to the City of Chicago as it addresses its financial challenges. The Civic Federation generally endorses cost-saving measures. However, the Federation generally does not endorse borrowing through pension obligation bonds to generate immediate budgetary relief if these actions increase the long-term cost of paying down debt. The Federation does not have a position on a public bank for the City of Chicago or a city charter, but both of these options are worth exploring.

ALTERNATIVE SERVICE DELIVERY

Alternative service delivery (ASD) refers to any process that shifts some or all of the functions, risks or responsibilities for delivering a service from the primary government to the private sector or another public entity. When the function is transferred to the private sector, it is commonly referred to as privatization. Alternative service delivery can take many forms, such as an asset sale or lease, contracting out the management of an asset or service, franchising, vouchers and a variety of other structures.[125] Managed competition, a method of alternative service delivery, provides for government employees to competitively bid against private contractors to provide services.

The term Public-Private Partnership, or P3, is often used synonymously with alternative service delivery and privatization. Some definitions of P3 distinguish it from other forms of privatization in that the private sector is providing services for an extended period of time,[126] while others point to the sharing of the risk and reward potential in the delivery of the service.[127]

The City of Chicago's long-term lease transactions involving the Skyway, downtown parking garages and metered parking system are often cited as groundbreaking P3 transactions. However, privatization does not have to involve long-term lease concession agreements as was done in those high-profile transactions. It can also mean outsourcing a routine service or function, such as residential waste collection or the privatization of ambulance services. Since 1990 the City of Chicago has privatized a number of different services and programs, such as airport parking operations, custodial services and tree planting.[128]

[125] Civic Federation, Alternative Service Delivery: A Civic Federation Issue Brief, December 2006, p. 3.
[126] Government Accountability Office, *Highway Public-Private Partnerships*, February 2008, p. 5.
[127] California Debt and Investment Advisory Committee, Issue Brief: Privatization vs. Public-Private Partnerships (last visited on May 3, 2011), p. 4.
[128] City of Chicago Office of Budget and Management Report to the City Council Committee on Budget and Government Operations, *Privatization of City Services and Functions: 1995-2005*, April 27, 2005, Tab 2. The report focuses on savings from projects enacted between 1995 and 2005, but also includes some information from projects implemented between 1990 and 1995.

The City has taken steps toward more modest alternative service delivery options by privatizing parts of the City's "Blue Cart" recycling program.[129] The City has also adopted an ordinance regarding the privatization of City assets and services in an effort to improve transparency surrounding privatization.[130] In July 2022, City Council passed ordinance enhancements promoting water access and affordability for Chicago residents, which prohibits the future privatization of its water system.[131] The City of Chicago also announced a 100-year agreement in April 2023 for the City of Joliet to purchase water from Lake Michigan beginning in 2030, which will ensure a high quality and sustainable water source for southwest suburban residents.[132]

While alternative service delivery is not a panacea for a government's financial problems and can present risks, it can be a useful tool to increase efficiency and reduce costs. Competition from private, nonprofit and even other public entities can help reduce operational inefficiencies that can develop in a system of monopoly service provision by a single government.

The Civic Federation has developed a set of criteria to evaluate alternative service delivery proposals, including management oversight and appropriate use of funds.[133]

Reasons for Privatization

Governments implement privatization strategies for a number of reasons:

- Saving money by reducing overhead and labor costs;
- Enhancing revenue;
- Shifting risk from the government to the provider;
- Improving service quality;
- Managing peak workloads more efficiently and cost-effectively;
- Shedding non-core functions and activities to focus efforts on government's core services and programs;
- Obtaining and utilizing skills, competencies and services that would be too expensive to acquire otherwise; and
- Avoiding upfront large-scale capital investments.

Reasons to Terminate Privatization

Governments sometimes re-evaluate their decision to privatize a service or function and opt to re-instate full public control. The primary reasons governments terminate a privatization agreement are:

- The vendor or manager has not fulfilled the terms of a contract;
- Changes in the labor market have made it more attractive to hire in-house staff;

[129] City of Chicago, "Mayor Emanuel and Department of Streets & Sanitation Commissioner Thomas Byrne Highlight the State of Competitive Bidding for Chicago's Blue Car Recycling Program," Press Release, October 3, 2011 (last visited on May 25, 2023).
[130] City of Chicago, Ordinance 2015-5434.
[131] City of Chicago, "City Council Passes Ordinance Promoting Water Access, Affordability, And Data Reporting Transparency", Press Release, July 20, 2022.
[132] City of Joliet, "Joliet Announces Historic Water Agreement with City of Chicago", Press Release, April 20, 2023.
[133] For the list of criteria, see Civic Federation, "Alternative Service Delivery Needs to Meet Stringent Criteria," June 15, 2011. See also: Civic Federation *Alternative Service Delivery: A Civic Federation Issue Brief*, December 2006; and Roland Calia and Laurence Msall, "The Chicago Experience: A P3 Checklist," *Government Finance Review*, June 2011.

- There is a need to manage and supervise sensitive matters; or
- A lack of competition has resulted in an unqualified pool of contractors, uncooperative contractors or exorbitant prices.

Arguments For and Against Service Privatization

The following provides a brief summary of the reasons often presented as arguments for and against privatization.

Arguments in Favor of Privatization

- **Efficiency**: The private sector tends to operate more efficiently than the public sector. The public sector is constrained by layers of authority, mandatory civil service regulation, collective bargaining contracts and formal bid procedures. In contrast, private organizations have strong incentives to perform as they must make a profit, satisfy shareholder demands and/or avoid bankruptcy;
- **Cost Savings**: Privatization can save money through the elimination of work rule constraints or because of the advantages afforded by economies of scale; and
- **Better Quality of Service**: The private sector can more quickly take advantage of technological improvements than the public sector. In addition, the private sector focuses its efforts on performance, as it must meet profit goals. The public sector, in contrast, is constrained by limited funds for technology and usually lacks a focus on performance in service delivery or in personnel.

Arguments Against Privatization

- **Lack of Accountability/Corruption**: Unless adequate management oversight and evaluation procedures are implemented, there is the potential for corruption to emerge. This can take the form of rewarding contracts to unqualified vendors or paying for fraudulent billings;
- **Political Considerations**: Privatization contracts can be used to reward political allies or to skirt civil service rules or procurement procedures. Many have criticized privatization contracts as a new form of patronage;
- **Equity Concerns**: Many public services, such as public health or education, are provided as a social good regardless of ability to pay. Providing them through the private sector can raise concerns over equitable distribution and delivery of these goods or services;
- **Lack of Competition**: Privatizing a service for which there is not a pool of qualified vendors or managers is not as likely to yield cost savings or improved efficiency; and
- **Lack of Control**: If a government cedes full control over service delivery standards and qualifications and/or pricing, the result can be diminished benefits and higher prices.

CITY CHARTER

Municipalities, like all local governments, are legally creations of state government. Through the grant of a charter, state governments can award certain powers to cities, including the ability to determine their administrative structure and their tax and fiscal policies. Of the 25 largest cities in the United States, only Indianapolis and Chicago are not governed by a charter.[134]

[134] Steve Hendershot, "50 Aldermen may be 40 too many. Here's why," *Crain's Chicago Business*, February 6, 2023.

A city charter is a document that specifies how a municipal government operates. It is usually created by a charter commission that may be authorized by elected officials or a citizen initiative. The charter prepared by the commission is usually subject to approval by the voters.[135]

Chicago received charters from the Illinois General Assembly numerous times throughout its history. In 1870, however, with the adoption of the State's new constitution, the legislature stopped granting charters and placed all municipalities under the Cities and Villages Act, a statute that limited the City's legal and administrative authority.[136]

Several unsuccessful efforts were made in the early 20th century to secure a charter for Chicago, including a 1902 effort led by the Civic Federation. With the approval of the 1970 State Constitution, Chicago became a home rule city. Home rule status in Illinois gives municipalities with populations over 25,000 a broad grant of authority to exercise powers and functions, including the right to regulate, license, tax and incur debt. [137] However, even with this grant of authority, Chicago is still subject to restrictions under State law and retains a municipal governing structure that was established under a pre-1870 constitution charter.[138] Creating a city charter will require authorization by the General Assembly.[139]

The argument against a city charter is that the City of Chicago has functioned under its current system of government for over 100 years. Structural reforms can be enacted without the development of charter.

Proponents of a City of Chicago charter argue that it would provide the following benefits:[140]

- A charter would establish formal rules and procedures to provide transparency and stability to city processes. These could not easily be changed by a mayor or council.
- A charter would clarify the powers and responsibilities of the Mayor and City Council, clearly delineating the executive and legislative authority of each. Currently, the executive exercises what can be seen as legislative prerogatives, such as choosing Council committee chairs and presiding over Council meetings.
- A charter could provide for a formal process for oversight and/or review of major contractual and financial transactions.
- Citizen ballot initiatives on policy or structural issues could be permissible under a charter.
- A charter could specify procedures for the recruitment, selection and confirmation of key administrative officials.
- A charter could formally provide for establishment of a Chief Administrative Officer (CAO) position to manage city operations. Chicago's Office of Inspector General issued an advisory opinion in March 2023 arguing that the current Chicago Municipal Code requires that the Mayor appoint an administrative officer who would be confirmed by the City Council. The CAO would be charged with supervising the management of city

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[135] Ed Bachrach and Austin Berg, "The Importance of City Charters: City governance is federalism's weak link," *Discourse*, October 14, 2022.
[136] Maureen A. Flanagan, Charters, *Municipal in the Encyclopedia of Chicago History*.
[137] Illinois State Constitution. Article VII. Local Government. Section 6: Powers of Home Rule Units.
[138] Maureen A. Flanagan, Charters, *Municipal in the Encyclopedia of Chicago History*.
[139] William S. Bike and Peter Winslow. "Chicago needs charter to give more power to the people, say proponents," April 26, 2023.
[140] William S. Bike and Peter Winslow, "Chicago needs charter to give more power to the people, say proponents," April 26, 2023.

departments, boards, commissions and other city agencies.[141]

Consolidating City Pension Funds

City of Chicago employees belong to four separate pension funds: the Municipal Employees, Laborers', Police and Fire funds. Non-teaching employees of the Chicago Public Schools also belong to the Chicago Municipal Fund and make up approximately half of that fund's membership.

Employees in all other municipalities in Illinois belong to the consolidated Illinois Municipal Retirement Fund (IMRF). Illinois municipalities with a certain number of police or firefighters have their own police and fire pension funds. However, Public Act 101-0610 consolidated the investment assets of the State's hundreds of police and fire pension funds into two consolidated investment funds in 2019 – one for police pension funds and one for firefighter pension funds.[142] The City's police and fire pension funds were not included in that consolidation.

It makes little governance or financial sense to have separate pension funds for the City of Chicago and other municipalities. The City's pension funds are severely underfunded and have not benefitted from the amount of local control allowed to them. Public pension benefits and funding in Illinois are controlled via State statute, but local pension fund trustees make decisions on investments, actuarial and demographic assumptions and, in the case of police and fire funds, decisions on disability claims.

Given the funding challenges faced by the City's four pension funds (which have total combined unfunded liabilities of $33.3 billion and collectively are only 23.8% funded), the Civic Federation believes the City should explore and pursue reforms that could reduce the cost of pensions.

First, the City of Chicago's Municipal and Laborers' Funds Pension Funds should explore consolidation into the IMRF like all other municipal employees in the state. Chicago Public Schools employees enrolled in the Municipal Fund would also join all of the State's other school administrative staff in the IMRF. Under the IMRF structure, the City would have separate accounts for their employees, but their assets would be pooled for investment.

Second, the investment assets of the Chicago Police and Fire pension funds should be consolidated with those of the state's other 650 public safety funds. Eventually, the State should explore benefit management consolidation of these funds as well to effect greater cost savings and efficiencies.

Related Issues: The Chicago Teacher's Retirement System

Chicago Public School teachers are the only teachers in the state with their own retirement fund.[143] All others belong to the State-funded Teachers' Retirement System. This has resulted in an inequitable arrangement under which Chicago taxpayers fund most of the Chicago teachers' pensions—making contributions to the large unfunded liability through the Chicago Public Schools' Budget—while also contributing to downstate and suburban teachers' pensions through taxes paid to the State of Illinois. Downstate and suburban taxpayers fund their

[141] Deborah Witzburg, Advisory Concerning Interdepartmental Coordination and the City's Administrative Officer Position, March 21, 2023.
[142] Illinois Government Finance Officers Association. Illinois Police and Fire Pension Consolidation Update Investment Disclosures Post-Asset Transfer and Updates on the Actuarial Process.
[143] Qualifying City Colleges of Chicago employees belong to the State Universities Retirement System.

teachers' pensions through state taxes, but not through their local school districts' budgets. They also only contribute to the annual cost (normal cost) of Chicago teachers' pensions, not the unfunded liability.

The Civic Federation has long deplored the State's failure to fund Chicago teachers' pensions proportionally to how it funds TRS. The Federation continues to call on State lawmakers and the Governor, as well as the new Mayor and City Council to work together to consolidate the Chicago Teachers' Pension Fund (CTPF) with TRS.

Pension Obligation Bonds

The City of Chicago faces long-term budgetary pressure due to its four pension systems, which are collectively underfunded by approximately $33.3 billion as of FY2021. Over the past ten years, the unfunded liabilities of the four pension funds combined have grown by $13.5 billion, or 68.3%. The City must contribute $2.7 billion of its budget to pension funding in FY2023, and the City faces ongoing increases in contributions annually.

To address these pressures, the City has in the past considered the idea of issuing taxable pension obligation bonds. In 2018 Mayor Emanuel proposed issuing $10 billion of bonds, the proceeds of which were projected to raise the pensions' collective funded ratio from 26% to 50%.[144]

Pension obligation bonds can generate near-term budgetary savings because increased assets in the funds would reduce unfunded liabilities, lowering the budgetary contribution needed to pay off the pension debt over time. However, savings to the City depend on investment returns surpassing debt costs over the life of the bonds. The performance of the invested funds depends on market conditions and is impossible to predict. Thus, POBs carry considerable taxpayer risk, particularly in the current volatile economic climate. The Government Finance Officers Association has recommended against their use because of these risks.[145]

The Civic Federation urges extreme caution in moving forward with any such proposal. In the event the City does move forward with a POB proposal or any other proposal that includes taxpayer risk, the Civic Federation encourages maximum transparency including releasing data publicly, holding multiple public hearings and establishing guardrails for a borrowing of billions of dollars for non-capital expenditures.

A Public Bank For The City Of Chicago

A public bank is a financial institution owned and operated by a government on behalf of its citizens. It can be used to provide loans to governments for economic development projects and/or invest in infrastructure projects. Profits from investments can be returned to the government treasury. Public banks have also been promoted as depository institutions for the emerging cannabis industry, which currently operates on a cash basis as federal law prohibits private banks from handling proceeds from an industry that is illegal at the federal level.

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[144] Rahm Emanuel, Address to the City Council, December 12, 2018.
[145] Government Finance Officers Association, "Advisory: Pension Obligation Bonds – State and Local Governments Should Not Issue POBs," January 1, 2015.

Public banks have a long history in the U.S. In the 19th century many states, including Illinois, operated public banks. However, most of these were closed by 1900. In 1919, after reformers of the Nonpartisan League swept state elections, North Dakota created a state bank, which still exists today. In 2016 the U.S. territory of American Samoa was authorized to open a Territorial Bank with limited services. In 2018 the Federal Reserve Bank of San Francisco granted the Territorial Bank access to the U.S. payments system, which will allow it to offer customer services such as debit cards and checking.[146]

Legislators and candidates in several states have endorsed public banks in recent years, including Governor Phil Murphy of New Jersey and U.S. Representative Alexandria Ocasio-Cortez of New York.[147] In 2019 the California legislature approved a law that allows local governments to create their own public banks to support economic development and address infrastructure and housing needs.[148] However, Los Angeles voters rejected amending their City's charter to create a public bank in November 2018 by a vote of 55.8% to 44.2%.[149]

The Bank of North Dakota

The Bank of North Dakota is viewed as a model by many public bank advocates. The Bank is professionally managed and operated and is governed by the State Industrial Commission, a board composed of the Governor, the Attorney General and the Agriculture Commissioner. A seven-member Advisory Board reviews the Bank's operations, management and procedures. The state Department of Financial Institutions provides audit oversight but does not exercise regulatory authority.

All state funds from the collection of taxes and fees are deposited in the Bank, unless authority is granted for specific investments. Other funds are provided by corporate accounts, municipal and county governments and individuals. The Bank's deposits are secured by the full faith and credit of North Dakota, not the Federal Deposit Insurance Corporation (FDIC). It invests only in AAA rated securities backed by the federal government or its agencies.[150] Bank profits are used for three purposes:[151]

1. Transfers to the General Fund as authorized by the legislature;
2. Mission-driven loan programs for economic development and infrastructure approved by the legislature; and
3. Maintaining the Bank's capital level, which is designated to be a Tier-One capital level of 10%.

The Bank of North Dakota is not intended to compete with commercial banks. While it does provide student loans, it does not offer credit cards, ATM services, personal or business loans to the public. The Bank does provide partial funding for home mortgages, businesses, economic development, infrastructure or agricultural projects in cooperation with commercial banks. Individuals can secure student loans directly from the Bank. However, if individuals or businesses seek other types of loans, they must work with and through local commercial

146 Rob Blackwell, "American Samoa finally gets a bank. And U.S. States are watching," *American Banker*, April 30, 2018.
147 Sarah Jones, "Why Public Banks Are Suddenly Popular," *The New Republic*, August 10, 2018.
148 AB 857 Public Banking Act Chapter 442.
149 James Rufus Koren, "Measure to create L.A. public bank fails in setback for Council President Herb Wesson and advocates," *Los Angeles Times*, November 7, 2018.
150 Bank of North Dakota, "The BND Story."
151 Public Banking Institute, "What is a Public Bank."

lenders. The private financial institution makes requests to access Bank credit programs, not the individual borrower.[152]

Proposal for a Chicago Municipal Public Bank

Former alderperson Ameya Pawar, City Council members Daniel LaSpata and Matt Martin, and State Senator Robert Peters have all proposed creating a municipally-owned bank in Chicago. Monies from the City's retirement systems, State linked-development deposits and the City Treasurer's financial portfolio would fund the bank. The bank would focus on targeting city funds for economic development, financing a publicly-owned broadband provider, investing public money in community banks and credit unions, launching a public Venmo for the underbanked and unbanked to reduce reliance on payday loans and currency exchanges, financing a public Internet provider that could offer affordable internet access, investing in affordable housing and refinancing student loans.[153]

Pros and Cons of Public Banks

Supporters of public banks see them as a catalyst for the promotion of social goals such as the development of affordable housing, refinancing of student debt and economic development in underserved communities. They argue that a public bank's decisions would focus on the values and needs of local communities, unlike private banks which focus on investor profits, charge high interest rates and fees and often take risks with public funds.[154] Public banks can provide below-market interest rate loans to state and local governments, consumers, students and businesses, potentially reducing costs by millions or even billions of dollars. They also can provide banking services to citizens who currently do not have access to these services.[155]

Opponents of public banks argue that their problems include corruption, financial risk, high startup capital costs and competition with existing commercial banks.

One of the biggest concerns about public banks is the possibility of politics and corruption influencing its management and operations. Illinois and Chicago have long been known as centers of public corruption. Since 1976, federal prosecutors have convicted 1,706 public officials of corruption in the northern Illinois federal judicial district, the most from any judicial district in the nation.[156] Given Chicago's long history of corruption, there would be a possibility of political interference in bank decisions that would seriously impact the ability of the institution to make sound financial decisions. Assuaging those concerns would require strong oversight and professional, non-political management.

There are financial risks involved in the operation of a public bank. Deposits at the Bank of North Dakota are not insured by the Federal Deposit Insurance Corporation. If Chicago followed that model, the City or State would have to provide financial guarantees. Also, there can be a great deal of risk regarding the potential for loan defaults if the public bank directly provides consumer loans. The bulk of losses related to the 2008 subprime mortgage crisis in Germany were from loans provided by that nation's state banks.[157]

[152] Bank of North Dakota, "The BND Story."
[153] Daniel LaSpata, Matt Martin, Robert Peters and Ameya Pawar, "Why Chicago Should Start a Public Bank," *Chicago Sun-Times*, December 7, 2020.
[154] Public Banking Institute. "What is a Public Bank."
[155] Public Banking Institute, "What Problems Do Public Banks Solve."
[156] Dick Simpson, et al. "Continuing Corruption in Illinois," Anti-Corruption Report Number 10, University of Illinois at Chicago, May 15, 2018.
[157] American Banker, "Promises of Public Banks Don't Match Reality," March 5, 2015.

Another key issue in creating a public bank is the need for startup capital. This can be very expensive. For example, a feasibility study commissioned by the State of Massachusetts estimated a state public bank would require approximately $3.6 billion in startup capital.[158]

Finally, depending on how it is set up, a Chicago public bank could compete with existing commercial banks. The Bank of North Dakota does not compete with private banks; rather, it works cooperatively with them.

Considerations for Creating a Chicago Public Bank

If Chicago decides to create a City-owned public bank, there are several issues that must be carefully considered by the Mayor and City Council. The discussions about a public bank must be transparent and will require adequate time and research to understand the legal, financial and administrative issues inherent in creating this institution so that citizen and taxpayer interests are protected.

- **State versus Municipal Public Bank**: The State of Illinois may be much better positioned to create a public bank than the City of Chicago. It would have readier access to larger amounts of startup capital and a model for such a bank exists in North Dakota. A state public bank also could provide benefits to communities throughout Illinois that could benefit from its services.
- **Legal Issues**: There are undoubtedly legal issues involved in establishing a municipal bank. State charter authorization would likely be required and the bank would be regulated by the Illinois Department of Financial Institutions. There may be other legal issues as well. For example, California state law provides that city bonds can only be used for infrastructure projects. So, startup capital for a city public bank would have had to be provided from general funds or philanthropy.[159]
- **Financial Issues**: A number of specific financial issues would need to be addressed:
    - Would the public bank deposits be FDIC insured? If not, how would they be guaranteed?
    - Would the bank provide direct loans to consumers?
    - How would bank finances and operations be audited?
    - Would capital reserves be available to use for purposes other than economic development, infrastructure, student loans or loans such as transfers to the City General Fund?
    - How much startup capital would be needed? Any public bank proposal for Chicago should require a feasibility study to figure out startup capital needs. It might be more financially feasible for the State of Illinois to create a public bank than for the City of Chicago to create a municipal bank.
    - **Administrative Issues**: The City would need to create mechanisms for adequate oversight, governance and management of the bank to ensure that its operations are professional and transparent and that undue political pressure is not exerted on its decision making. The Bank of North Dakota model provides for professional management of operations and oversight by state officials and an advisory committee.

[158] Sarah Jones. "Why Public Banks Are Suddenly Popular," *The New Republic*, August 10, 2018.
[159] Sarah Jones. "Why Public Banks Are Suddenly Popular," *The New Republic*, August 10, 2018.

RECOMMENDATIONS

The following are the Civic Federation's recommendations for the City of Chicago. These recommendations fall into three main groups: 1) structural recommendations; 2) budgeting and management recommendations; and 3) transparency recommendations.

STRUCTURAL RECOMMENDATIONS

Reform Aldermanic Privilege

Aldermanic privilege, also referred to as aldermanic prerogative, is a practice that grants individual alderpersons in Chicago veto power over zoning, land use, permitting and development matters within their respective wards. Aldermanic privilege is not codified within the Municipal Code or within the City Council Rules of Order and Procedure. It is an unwritten practice that has existed in Chicago for many decades. In 1954 the Chicago Home Rule Commission observed that aldermanic privilege led to "allegations of political favoritism and of an uncoordinated system [whereby] changes …were made according to no plan or design."[160] The practice of aldermanic privilege continues simply because alderpersons expect deference on issues that they deem important in their ward. This unfettered control has resulted in a number of alderpersons being "sent to jail for taking bribes in exchange for influencing zoning changes or for the issuance of building permits."[161]

The transparency surrounding zoning and development decisions has improved over the years with the introduction of local zoning advisory boards and public hearings on proposed zoning changes, but the ability of individual alderpersons to block legislation affecting their wards continues and its relationship to past corruption continues to impact the trust residents have for elected officials.

In an effort to limit the control alderpersons have within their wards over affordable housing options, an ordinance was introduced in July 2018 that would have limited their ability to block affordable housing development within their wards.[162] However, the ordinance did not pass. The issue was a priority in Mayor Lightfoot's campaign and again in the 2023 mayoral election.

Alderpersons are the local representatives of their wards and should be able to continue to provide input on policy issues related to their wards. However, they should not be in control of day-to-day decision making. The current process subjects developers and businesses to an ad hoc and opaque approval process. Instead, zoning and development decisions should be made through a transparent process established by the City Council and codified in the Municipal Code and executed through a citywide process.

Reform Aldermanic Menu

The Chicago Department of Transportation's Aldermanic Menu Program, which is a subprogram of the Neighborhood Infrastructure Capital Improvement Program, allocates $1.5 million

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[160] Joseph P. Schwieterman and Dana M. Caspall, *The Politics of Place: A History of Zoning in Chicago*, (1st Edition, Chicago: Lake Claremont Press, 2003), p. 106.
[161] Joseph P. Schwieterman and Dana M. Caspall, *The Politics of Place: A History of Zoning in Chicago*, (1st Edition, Chicago: Lake Claremont Press, 2003), p. 106.
[162] City of Chicago, Ordinance 2018-6119.

annually to each of the 50 Council members in Chicago. The funds distributed to each alderperson are meant to provide for capital improvements to repair and replace streets, sidewalks and alleys, street lighting and other infrastructure improvements. However, the program is an ineffective and inequitable way to fill capital needs around the City.

The City's current process for allocating scarce funding for infrastructure projects causes serious systemic issues, which disproportionately affect certain parts of the City.[163] In addition, the Aldermanic Menu Program does not follow Government Finance Officers' Association (GFOA) best practices for capital planning, which direct governments to develop a comprehensive multi-year financial plan based on need.[164]

A Chicago Inspector General 2017 audit of the Aldermanic Menu Program concluded that the aldermanic menu program underfunds residential infrastructure needs by $228.8 million and results in significant funding disparities relative to need between wards. The report found that $15.1 million of Menu funds were used for projects unrelated to residential infrastructure between 2012 and 2015, and at least $825,292 was spent on projects falling outside the appropriate ward boundaries and project selection submission deadlines were not met.[165] A supplementary advisory released in 2019 also reiterated these findings and recommendations.[166]

The Civic Federation endorses the City's Inspector General's recommendations related to the Aldermanic Menu Program:

- The City's Department of Transportation (CDOT) infrastructure professionals should be responsible for analysis and decision-making regarding infrastructure and maintenance projects across the City. It should also follow best practices as it relates to multi-year capital planning and should include aldermanic input, but give CDOT the authority to make final decisions that are most cost-effective for the City;
- All funding should be allocated to core residential infrastructure projects and not diverted to parks, playgrounds, schools and other non-core infrastructure improvements; and
- If the City continues to allow Council members the ability to select infrastructure projects, they should be limited to discretionary projects with no connection to Citywide infrastructure; and
- The City should enforce uniform rules and regulations governing the program. This includes limiting projects to the alderperson's current ward boundaries and requiring alderpersons to submit their projects within stated deadlines.

Reduce the Size of City Council

Chicago has one of the largest city councils in the United States. The Civic Federation recommends that the City Council consider reducing the size of this body to bring it more in line with other major cities. As the table below shows, Chicago's City Council is the second largest of the 15 largest American cities, with its size exceeded only be New York's 51-member

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[163] City of Chicago, Office of the Inspector General, Chicago Department of Transportation Aldermanic Menu Program Audit, April 2017.
[164] Government Finance Officers' Association, "Best Practices: Multi-Year Capital Planning," Last Updated September 2022.
[165] City of Chicago, Office of the Inspector General, Chicago Department of Transportation Aldermanic Menu Program Audit, April 2017.
[166] City of Chicago Office of the Inspector General, "Advisory Concerning Inequities in Chicago's Residential Street Infrastructure Management," June 13, 2019.

legislative body.[167] The average council size for these top 15 municipalities is 18 members. In Chicago, there is one alderperson per roughly 54,000 residents as compared to one council member per 166,030 New York residents and one council member per 256,620 Los Angeles residents. Only Fort Worth and Indianapolis have smaller council per capita ratios. The FY2023 budget recommended a $28.4 million appropriation for City Council expenses.[168]

City Councils of 15 Largest U.S. Cities

Municipality	Method of Election	Number	Term	Population	Council Members Per Capita
New York (1)	Single-Member District	51	4 Years	8,467,513	166,030
Los Angeles (2)	Single-Member District	15	4 Years	3,849,297	256,620
Chicago (3)	**Single-Member District**	**50**	**4 Years**	**2,696,555**	**53,931**
Houston (4)	11 Single-Member District/ 5 At-Large	16	4 Years	2,288,250	143,016
Phoenix (5)	Single-Member District	8	4 Years	1,624,569	203,071
Philadelphia (6)	10 Single-Member District/ 7 At-Large	17	4 Years	1,576,251	92,721
San Antonio (7)	10 Single-Member District/1 At-Large (Mayor)	11	2 Years	1,451,853	131,987
San Diego (8)	Single-Member District	9	4 Years	1,381,611	153,512
Dallas (9)	Single-Member District	14	2 Years	1,288,457	92,033
San Jose (10)	10 Single-Member District/1 At-Large (Mayor)	11	4 Years	983,489	89,408
Austin (11)	10 Single-Member District/1 At-Large (Mayor)	11	4 Years	964,177	87,652
Jacksonville, FL (12)	14 Single-Member District/5 At-Large	19	4 Years	954,614	50,243
Fort Worth (13)	10 Single-Member District/1 At-Large (Mayor)	11	2 Years	935,508	85,046
Columbus, OH (14)	At-Large	7	4 Years	906,528	129,504
Indianapolis (15)*	Single-Member District	25	4 Years	882,039	35,282

Table Notes:

Municipalities are ranked in order of population according to the most recent U.S. Census estimates (July 1, 2021), https://www.census.gov/data/tables/time-series/demo/popest/2020s-total-cities-and-towns.html.

* Indianapolis has a unified city-county council.

Source: Website of each individual city council. See footnote 167 of the report for links to each city.

A large council tends to focus more on constituent services and localized interests than on functioning as a legislative body that emphasizes policymaking and oversight.[169] Smaller bodies are more focused on traditional legislative functions. If most of the populous cities in the nation can operate successfully with smaller councils, it is difficult to understand why Chicago should be such an outlier.

The Chicago City Council's size has been reduced over time. The Bureau of Public Efficiency, a nonpartisan government research organization that merged with the Civic Federation in 1932, proposed that the City of Chicago be reduced from 70 to 50 members in 1919. Legislation permitting the change was approved by the General Assembly and submitted to the public for a referendum. The referendum failed but was resubmitted and finally approved in 1923.[170]

If the Council were reduced by half from 50 to 25 members, the population of Chicago wards would increase from approximately 54,000 to 108,000, which is much closer to the average council district population of 118,000 of the major U.S. cities listed. This would help the shift from an "ombudsman" type of body to one that functions as a legislative partner to the executive

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[167] Sources for the size of each city Council can be found at the following links: (1) New York City; (2) Los Angeles; (3) Chicago (4) Houston; (5) Phoenix; (6) Philadelphia; (7) San Antonio; (8) San Diego; (9) Dallas; (10) San Jose; (11) Austin; (12) Jacksonville; (13) Fort Worth; (14) Columbus; (15) Indianapolis.

[168] City of Chicago FY2023 Budget Recommendations, p. 42.

[169] For a full discussion, see The Chicago Home Rule Commission, *Chicago's Government: Its Structural Modernization and Home Rule Problems – A Report to Mayor Martin Kennelly and the Chicago City Council*, "Chapter III: Size and Composition of the Chicago Council: Size," 1954, p. 35.

[170] The Chicago Home Rule Commission. *Chicago's Government: Its Structural Modernization and Home Rule Problems, A Report to Mayor Martin H. Kennelly and the Chicago City Council*, 1954, p. 35.

branch. There could be some cost savings with a reduced Council. A 25% reduction of costs for the Council in FY2023 would equal approximately $7.1 million in savings. This would be a good first step, but the City should still work to find additional savings in Council operations in future years.

Restructure the Offices of the City Clerk and Treasurer

The Civic Federation recommends that the offices of the Chicago City Clerk and City Treasurer be made appointive, rather than elected offices, and that the two offices be merged.

The City Treasurer is the banker for the City of Chicago, responsible for maintaining accounts of City funds, appropriations, debits, credits and securities.[171] The City Clerk is the official custodian of City records and the City seal. The Office maintains and distributes information about the City Council and Committees, legislative information and the municipal code. In addition, the Clerk's Office also issues and collects fees for a number of different types of licenses.

The Chicago City Clerk and Treasurer are both elected to four-year terms concurrently with the Mayor. State statutes provide that clerk and treasurer positions in Illinois municipalities must be elected with the exception of municipalities with a population of less than 10,000. Therefore, making these two offices appointed positions would require action by the Illinois General Assembly.

Arguments for Changing the Current Structure of the City Clerk and Treasurer's Offices

The following are several reasons the current structure of the City Clerk and Treasurer's Offices should be changed:

1. Elective rather than appointive positions are appropriate for offices where policy-making is political in nature and requires a large degree of discretion on the part of the elected official. However, the Chicago City Clerk and Treasurer's Offices are both ministerial in nature, focusing on administrative rather than policy issues. Their functions involve applying procedures or regulations as prescribed by law. Therefore, they would more appropriately be appointed rather than elected. Other key ministerial offices in the City government, such as the Comptroller, are appointed.

2. There may be cost savings from appointing municipal treasurers. A working paper from the National Bureau of Economic Research found that appointive treasurers in California cities reduce a city's cost of borrowing by 13% to 23%. The paper concluded that in California, appointed city treasurers tend to have higher levels of financial expertise and

[171] Pursuant to Municipal Code (2-32-060) revenue policies, the City Treasurer receives all monies belonging to the City. At the end of each month, the City Treasurer issues a sworn statement to the Comptroller showing the state of the treasury at the date of such account and the balance of the money in the treasury. Pursuant to the City's Municipal Code (2-32-010, 2-32-03), the Department of Finance provides core fiscal functions and manages the disbursement of City funds. The City Comptroller is the fiscal agent of the City and exercises general supervision over all City officers charged with the receipt, collection or disbursement of City revenues and all funds required to be in the custody of the City Treasurer.

are able to reduce borrowing costs primarily through the refinancing of expensive debt at lower interest rates.[172]

3. Despite arguments that an independent Treasurer's Office is necessary to ensure that public monies are be managed independently of the influences of other officials and provide a check and balance on other elected officials, the Civic Federation finds there is little evidence that the City Treasurer acts as a check on other officials, and there are safeguards in place to prevent fraud and abuse, such as the external audit process and the investigative authority of the City Inspector General's Office and the U.S. Attorney's Office. In addition, modern technology makes it easier to track funds and prevent misconduct.

4. The Treasurer's Office could also be merged with the City's Department of Finance. Several other municipalities have combined finance-related functions, including DeKalb, Illinois and Seattle, Washington.[173] The argument for consolidating debt management (Finance Department) and investment (Treasurer's Office) in the same department is that it permits governments to better align assets with liabilities so that it is easier to effectively leverage and manage financial risk. It can also increase the efficiency and effectiveness of financial operations and facilitate financial decision-making.[174]

BUDGETING AND MANAGEMENT RECOMMENDATIONS

Evaluate the Financial Impact of Fixing Tier 2 Safe Harbor Issues

The General Assembly is considering legislation enhancing pension benefits for Chicago firefighters hired since January 1, 2011 (Tier 2) and changing the calculation of final average salary as well the limitation on pensionable salary.[175] The legislative sponsors and supporters of these proposals promote them as a "fix" to preemptively address concerns about Tier 2 benefits failing to meet Internal Revenue Service Safe Harbor rules, which require government workers to receive a retirement benefit from their public pension plan that is at least equal to the benefit they would receive under Social Security.

The Civic Federation is extremely concerned that these proposals were proposed and passed out of committee without any actuarial analysis having first been completed to understand the extent to which Tier 2 benefit enhancements are necessary, what benefits specifically should be adjusted, and how much these changes would cost the responsible governments, and in effect, taxpayers. According to testimony provided by the previous administration, the proposed benefit enhancements would significantly increase pension liabilities of the City of Chicago, which could

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[172] Alexander Whalley, "Elected Versus Appointed Policymakers: Evidence from City Treasurers," National Bureau of Economic Research Working Paper Series, Working Paper 15643, January 2010, pp. 3-4. Whalley investigated whether appointment or election influenced municipal policymaking. He used regression discontinuity statistical analysis to identify the causal effect of city treasurers' method of selection on their cities' debt management policies.
[173] See Municipal Code - City of DeKalb Chapter 54, "Financial Administration," A Seattle City Charter Amendment passed by the voters in 1991 eliminated the elective offices of Comptroller and Treasurer and combined the duties in a Department of Finance. Subsequently, Seattle began a reorganization that created a new Department of Finance and Administrative Services to combine the functions from the former Fleets and Facilities Department and the former Department of Executive Administration with the revenue forecasting, debt management and tax policy functions that were previously performed by the former Department of Finance.
[174] Comptroller of the City of Los Angeles, *Follow-Up of Management Audit: City of Los Angeles Office of the Treasurer*, February 15, 2011. The audit recommended consolidation of all City treasury and revenue functions in one office to increase efficiency and reduce costs.
[175] Senate Bills 1629 and 1630, 103rd General Assembly.

potentially lead to property tax increases, further burdening homeowners and businesses as the nation may be entering a recession.

Before any further action is taken on legislation to fix the Safe Harbor issue relating to the City of Chicago pension funds, the Illinois General Assembly should conduct a comprehensive, statewide evaluation to determine when Tier 2 benefits will violate Safe Harbor rules.

Once pension benefits are provided, they become protected under the Illinois Constitution and cannot be reduced later. **Enhancing pension benefits without analysis showing the enhancements are necessary and sufficient to address potential issues with Tier 2 could substantially reverse much of the work the State and the City have done to reduce massive pension liability costs**. The State and the City cannot afford to take a step backward by unnecessarily increasing Tier 2 pension benefits.

The Civic Federation supports Mayor Johnson's decision to convene a working group to address this pension issue.[176] While the Civic Federation understands that some benefit changes are likely necessary to meet Safe Harbor requirements (for example, potentially increasing the final average salary cap to meet the current Social Security wage base), the solution should be thoroughly vetted, actuarially sound and the most cost-effective of all possible options. Any pension benefits enhancements should be tied directly to Safe Harbor requirements.

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

The City faces significant challenges related to the high cost of pension contributions and debt service payments, as well as the challenge of achieving a structurally balanced budget once the federal ARP funds run out. Given the Civic Federation's concerns about the long-term sustainability of Chicago's finances, the Federation recommends that the City take several steps to build on its long-term financial planning process. 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 that would allow the City to articulate how it plans to address its fiscal imbalances.

The City spends approximately 20% of its annual budget on pension payments, and pension contributions will only continue to grow in the coming years to meet the statutory funding requirements. The funded ratio of 24% for Chicago's four pension funds combined remains the most poorly funded of any large U.S. city.[177] The high unfunded liability has burdened the City for years and continues to be a concern because pension obligations will continue to put pressure on the City's budget and constrain its finances.

Additionally, the General Assembly is considering legislation enhancing Tier 2 benefits for the Chicago Firefighters pension fund. These changes have the potential to reverse much of the recent progress the City and State have made to reduce liabilities. The Civic Federation opposes any enhancements to Tier 2 pension benefits until a comprehensive, statewide

[176] Mayor Johnson requested that lawmakers delay passing the Chicago firefighter pension legislation so that a working group of legislators, City budget officials and union representatives can evaluate the issue. Yvette Shields, "Chicago will seek pension answers over the summer," *Bond Buyer*, May 30, 2023.
[177] S&P Global Ratings, "Fifteen Largest U.S. City Pensions See Modest Gains in 2018, But Recession Risk and Rising OPED Cost Challenges Persist, "September 23, 2019.

analysis is conducted.[178] It is incumbent on the new Mayoral administration and City Council to ensure that the full cost of Tier 2 benefit changes are incorporated into long-term forecasting projections. If legislation is passed to enhance pension benefits, the Mayor and City Council may need to make difficult decisions to absorb increasing liabilities, such as budget cuts or tax increases.

The City has released a mid-year budget forecast since 2011 when the Emanuel Administration instituted what was then referred to as the Annual Financial Analysis. The budget forecast is an important piece in the development of a formal long-term financial plan. It includes information about the City's past revenue and expenditure trends and makes three-year revenue and expenditure projections within the Corporate Fund, or the City's general operating fund. The budget forecast is limited because it only provides three years of future projections and fails to identify possible actions and scenarios to address fiscal challenges.

The Civic Federation recommends that the Mayor consider undertaking a more comprehensive long-term financial planning process in line with several other U.S. cities. This would benefit City stakeholders by identifying solutions to address the City's future pension funding needs. However, doing so would require a significant investment of time, staff and financial resources.

The City's long-term financial planning process should include the following steps:

1. First, the Mayor's administration would articulate fiscal and programmatic goals and priorities informed by public input;
2. The Mayor's administration would evaluate financial and service data in order to determine how to accomplish the goals and priorities. Strategy development should incorporate the City's existing departmental business and strategic plans, as well as analysis and recommendations from the Office of the Inspector General, which often identify wasteful practices and recommend opportunities for better efficiency and cost savings;
3. With input from representatives of all major City service areas, business and nonprofit leaders, residents and City Council members, the City would produce a long-term financial plan that includes the City's financial policies, a financial condition analysis with 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;
4. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced and fiscally sustainable budget. The budget should then be regularly monitored through regular financial reports; and
5. The Office of Management and Budget should present its quarterly financial updates at a public meeting so that the City Council can monitor financial performance throughout the year and adjust the Long-Term Financial Plan accordingly. The quarterly updates would help flag any foreseeable shortfalls and allow the Mayor's administration to receive feedback from City Council.

At a minimum, in the absence of implementation of a full long-term financial planning process, the annual budget forecast should be expanded to include:

[178] Civic Federation, "Before Enhancing Tier 2 Benefits, Evaluate the Financial Impact of Illinois Pension Proposals", April 28, 2023.

- Expansion of the reserve analysis to include information about the historical and projected fund balance, not just in the asset lease reserves but also in the unrestricted audited general operating fund balance;
- The addition of financial indicators with a scorecard or rating of financial indicators that assesses whether each trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;
- Possible strategies and actions the City could take to address financial imbalances and other long-term issues. Actions would include possible cost-cutting and revenue-generating measures, or discussion of continuing, adding or ending programs based on evaluation of their performance. This discussion should include the fiscal impact, long-term implications, and ease of implementation; and
- As part of the Budget Forecast process, the City should seek ways for decision makers and the public to provide meaningful input on long-term goals and strategies to address the City's financial challenges.

Address Financial Entanglements with Chicago Public Schools

Historically, the Chicago Public Schools (CPS) and the City of Chicago have had a close financial relationship, partly established in state statute and partly through intergovernmental agreements. As a result, the City provides the school district with significant annual subsidies. With the upcoming implementation of an elected school board, the governance of CPS will be fully separated from the City of Chicago. This separation raises questions about the ongoing financial responsibility of the City to the school district and whether partnerships between the two agencies will continue.

This is a situation unique to Chicago. No other Illinois municipalities have a financial responsibility to their school systems. Rather, each unit of local government is fully responsible for its own financial obligations. With Chicago Public Schools set to become a fully independent government, it is not clear that the City would or should be obligated to fund CPS pension, debt and other related costs.

There are a number of financial entanglements between CPS and the City that need to be resolved. Based on an independent analysis of entanglements between the City of Chicago and Chicago Public Schools released in October 2022, the City provides CPS with approximately $383 million in financial benefits, either through direct appropriations or reduced payments in FY2023.[179] These include:

- $142.3 million in payments from the City to CPS from a property tax levy that the City levies on CPS' behalf to pay for the debt service on bonds used to support capital improvements in schools. This agreement exists per an intergovernmental agreement that runs until the end of calendar year 2031.

- $97.7 million in pension contributions made by the City on behalf of CPS employees and retirees who are members of the Chicago Municipal Employees Annuity and Benefit Fund (MEABF). The full cost of the CPS portion of the MEABF contribution to the pension fund is $272.7 million, of which CPS is covering $175 million in FY2023. Previously the City covered the full cost of the pension contributions, but CPS began

[179] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 17. (Prepared by Columbia Capital Management, LLC to satisfy the requirements of Public Act 102-0177 and Public Act 102-0691).

reimbursing the City in FY2021 beginning with a payment of $60 million, which increased to $100 million in FY2022 and $175 million in FY2023.[180]

- $97 million in Tax Increment Financing (TIF) Surplus revenue, which is distributed pursuant to State law.

- Other capital funding intergovernmental agreements, including $7.9 million in Modern Schools Bonds, which are financed through Tax Increment Financing.

- $27 million in free or reduced CTA fares for students.

- $11 million in user fee waivers. Pursuant to City ordinance, the City waives the water and sewer bills for CPS properties used by CPS (estimated to total a value of $10 million), as well as a number of other permitting fees such as driveway permitting, building inspections, vacant building registration and sprinkler inspections (estimated to total a value of $1 million).[181]

In addition to these entanglements, the City and CPS have many other partnerships. The City provides some small grants to CPS for programming. CPS and the City collaborate on early childhood education; CPS pays $80.2 million annually to help fund preschool programs. CPS now takes on the full cost of school resource officers ($10.2 million in FY2023) and school crossing guards ($16.6 million).[182]

The Civic Federation urges the City of Chicago to work with the Board of Education to develop a plan for how each of these entanglements will be handled in future years, and to develop a long-term financial plan that sets up the elected school board with clear guidance on the City's financial responsibility to CPS after 2024.

Chicago Public Schools desperately needs a long-term financial plan. CPS' finances are already very unstable. The District relies on short-term borrowing each year and deficits are projected beginning in FY2026, with a deficit of $628 million estimated for FY2026, increasing to $733 million in FY2027 and $650 million in FY2028.[183] The CPS budget currently relies heavily on federal COVID-19 pandemic relief funding; 8.3% of the CPS budget is funded through federal ESSER funds in FY2023. This one-time federal funding is projected to run out in FY2025.[184] Operating reserve levels remain below targets.

Because most of the District's revenue sources are largely out of its control, legislation may be required to provide new or increased revenues if they are needed to keep up with rising costs.[185] Given the District's fragile financial condition, coupled with the potential for CPS to lose even

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[180] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 25.
[181] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, pp. 22-23.
[182] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 32.
[183] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 13.
[184] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022 (prepared by Columbia Capital Management, LLC to satisfy the requirements of Public Act 102-0177 and Public Act 102-0691).
[185] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 10.

more revenue as it becomes independent of the City of Chicago, the City must plan ahead for the inevitable fiscal cliff looming after federal COVID relief funds run out.

Expand the Budget and Authority of the City Council's Office of Financial Analysis

The Council Office of Financial Analysis (COFA) was established in 2014 to provide financial information to the City Council independent of the Mayor's Office of Budget and Management. Among COFA's several powers and duties, the Office is authorized to produce an annual budget options report of potential cost-saving reforms and efficiencies, a financial analysis of the Mayor's proposed budget, a review of the Annual Financial Analysis (now the budget forecast) and a summary and analysis of the City's annual financial audit.[186] COFA is also responsible for producing an annual report on the Office's activities.[187]

COFA's duties and powers were expanded in 2018 to include fiscal impact statements for all ordinances that would increase or decrease annual appropriations and ordinances involving the sale or lease of assets with revenue greater than $15 million.[188] They were expanded again in 2019 to allow any member of the City Council to request analyses from COFA without the approval of the Chairman of the Committee on Budget and Government Operations.[189] The ordinance also required all of COFA's reports to be posted on the Office's website and open to public inspection.[190]

While there have been some improvements in scope and transparency since the office was created, the Council Office of Financial Analysis needs to be strengthened significantly to make it a meaningful resource to City Council members.

COFA has a budget of $317,680 and only three budgeted staff.[191] By comparison, the New York City Independent Budget Office, which serves the same purpose as Chicago's COFA, has a budget of $6.6 million in 2023 and 38 budgeted personnel positions.[192] The Independent Budget Office serves as the best peer model of a well-established and well-utilized independent office for financial analysis. Chicago's City Council should increase the COFA budget to allow for the staffing levels necessary to make COFA a meaningful asset to the City Council and expand its independence and authority in order to allow COFA to conduct proactive analyses.

The Civic Federation offers the following recommendations to enable COFA to serve as a truly independent analysis arm of City Council:[193]

1. **Increase the COFA budget.** COFA estimates that it needs at least 12 staff members, which would allow the office to hire both senior and junior level analysts, economics experts and communications staff.
2. **Establish a budget floor for COFA based on a percentage of the annual Chicago budget.** The Office of the Inspector General's budget and the Civilian Office of Police

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[186] Municipal Code of Chicago, Chapter 2-53-030.
[187] Municipal Code of Chicago, Chapter 2-53-030.
[188] City of Chicago Substitute Ordinance 2017-7866.
[189] City of Chicago Ordinance 2019-6955.
[190] City of Chicago Ordinance 2019-6955; Municipal Code of Chicago, Chapter 2-53-035.
[191] City of Chicago FY2023 Annual Appropriation Ordinance, p. 52.
[192] City of New York, Executive Budget for Fiscal Year 2024, Expense, Revenue and Contract Budget, p. 152E.
[193] These recommendations were developed with direct input from the City Council Office of Financial Analysis via communications with COFA in February 2023.

Accountability budget each have a set appropriations floor.[194] COFA suggests a floor set at 10% of the Mayor's Office of Management and Budget, Chief Financial Officer and City Comptroller.

3. **Establish the true independence for COFA and more clearly define COFA's relationship to City Council.** COFA's establishing ordinance should be amended as necessary to clarify its role as an independent office that supports all committees, members and activities of City Council, not just the Committee on Budget and Government Operations.
4. **Ensure that COFA has access to all of the information necessary to conduct its job.** The Mayor's Office of Management and Budget should provide the access needed to all internal and external budget documents. Additionally, the City Council should include COFA in City Council briefings from Office of Management and Budget staff to ensure that COFA staff receive the same information as members of City Council.
5. **Expand the level of detail provided in ordinances in order to allow COFA to conduct more in-depth financial impact analysis of proposed ordinances.** The ordinances introduced in City Council often only provide a high level overview of the financial components, so more specific details are needed in order for COFA to analyze their financial impact.

Civilianization in the Chicago Police Department

The Chicago Police Department has an extraordinarily high ratio of sworn officers to civilian personnel when compared to other jurisdictions around the U.S. Based on the number of budgeted personnel in the City of Chicago's FY2022 budget, out of a total of 14,058 positions budgeted for the Chicago Police Department, 13,108 were sworn officer positions (across all job classifications including police officers and supervisor-level positions) and 950 were non-sworn positions.[195] Based on these numbers, 93.2% of the Police Department budgeted positions were sworn personnel, while 6.8% were civilian positions. This is a ratio of 13.8 sworn officers per one civilian employee. By comparison, the average ratio of sworn officers to civilian employees in other cities across the country as of 2019 was approximately 3.5 sworn officers per one civilian employee.[196] On average, civilians made up 22.2% of total law enforcement agency employees.[197]

In fairness, the Chicago Police Department did have more civilian employees prior to the creation of an Office of Public Safety Administration in FY2020. This Office consolidated administrative functions including finance, human resources and technology services of the Police Department, Fire Department and Office of Emergency Management and Communications. The creation of the new office resulted in 250 civilian positions being moved from the Police Department budget to the Office of Public Safety Administration in FY2020.

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[194] The Inspector General's annual appropriation is set at no less than 0.14% of the annual appropriation of all funds contained in the annual appropriation ordinance, as adjusted to deduct intergovernmental agreements with sister agencies and pension payments. Municipal Code of Chicago Chapter 2-56-010. The Civilian Office of Police Accountability's annual appropriation is set at no less than 1% of the all non-grant funds appropriations of the Chicago Police Department. Municipal Code of Chicago Chapter 2-78-105.

[195] The City of Chicago budget does not differentiate between sworn and non-sworn positions. This number was calculated by analyzing the individual position title descriptions and position title codes based on job specifications provided on the City of Chicago website.

[196] Based on data from 10,247 law enforcement agencies in cities across the U.S. that reported data to the FBI's Uniform Crime Reporting Program in 2019. FBI Uniform Crime Reporting, 2019 Crime in the United States, Table 74: Full-Time Law Enforcement Employees.

[197] FBI Uniform Crime Reporting, 2019 Crime in the United States, Table 75: Full-Time Civilian Law Enforcement Employees. Using the "total cities" figure.

However, even when factoring in these additional 250 civilian positions, the ratio of sworn to non-sworn personnel is still very high—a ratio of 10 to one.

The City of Chicago should prioritize the hiring and training of more non-sworn, civilian employees to perform work that does not require a sworn officer. Civilian employees are not tied to the same collective bargaining agreements as police officers, which could result in cost savings on personnel based on different pay schedules. While civilianization may have some immediate increased costs for training and implementation, this initiative could save money for the City over the long-term. It would additionally free up sworn officers currently working in administrative jobs to be reassigned.

Reevaluate Tax Increment Financing Districts

One of the revenue initiatives proposed by Mayor Johnson's campaign leading up to the mayoral election was to "regularize the transfer of surpluses to the Corporate Fund," which the campaign said would result in $100 million in excess funds.[198] Declaring annual TIF surpluses is already a practice that has been used by the City annually over the years. However, there is a general misunderstanding about how TIF works and how the City benefits from excess TIF funds.

Tax increment financing (TIF) districts within City of Chicago borders generated a total of $1.2 billion in tax year 2021, which taxpayers paid in 2022.[199] This is in addition to, and separate from, the City of Chicago's property tax levy, as well as the property tax levies imposed by other Chicago-based local governments.

The purpose of TIF revenue is not to fund general government operations. Tax increment financing (TIF) is intended to be an economic development tool used to spur development in blighted areas. Revenue generated in a TIF district is used for redevelopment costs within the district such as land acquisition, site development, public works improvements, and paying for debt service on bonds to fund improvements within the district.

When a TIF area is created by a municipality, the equalized assessed value (EAV) of property within that area is "frozen," meaning that the taxable value of property in the TIF area is held at the level it was when the TIF was created, and the taxation of any growth in property value over the life of the TIF district goes to the TIF fund. A common misconception is that TIF districts take away property tax revenue from other government bodies because of this EAV "freeze." **TIF does not freeze, divert or limit the amount of property tax revenue that overlapping governments such as the Chicago Public Schools can levy for**. Governments set their levies independent of taxable value. Rather, the result is that tax rates increase because of the limited EAV on which tax bills are calculated. Tax rates are calculated by dividing levies by EAV. And because EAV is frozen within TIF districts, the total EAV of all overlying taxing bodies in Chicago is less than it would be otherwise. As a result, the EAV figure in the tax rate calculation (the denominator) is smaller and the rate is higher, which ultimately means individual taxpayers pay more than they would have in the absence of the TIF district.

Once a TIF district is dissolved, the property value growth is added back to the general EAV. Therefore, when TIF districts are terminated, property taxpayers may benefit because the tax

[198] See "Brandon Johnson's Plan to Stop Property Tax Hikes."
[199] Cook County Clerk, 2021 TIF Report Executive Summary, p. 5.

base of all affected governments is substantially increased. This leads to lower tax rates and reduced tax bills.

TIF is governed by State law.[200] Money in the tax increment financing district is pledged to be spent on bond obligations to fund TIF project expenses. If there is excess money in the TIF fund annually after funds have been pledged, it is considered to be surplus. The surplus is distributed by the County Clerk to each of the overlapping taxing districts proportional to their portion of tax bills.[201]

The City of Chicago has declared increasingly larger TIF surpluses each year over the past decade. The TIF surplus has grown from $65.2 million in 2014 to $395 million in FY2023.[202] After being divided between each of the overlapping governments in Chicago, the City of Chicago received $98.3 million of the 2023 TIF surplus, which went to the City's Corporate Fund. Another $218.4 million was distributed to Chicago Public Schools.

These large declarations of TIF surplus are not guaranteed every year, and should be considered one-time sources of revenue. TIF surplus—whether or not it is declared annually and according to a policy—is not a sustainable, recurring revenue source for the City of Chicago or other governments for the reasons described above. Surplus distributions should not be used to close budgetary deficits, but instead should be directed to reserves or to nonrecurring expenses.

The repeated accumulation of surplus in a TIF signal that the TIF district does not need its revenue for redevelopment projects, indicating that either the district does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF district so that their equalized assessment value (EAV) may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF "carve outs."

The Federation urges the City to recognize that TIF districts should not be used to temporarily reduce the short-term financial pressures facing the City and its overlapping governments. Instead, they should be used as an economic development tool. TIF districts do not have unlimited resources for purposes outside the district. **The City should review each TIF district and close out or eliminate TIF districts that are no longer needed for development projects, and shrink TIFs that are generating more revenue than is needed for their projects.**

Conduct Performance Management Budgeting

A key component of government budgeting is measuring the performance of programs and activities. The Government Finance Officers Association (GFOA) recommends that all government entities identify, track, and communicate performance measures to monitor financial and budgetary status, service delivery, program outcomes, and community conditions.[203] The GFOA provides extensive guidance on this topic as part of a recommended best practices in budgeting publication.[204]

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200 Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4
201 Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-7.
202 City of Chicago, 2023 Budget Overview, p. 57.
203 Government Finance Officers Association, Best Practices: Performance Measures, Adopted March 31, 2018.
204 Government Finance Officers Association, National Advisory Council on State and Local Budgeting, "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting," 1998.

The GFOA's guidance includes the following:

- **Performance measures:** governments should develop performance measures that are linked to specific program goals and objectives and are used to assess how efficiently and effectively functions are being performed. When possible, they should be expressed in quantifiable terms. There are several types of performance measures: inputs (resources), outputs, efficiency, and effectiveness (outcomes). Only the measures of efficiency and effectiveness truly report on performance.
- **Reporting:** Performance measures should be reported in budget documents and may be reported in separate management reports or reports to citizens.
- **Review:** A government should periodically review its performance measurement system and make improvements to refine the relevance of the measures used and the way data are collected and analyzed. More formal reviews and documentation of those reviews should be carried out as part of the overall planning, decision-making, and budget process.

The City of Chicago does not systematically engage in measuring performance. While the departmental overviews included in the annual Budget Overview document discuss each department's key results from the prior year and initiatives for the upcoming year, these are not measures that allow for understanding whether departments are meeting goals or reaching desired outcomes.

Performance metrics are important to tracking the efficiency and accountability of the functions of City departments. The Civic Federation recommends that the new administration begin to incorporate a more performance-based budgeting approach. The City should provide the necessary resources to an office that would oversee and provide departments with guidance and assistance with developing metrics and re-evaluating them over time.

Improve the City of Chicago's Capital Improvement Plan

The City of Chicago releases a Capital Improvement Plan (CIP) annually. 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.

Based on best practice guidelines from the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association,[205] the Civic Federation finds that the City of Chicago's FY2022-FY2026 CIP[206] lacks several critical components.[207]

The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It includes a description of the CIP process and the

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[205] 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.
[206] City of Chicago 2022-2026 Five Year Capital Improvement Program.
[207] City of Chicago's 2022-2026 Five Year Capital Improvement Program.

prioritization goals used to determine which projects are selected and founded. It is made available for public inspection on the City's website.

However, the plan does not include a narrative description of individual projects. There is no discussion of the Capital Plan's impact on the operating budget. While there is a reference to stakeholder participation as one of the prioritization criteria, there is no specific detail provided as to how and when stakeholders may provide input into the CIP process. Finally, while alderpersons do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP. It is not clear if the CIP is integrated into other City plans, such as a long-term financial plan. We recommend that the City expand its Capital Improvement Plan to include these important elements.

The Civic Federation has long advocated that the City of Chicago implement a capital improvement plan based on best practices. This would require increasing the transparency of Chicago's CIP and enhancing public and City Council participation in the CIP process. Improving the CIP process would require:

- Including short narrative descriptions of individual projects, including the purpose, need, history and current status of each project;
- Requiring the City Council to hold a formal public hearing at which stakeholders could testify;
- Allowing the public to have at least ten working days to review the CIP prior to a public hearing;
- Having the City Council formally approving the CIP; and
- Integrating the CIP into a long-term financial plan.

Conduct a Cost of Services Study

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 alternative services. The GFOA points to other important uses for data on the cost of government services including:

- Performance measurement;
- Comparative analysis;
- Grants administration;
- Disaster recovery cost documentation;
- Establishing government charges and fees; and
- Evaluating service delivery alternatives.

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.).[208]

[208] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Full Cost of Government Service," (2021).

In order for the City to properly evaluate the most efficient and effective way to deliver services as well as the setting of fees and charges intended to recover all or a portion of the cost of delivering those services, the City should conduct a cost of services study that follows best practices established by the GFOA and National Advisory Council on State and Local Budgeting.

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 the City's Department of Streets and Sanitation. The $9.50 fee on certain households is estimated to generate $61.7 million in FY2023,[209] but the City spends over $200 million each year collecting waste from over 600,000 households.[210] These numbers illustrate that Chicago residents receiving this service are paying far less than the true cost.

Although the City has not increased the $9.50 monthly fee since its implementation, the Civic Federation recommends that the City annually evaluate the fees 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.

TRANSPARENCY RECOMMENDATIONS

Improve Budgetary Transparency

The following two recommendations relate to additional detail that should be made available in the City's annual budget documents.

1. Include Finance General Costs in City Department Budgets

Several large categories of departmental spending in the City budget (employee benefits, pension contributions, IT and other cross-departmental administrative or indirect costs) are combined together in a large budget category called Finance General. Combining these costs together under Finance General which does not allow for calculating the true cost of operating each department. Finance General costs, which are currently measured by fund only, ideally should be accounted by department to show the full cost of services. The City should include all direct costs in departmental budgets, including all employee benefits, pensions, facilities expenses and liability expenses. In line with GFOA recommendations, the Civic Federation recommends that the City add a detailed breakdown to the budget recommendations and annual appropriations documents that identifies the Finance General appropriation levels by department. The Finance General totals for each department should also be added to the Budget Overview document, with an explanation of the allocation methodology.[211]

[209] City of Chicago FY2023 Budget Overview, p. 44.
[210] City of Chicago Department of Finance, Garbage Fee FAQ.
[211] Government Finance Officers' Association, "GFOA Best Practice: Measuring the Cost of Government Service" (2002).

2. Include Past-Year Expenditures in Budget Documents

The City does not include actual expenditures for prior years in the annual appropriation ordinances or in the downloadable spreadsheets of budget recommendations or appropriation ordinances. The only place where past year expenditures are available is in the budget recommendations documents in department line-items. There is little transparency about actual revenues and expenditures for past years, especially in summary tables. The Civic Federation recommends that the City revise its budget document to include past year actual data, as it is more conducive to conducting a thorough analysis of budgets. In this recommendation, the Federation agrees with a recommendation recently published by the Council Office of Financial Analysis.[212]

Increase Transparency Around Police Reform Efforts

As the new Mayor and Police Superintendent work to address the City's major public safety challenges, the Civic Federation urges the new administration to make improvements in transparency of the Chicago Police Department budget, especially as it relates to how the Department is implementing the Consent Decree and how the Department is allocating its staff.

The Civic Federation echoes the concerns raised by the Community Commission for Public Safety and Accountability related to the effectiveness and equitability of the Police Department budget and its workforce, as well as recommendations calling for greater transparency in public safety budgeting and program effectiveness.[213]

The City is falling far short of the level of transparency needed for members of the public to understand how the Department currently makes its staffing and deployment decisions. The Police Department has been reticent to publish any staffing evaluations that have been conducted to date.[214] The Civic Federation urges the Mayor and the Police Department to better communicate the strategy currently being used as an approach to police assignments and to publish the metrics that are used as the basis for such decisions.

Additionally, the public needs to know how many police officers and non-sworn personnel the department actually needs and how they should be deployed to effectively fulfill its mission. The Civic Federation urges the city to identify its staffing goals and communicate a plan for reaching staffing optimal levels, including opportunities for use of civilian staff coupled with more effective allocation of police.

Finally, the Federation urges the Mayor and Police Superintendent to communicate to the public what the Police Department is doing to implement the Consent Decree and how it impacts the Police Department's personnel and spending. The City should quantify the cost of full implementation of the Consent Decree and identify where those costs are spread throughout the Police Department budget. Without a better understanding of the full breadth of resources the Consent Decree requires, there will be no way to determine whether the Department has allocated adequate staffing and resources to meet those goals.

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[212] Council Office of Financial Analysis, "Analysis of the Annual Proposed Budget", October 7, 2022.
[213] Community Commission for Public Safety and Accountability, Annual Report on the Proposed Chicago Police Department Budget, November 3, 2022.
[214] For example, an analysis by the University of Chicago Crime Lab that found police deployments are not aligned with shooting incidents. Annie Sweeney, "Analysis suggests Chicago police deployment doesn't match up with when most shootings take place," *Chicago Tribune*, August 15, 2022.

Improve Transparency of the City Council Agenda Process

The Civic Federation offers recommendations to City Council on two key ways the agenda process could be improved to make meeting information more transparent and accessible to members of the public.

1. Include a more detailed description of each item on meeting agendas.

Currently, items on Committee and City Council agendas include very brief descriptions, often only citing the section of the Municipal Code affected, but with no other details. This makes it extremely difficult for members of the public to know what each agenda item is and what policy changes it makes. In comparison, the Cook County Board of Directors includes a detailed description of every Committee and Board agenda item, usually including: the department that introduced the item; the financial impact, if applicable; the timeframe, if applicable (e.g., for contracts or grants); and a summary with a narrative description of the item. The City Council should add additional descriptive details and a summary of each agenda item.

2. Eliminate "direct introduction" of agenda items without any prior notice.

City Council Rule 41 allows for the introduction of agenda items from the Mayor and City departments on Council or Committee agendas. The text of the agenda item is often not posted until several days after action is taken on the item. This is problematic because it means members of the public cannot view the content of the item and comment or react to the item ahead of time. Additionally, City Council members often receive the text of the item shortly before the meeting.[215] At the very least, these items should be posted at least 48 hours before the meeting at which action will be taken.[216]

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[215] Jane Ruby, "Letters: Close loophole in City Council rules so public won't be let in the dark about what is being voted on," [Letter to the Editor] *Chicago Tribune*, January 17, 2023.
[216] Amending Rule 41 has been supported by the Better Government Association and the League of Women Voters of Chicago. The Civic Federation joins these organizations in this recommendation. Ald. Brendan Reilly introduced Resolution 2023-797 on May 31, 2023, which would require ordinances or resolutions to be publicly posted at least 48 hours before a committee vote on the proposal.